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J.S. O'CONNOR HARRIS & Co

**MASTER BUILDERS FIDELITY
FUND SCHEME**

TRUST DEED

Submission Date: 21 June 2002

O'CONNOR HARRIS

Solicitors

6th Floor, Colonial Building

161 London Circuit

CANBERRA 2600

AUSTRALIA

Tel: (02) 6247 6077

Fax: (02) 6247 0984

DX: 5617 CANBERRA

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MASTER BUILDERS FIDELITY FUND TRUST DEED

THIS DEED is made the day of 2002.

BY:

Sch 2.2(a)(ii)



(hereafter called "the Trustees").

WHEREAS:

- A. The Trustees, individually and as a group, have agreed to act as Trustees for the purposes set out in this document.

- B. It is intended by these presents to establish a trust to be called "The Master Builders Fidelity Fund ("the Fidelity Fund") which shall be administered for the purposes set out in this document.
- C. The Master Builders Association of the Australian Capital Territory desires to promote the purposes of the Master Builders Fidelity Fund and, to that end, has agreed to lend to the trustees the sum of \$500,000.00 for the purpose of establishing the trust in accordance with the laws of the Australian Capital Territory.
- D. This Deed is made with the intent that the benefits and obligations thereof shall ensure to those builders and members of the public who fall subject to the terms of the trust.

NOW THIS DEED WITNESSES AS FOLLOWS:

DEFINITIONS

1. **Act** means the Building Act 1972 (ACT).

Actuary for an approved scheme, does not include a special actuary.

Approval criteria means the requirements determined under Pt 6 of the Act.

Approved scheme means a Fidelity Fund scheme approved under Pt 6 of the Act.

Builder means a person or other legal entity with the appropriate ACT licence to conduct construction works.

Building Contract means a document that clearly defines the scope of works to be performed by the builder and similar to the standard forms of contract as set out by the Master Builders' Association, or Housing Industry Association or the Royal Australian Institute of Architects.

Days means calendar days.

Fidelity certificate means a certificate issued for building work by the trustees of the Fidelity Fund.

Fidelity Fund scheme means a scheme for the building industry Fidelity Fund established under a trust deed.

MBA (ACT) means Master Builders' Association (ACT Chapter)

Minister means the ACT Minister administering the *Building Act 1972*.

Prudential standards means the standards determined under Pt 6 of the Act.

Special actuary - see section 93 of the Act (Investigation of liabilities by special actuary) of the Act.

Trust Deed means the trust deed of the Fidelity Fund scheme

Trustee means a trustee of the Fidelity Fund scheme.

OBJECTS

2. The trustees of the approved scheme must ensure that the approved scheme is maintained solely for the following purposes:

- (a) the provision of a fidelity certificate to an owner in accordance with the Act and the trust deed;
- (b) the making of a discretionary payment of an amount to an owner pursuant to a fidelity certificate in accordance with the Act and the trust deed;
- (c) any other purpose that the Minister may in writing determine from time to time.

CONSTITUTION OF THE TRUST

- 3. The Trustees hereby accept appointment as the initial trustees for the Fidelity Fund and covenant to administer and govern the Fidelity Fund strictly in accordance with the terms of the Trust Deed.

ESTABLISHMENT OF THE FIDELITY FUND

- 4. The Fidelity Fund scheme is established pursuant to *the Building Act 1972 (ACT)* and shall be administered pursuant to the disallowable instruments under Pt 6 of the Act.

ASSETS

- 5. The assets of the Fidelity Fund shall be held and administered by the Trustees separate from all other property and solely for the purposes set out hereunder.

PROPER LAW

6. This deed and the trust hereof shall be governed by the laws of the Australian Capital Territory.

MONEY CONSTITUTING FIDELITY FUND

7. Money constituting the Fidelity Fund scheme consists of:
- (a) in the case of the Fidelity Fund established before the commencement of the amendment to the Act establishing the criteria for a Fidelity Fund – the money, and other property of which the fund consisted immediately before the commencement; and
 - (b) in the case of the Fidelity Fund established after the commencement of the Act – any amount that is loaned to the Fidelity Fund by the Master Builders Association ACT on the establishment of the fund; and
 - (c) money paid into the Fidelity Fund as required by the Act; and
 - (d) the interest and profits from time to time accruing from the investments that form the Fidelity Fund; and
 - (e) money paid into the Fidelity Fund by the recipients of a fidelity certificate; and
 - (f) money recovered by or on behalf of the Fidelity Fund in the exercise of a right of action conferred to it within this deed; and

- (g) money paid by any insurer pursuant to a contract, insurance or indemnity entered into by the Fidelity Fund; and
- (h) all other money lawfully paid into the fund.

ADMINISTRATION OF FUNDS

8. The trustees of the fund shall at all times administer the fund in accordance with the disallowable Instruments created pursuant to Pt 6 of the Act.

PAYMENTS OUT OF FUND

9. There must be paid out of the Fidelity Fund in such order as the board of trustees deems proper:
- (a) the amount of all claims, including costs, allowed by the board or established against the Fidelity Fund; and
 - (b) all legal and other expenses incurred in investigating or defending claims made against the Fidelity Fund or incurred in relation to the fund or in the exercise by the board of the rights, powers and authorities vested in the board in relation to the fund; and
 - (c) all premiums payable in respect of contracts of insurance or indemnity of the fund entered into by the board of trustees; and

- (d) the expenses incurred in the administration of the fund, including the salaries and wages of persons employed by the fund or the trustees in relation to the fund but excludes any payment by way of salary and wages to a trustee of the fund; and
 - (e) all of the monies payable out of the fund in accordance with the provisions of the Act; and
 - (f) all monies loaned to the fund for its establishment and initial working capital; and
10. The trustees may not return or distribute funds out of the Fidelity Fund unless the remaining capital in the scheme is adequate in accordance with their prudential standards and in the opinion of the actuary and in accordance with Part 6 of the Act.

LEGAL CLAIMS AGAINST THE FUND

11. A person may not commence proceedings under this deed against the fund without leave of the board unless;
- (a) the board has disallowed that person's claim; and
 - (b) the certificate holder has exhausted all relevant rights of action and other legal remedies for the recovery of money or other property in respect of which a pecuniary loss has occurred, being rights and remedies that are available against the builder in relation to whom the claim arose and all other persons who are liable in respect of the loss suffered by the certificate holder, other than any rights or remedies that the claimant may have under other sections of this deed.

12. A person who have been refused leave by the trustees of the fund under the above sub-section may apply to the Court for leave to commence proceedings against the fund and the Court may make such orders in the matter as they see fit.
13. The trustees of the fund, after disallowing (either wholly or partly) a claim for compensation from the Fidelity Fund must serve notice and reasons thereof for the disallowance in the prescribed form to the certificate holder.

MANAGEMENT AND ADMINISTRATION

Service of Documents

14. Documents served upon the Fidelity Fund may be addressed as follows:
 - (a) in general correspondence to:
MBA Fidelity Fund c/- MBA (ACT)
241 Northbourne Avenue, Lyneham ACT 2602;
 - (b) in legal correspondence or for the service of documents to:
MBA Fidelity Fund C/- O'Connor Harris & Co, Solicitors, 6th Floor,
161 London Circuit, Canberra ACT 2601.

Inspections of Books

15. A trustee has the right to inspect the books at the place where they are kept at all times.

Inspections of Records Generally

16. The Minister has the right to inspect the records of the Fidelity Fund provided that 7 days notice in writing is given to the board of trustees.
17. Copies or extracts of records, financial or otherwise, may not be made without the written consent of a majority of the board of trustees or without an order of the Court.

Care of Books

18. The books will be kept by the accountants appointed by the trustees and must be kept in accordance with the prudential standards as identified in the disallowable instruments under Pt 6 the Act.

NOTICE AND CALLING OF MEETINGS – WHO MAY CALL MEETINGS

Trustees

19. A Trustee may call a meeting of the trustee board at any time provided that procedural notices pursuant to Clauses 20 – 48 (of this Deed) are adhered to.

Request for a meeting by others

20. A request may be made for a meeting of the board of trustees in the following circumstances:
 - (a) A request in writing shall be provided to the secretary of the board of trustees by the Minister, building industry body or a group of not less than 7 fidelity certificate holders to call a

meeting of the trustee board which shall be held not later than 2 calendar months after the request is given to the trustee board.

- (b) A request must be in writing and state the issue to be addressed at that meeting.
- (c) The request must be signed by the Minister, industry state executive director or all the fidelity certificate holders making the request and to be served upon the office noted in clause 14.
- (d) Any reasonable expense incurred by trustees in complying with a request for a meeting must be paid by the Fidelity Fund.
- (e) The trustees may decline to act on the request of the proposing parties wherein resolutions proposed are of a nature to which the trustee board is not competent to pass.

RESOLUTIONS AND SERVICE OF NOTICES

Amount of Notice and Service and Recipients

21. A meeting of the board of trustees, unless a longer period is provided in this deed, may be called by notice in writing of at least 21 days.

Special Resolution

22. (a) A special resolution must be passed by 75% of the trustees entitled to vote on the Special Resolution;

- (b) A meeting of the board of trustees at which it is proposed to pass a special resolution or which is convened at the request of a party other than a trustee and described in clause 20 is a meeting of which 28 days notice must be given.

Abridgment of Time

23. The board of trustees may call a meeting on shorter notice than 21 days as required if it is so agreed;

- (a) For any general meeting, if a minimum of 4 trustees agree beforehand.
- (b) The board of trustees cannot call a meeting on short notice if the purpose of the meeting is for any of the following reasons:
 - (i) the removal of a trustee;
 - (ii) the removal of the auditor;
 - (iii) the removal of the accountant;
 - (iv) the removal of the actuary;
 - (v) the appointment of a trustee;
 - (vi) the reappointment of a trustee.

Clear Days

24. (a) The days between the notification and receipt will be taken to mean "clear days", that is, exclusive of the day of dispatch and the day of the meeting.

- (b) The day of service of the notice of a general meeting is 3 days after it was posted to the member and the day after it was sent if the notice was sent by fax or any other electronic means.

Service and Recipients

- 25. Written notice of a meeting must be given individually to each trustee entitled to vote at the meeting.
- 26. It will not be held that a meeting of trustees is invalid where:
 - (a) an omission to notify a trustee was accidental; or
 - (b) where a trustee did not advise the board of a change of address.

Contents of notices

Generally

- 27. The prescribed minimum contents of a notice of a meeting is as follows:
 - (a) the place, day and time of the meeting (and, if the meeting is to be held in two or more places, the technology that will be used to facilitate this);
 - (b) the general nature of the business to be transacted at the meeting;
 - (c) if a special resolution is to be proposed, the fact and content of that resolution;

Competence of meeting

28. Failure to give proper notice to anyone entitled to receive notice may invalidate the meeting, furthermore, a meeting's competence is limited by the business proposed to be dealt with at that meeting.

Protection of the absent

29. If a trustee is provided with an inadequate notice and subsequently fails to attend the meeting the board may at its discretion adjourn the meeting for up to 7 days.

Resolution passed without a meeting

30. If all of the trustees who are entitled to vote on a resolution sign a document containing a statement that they are in favour of the resolution in the terms set out in the document, a resolution in those terms is considered to be passed. The resolution shall be passed when the last trustees signs.
31. This procedure for approving resolutions by document applies to all resolutions except for the following:
- (a) the removal of a trustee;
 - (b) the removal of the auditor;
 - (c) the removal of the accountant;
 - (d) the removal of the actuary;
 - (e) the appointment of a trustee;
 - (f) the re-appointment of a trustee.

PROCEDURES

Quorums

32. The quorum for a trustees' meeting is at least half the number of trustees able to vote and the quorum must be present at all times during the meeting.
33. If a meeting of the trustee board does not have a quorum present within 30 minutes after the time set for the meeting in the notice of the meeting, the meeting shall be adjourned to a date to be fixed, and if not specified the same day in the following week; and if the time is not specified the same time and if the place is not specified the same place.
34. When a quorum is not present at a resumed meeting within 30 minutes after the time for the meeting, the meeting is dissolved.

Chairing

35. The trustees may elect one of their number to chair their meetings.
36. The chair is replaceable by the majority of trustees who are able to vote.
37. Where a chair has not been appointed, or where a person is not available or declines to act, the trustees at the meeting must elect a member present to chair the meeting.

Functions of the chair

38. The person chairing the meeting should consider two governing principles when managing a meeting.

- (a) the need for fair debate of airing of issues, with minorities having an opportunity to participate; and
 - (b) the orderly dispatch of the meetings business.
39. The chair has a duty to determine whether a motion is acceptable, and in doing so must consider whether:
- (i) the motion is certain and unambiguous;
 - (ii) it is in accordance with the Act and this Trust Deed;
 - (iii) is within the scope of the notice of the meeting;
 - (iv) is not unjustifiably defamatory, obscene or otherwise likely to incite disorderly conduct.

Voting

40. (a) A resolution of trustees must be passed by a majority of the trustees entitled to vote on the resolution.
- (b) The vote of each trustee is equal and has the value of 1 vote.
41. The chair has the casting vote if necessary in addition to any vote they have in their capacity as a trustee.

How voting is carried out

42. A resolution put to a vote at a meeting of trustees must be decided on a show of hands unless a poll is demanded by the majority of trustees present at that meeting.
43. Before a vote is taken the chair must inform the meeting whether a proxy vote will be valid and counted in determining a resolution.

44. On a show of hands, a declaration by the chair is conclusive evidence of the result provided that the declaration reflects the show of hands and the vote of the proxy representatives. Neither the chair nor the minutes need to state the number or proportion of the votes recorded in favour or against.

Trustee Board Secretary

45. A secretary of the trustee board may hold office on the terms and conditions (including adequate remuneration) that the trustees determine to be appropriate for the position held.

Circulation of members resolution

46. A resolution passed by the board of trustees must be given to all trustees whether or not they have attended that meeting within 7 days of the passing of the resolution.
47. The board of trustees shall not give public notice of any resolution or circulate any statement unless a copy of the notice or statement is approved in writing by the majority of the trustees present at the passing of that resolution.

Proxies

48. A trustee who is entitled to attend and cast a vote at a meeting of the board of trustees may appoint a person as the trustee's proxy to attend and vote for the trustee at the meeting.
49. The appointment may specify the proportion or number of votes that the proxy may exercise.

50. The trustee may not appoint more than one proxy to attend on their behalf at a meeting.
51. The trustee which requires a proxy to attend on their behalf must notify the board members within 7 days of the meeting or else the proxy's authority is invalid.

MANAGEMENT SUB-COMMITTEE

- 52 The board of trustees of the Fidelity Fund may, by resolution, appoint a management sub-committee of not fewer than three and not more than five persons, at least one of whom is also a member of the board.
- 53 The board of the Fidelity Fund may, by resolution, delegate to a sub-committee appointed by it under this section any part of its powers, authorities and discretions under the provisions of this deed.
- 54 A power, authority or discretion delegated under the above sub section may be exercised by members forming a majority of the sub-committee of that power, authority or discretion.
55. Delegation by the board of the Fidelity Fund under this section may at any time, by resolution of the board, be varied or revoked.
56. The board of the Fidelity Fund may at any time, by resolution, remove a member of the sub-committee appointed by it under this section and, by resolution, fill a vacancy arising in the membership of the sub-committee.

57. A delegation by the board of the Fidelity Fund under this section does not prevent the exercise of a power, authority or discretion by that board.

TERMS AND FORM OF FIDELITY CERTIFICATES

58. (a) The issue of a fidelity certificate by the trustees may be issued on the condition that each fidelity certificate:
- (1) is only issued for residential work in the ACT that is undertaken by a Fidelity Fund approved licensed builder;
 - (2) is only issued after the full contribution that the trustees required to be paid to the Fidelity Fund scheme for the issue of the fidelity certificate;
 - (3) must state the amount that the owner can request from the trustees, being at least the amount that is the minimum amount of cover that is required to be provided by an insurance policy under the Act; and
 - (4) must state that each of the following matters is at the discretion of the trustees when a request is made by an owner:
 - (i) whether any payment is to be paid to the owner from the assets of the Fidelity Fund scheme;
 - (ii) the amount of any such payment to be paid to the owner; and

- (iii) the terms and conditions on which any payment to the owner is to be paid by the trustees from the assets of the Fidelity Fund;
 - (iv) a claim properly submitted in accordance with Clause 64 may be subject to an assessment by a properly qualified expert appointed by the trustees.
 - (v) the excess payable by the owner before any payment is made from the assets of the Fidelity Fund.
- (b) require the trustees to determine the amount of a contribution to be paid to the Fidelity Fund scheme for the issue of a fidelity certificate including a requirement that the trustees consider the prudential standards and the advice of the actuary for the Fidelity Fund scheme before they determine the amount of the contribution.

APPROVAL OF BUILDERS

59. A Fidelity Fund certificate must not be issued unless the builder for which the Fidelity Fund holder seeking indemnity is as follows:
- (a) approved by the board of trustees;
 - (b) has provided indemnifications as determined by the board of trustees;

- (c) Is licensed as a builder in the Australian Capital Territory;
- (d) has a written contract for the work in existence at the time of issuing of the fidelity certificate to the fidelity certificate holder unless the construction is undertaken by an entity who owns the land or whose subsidiary or related company owns the land.
- (e) has provided all other documentation required by the board of trustees.

WARRANTEE AND LOSSES COVERED BY THE FIDELITY FUND

- 60. (a) Payments out of the Fidelity Fund will only be made pursuant to a validly issued fidelity certificate and in accordance with sections 62 and 64 of the Act:
 - (b) For the purposes of assessment of a claim made under a validly issued fidelity certificate, a claim made pursuant to 62 of the Act will be made subject to the premise that section 64(1)(i) of the Act is satisfied.
- 61. The trustees may pay to the owner an amount, up to the maximum amount stated on the owner's fidelity certificate, out of the assets of the Fidelity Fund scheme for a part or the whole or any loss that the owner has incurred and;
 - (a) requires that only the amount stated on the fidelity certificate can be requested by the owner;

- (b) requires that, if more than one request is made in relation to a fidelity certificate, the total amount that can be paid to an owner must not exceed the amount that is stated on the fidelity certificate;
 - (c) state that the types of losses in relation to which a request may be made are only those losses which would be recoverable under an insurance policy under sections 64 (1) (f),(g) and (h) of the Act;
 - (d) require that a request be made within the period that is the prescribed period for the purpose of section 64(1)(j) of the Act after the owner becomes aware of the existence of the grounds for making the request.
62. The trustees may pay the amount to whomever the trustees think fit to satisfy the claim under this fidelity certificate.
63. The trustees are prohibited from refusing to pay an owner under the fidelity certificate on the grounds that the fidelity certificate was obtained by a misrepresentation or non disclosure by the builder.

CLAIMS

- 64 A claim by a Fidelity Certificate Holder must be;
- (a) made in writing within 90 days of becoming aware of a possible event that may cause a payment from the Fidelity Fund.
 - (b) In accordance with a Fidelity Fund claim form.

WINDING UP OF THE TRUST

Winding up of the Scheme of the Trust

65. The board of trustees may, by special resolution, elect to wind up the Fidelity Fund scheme of the trust however no such election shall come into effect until 28 days after the Minister is notified of the decision.

Use of the Trust Funds upon Winding up

66. If the Fidelity Fund scheme is wound up, the trustees shall deal with any remaining funds in the scheme strictly in accordance with the directions of the Minister or Supreme Court.

TERMINATION DATE

67. The trust shall wind up and terminate on the first to occur of the following dates:
- (a) 80 years from the date of this deed; or
 - (b) 30 days following the winding up of the scheme.

VARIATION OF TRUST DEEDS

68. At any time prior to the termination date or at the time of winding up the scheme the board of trustees may, with the written consent of the Minister, alter vary or revoke any trust provisions of this deed unless the

Minister has specified an amendment that does not require ministerial approval.

RESTRICTION ON VARIATION

69. An alteration, variation or revocation pursuant to the abovementioned shall not:
- (a) divert or modify any of the Fidelity Funds capital or investments representing the same or income derived from any such investment to which the Fidelity Fund has become absolutely entitled pursuant to this deed; or
 - (b) infringe on any applicable law or rule or otherwise extend the termination date or result in any provision of the trust that would be void for any reason.

DUTIES OF THE TRUSTEE

70. Each trustee should:
- (a) act honestly in all matters concerning the Fidelity Fund scheme;
 - (b) exercise, in relation to all matters affecting the Fidelity Fund scheme, the same degree of care, skill and diligence as an ordinary prudent person would exercise in dealing with property of another for whom the person felt morally bound to provide;
 - (c) ensure that the trustee's powers and duties are exercised and performed in the best interests of the owners entitled to make a

request and, if there is a conflict between the interests of the owners and the trustee's own interests, give priority to the owners' interests;

- (d) not make use of information acquired through being a trustee in order to:
 - (1) gain an improper advantage for the trustee or another person; or
 - (2) cause detriment to an owner entitled to make a request;
- (e) ensure that the money and other assets of the Fidelity Fund are:
 - (1) clearly identified as property of the Fidelity Fund; and
 - (2) held separately from the property of the trustee and the other trustees;
- (f) not enter into any contract, or do anything or omit to do something, that would prevent the trustee or the other trustees from, or hinder the trustee or the other trustees in, properly performing or exercising the trustees' duties and powers;
- (g) ensure that all payments out of the assets of the Fidelity Fund scheme are made in accordance with the trust deed and the Act;
- (h) as soon as practicable after the trustee becomes aware of any breach of the Act that has had, or is likely to have, a materially adverse effect on the interests of an owner who is entitled to make a request, report the breach to the Minister; and

- (i) carry out or comply with any other duty, not inconsistent with the Act, that is conferred on the trustee by the trust deed.

71. Each trustee shall be a natural person.

72. The Fidelity Fund shall have at least 5 trustees at all times unless the Minister approves otherwise.

73. Each trustee shall:

- (a) be an Australian citizen;
- (b) have the competence, knowledge, skills, experience, qualifications and integrity to carry out his or her duties as a trustee which would be expected of an ordinary prudent person carrying out those duties;
- (c) maintain professional indemnity insurance in respect of his or her position as a trustee of the Fidelity Fund scheme that is prudent and reasonable in the circumstances, and in any event which cover claims amounting to the lesser of \$5 million or the sum of the value of all the assets in the Fidelity Fund scheme of which he or she is the trustee;
- (d) not have been refused the right, or restricted in the right, to carry on any trade, business or profession relevant to his or her duties as a trustee;

- (e) not be under investigation, or have been disciplined or removed from membership or a professional body relevant to his or her duties as at trustee;
- (f) not have been the subject of an adverse finding in relation to dishonest conduct in any judgment in any administrative or civil proceeding in any jurisdiction in any country;
- (g) not have been:
 - (1) convicted of an offence against or arising out of:
 - (i) a law of the Commonwealth, a State, or a Territory or a foreign country involving dishonest conduct;
 - (ii) the Act, the *Insurance Act 1973* (Cth), the *Financial Sector (Collection of Data) 2001* (Cth) or the *Corporations Act 2001* (Cth); and
- (h) have no actual or potential conflict of interest that is likely to influence his or her ability to carry out his or her role and duties with appropriate probity and competence.

74. The board of trustees of the Fidelity Fund scheme should:

- (a) Comply with all proper prudential standards (including the requirements in relation to the financial management of the Fidelity Fund scheme);
- (b) at all times have available adequate financial, technological and human resources to carry out their duties as trustees;

- (c) have a contingency plan as required by the prudential standards;
and
- (d) have a compliance plan as required by the prudential standards.

from the date that the Minister approves the Fidelity Fund Scheme.

CONSUMER REPRESENTATION

75. The Minister, may from time to time, appoint a community representative to the board of trustees to the Fidelity Fund, such that:
- (1) the community representative is permitted to attend all meetings of the board where claims against the Fund, approval of builders or the issue of certificates is discussed; and
 - (2) the community representative does not having voting rights, but may make recommendations to the board and those recommendations must be taken into account by the board in making their decision; and
 - (3) the community representative has no liability for any decision of the board or any action of the trustees.

POWER OF APPOINTMENT

76. The power to appoint a new trustee in the place of an existing trustee or in addition and jointly with the trustees in power to remove a trustee may only be exercised;
- (a) it shall be exercised by the unanimous vote of the board of the trustees by special resolution; and
 - (b) with the written consent of the Minister.

RESIDUAL POWER OF APPOINTMENT

77. If at any time no person has the power to appoint a new trustee or an additional trustee, the power is vested in the Minister.

POWER OF THE TRUSTEES TO REQUIRE PRODUCTION OF DOCUMENTS

78. The trustees of the fund may at any time request a person to produce and deliver any documents or statements of evidence necessary to support a claim made or necessary for the purpose of either exercising its right against the builder (whether in corporation, partnership or otherwise constituted) or any other person or to enable criminal proceedings to be taken. In default of delivery of such documents or statements of evidence by the certificate holder or builder the trustees may disallow any claim by the certificate holder or may delay the making of a decision until the information is provided.

TIMING OF DECISION

79. Decisions in relation to whether payment will or will not be made to a fidelity certificate holder must be made within 90 days of a claim unless the decision is delayed as a result of causes beyond the power of the board of trustees.

SUBROGATION OF CERTIFICATE HOLDER RIGHTS ON PAYMENT FROM FUND

80. On payment out by the Fidelity Fund of any money in respect of a claim under this deed, the board of trustees shall obtain a right of subrogation from the claimant against all persons responsible for the claim.

PAYMENT OF CLAIMS ONLY FROM FUND

81. Money or other property belonging to the MBA (ACT) other than its funds which it has committed to the Fidelity Fund is not available for the payment of claims under this deed, whether the claim is allowed by the trustees of the fund or is made the subject of an order of a Court.

PROVISIONS WHERE FUNDING INSUFFICIENT TO MEET CLAIMS OR WHERE CLAIM EXCEEDS TOTAL AMOUNT PAYABLE

82. Where an amount in the fund is insufficient to pay the whole of the amount of all claims against it that have been allowed or in respect of which orders of the Court have been made, the amount in the fund shall

be apportioned among the claimants in such a manner as the trustees of the fund think equitable, and such a claim so far as it then remains unpaid is taken to be charged against future receipts of the fund and paid out of the fund when monies are available in the fund.

83. Where the aggregate of all claims that have been allowed or in respect of which orders of the Court have been made in relation to any certificate holder exceeds the total amount that may be paid under this deed, the amount paid must be apportioned among the claimants in such a manner as the board thinks equitable, and on payment out of the fund of the total amount in accordance with that apportionment all such claims and any orders relating to those claims and all other claims against the fund that may thereafter arise or be made in respect of a claim are discharged.

POWER OF THE FIDELITY FUND TO ENTER INTO CONTRACTS OF INSURANCE OR INDEMNITY

- 84 The fund may enter into a contract with a person or corporation carrying on fidelity insurance whereby the fund will be insured or indemnified, to the extent and the manner provided by the contract, against liability with respect to claims that may be made against the Fund.
85. A re-insurance contract may be entered into in relation to one or more builders or construction organisations or in relation to particular certificate holders.

SIGNED SEALED AND DELIVERED BY)
JOHN PATRICK HARRIS)
in the presence of)



SIGNED SEALED AND DELIVERED BY)
[Redacted])
in the presence of)



Signature of Witness

SIGNED SEALED AND DELIVERED BY)
[Redacted])
in the presence of)



Colin Alexander



Signature of Witness

SIGNED SEALED AND DELIVERED BY)

[Redacted])

in the presence of)

[Redacted]

[Redacted]

Signature of Witness

SIGNED SEALED AND DELIVERED BY)

[Redacted])

in the presence of)

[Redacted]

[Redacted]

Signature of Witness

Master Builders Fidelity Fund

Compliance Plan

Compliance Plan for the Master Builders Fidelity Fund required by the Building (Prudential Standards) Determination 2005

Version	DRAFT 3.0	Replaces Previous Version	14-Mar-2025
Updated by	Sch 2.2(a)(ii)	Advisor	14-Mar-2025
Reviewed		MBACT – Corporate Services Director	12-04-2025
Approved	MBFF Trustees	Master Builders Fidelity Fund Trustees	05-05-2025

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Executive Summary

This Compliance Plan ('Plan') demonstrates how the Trustees of the Master Builders Fidelity Fund ('the Fund') will ensure ongoing compliance with the *Building Act 2004*, associated regulations, prudential standards and the Trust Deed. It establishes the Fund's governance framework, risk management processes and reporting obligations, ensuring financial stability and regulatory adherence.

Authority

BUILDING (PRUDENTIAL STANDARDS) DETERMINATION 2005

Divisions 6.4 and 6.5 of the *Building Act 2004* (the Act) establish a fidelity fund scheme for consumer protection. Section 103 of the Act empowers the Minister to set prudential standards for the scheme. *Building (Prudential Standards) Determination 2005* imposes Trustee obligations relating to: liability calculations; capital adequacy; investment rules; financial management; trustee eligibility; auditor and actuary duties; risk management; reporting obligations to the government; and compliance and contingency planning.

EXPLANATORY STATEMENT TO THE PRUDENTIAL STANDARDS

"A compliance plan must be prepared, that specifies how the approved scheme is to operate. The plan must show how the trustees will ensure compliance with the Act and any conditions of approval specified under section 100 of the Act. A risk management strategy and reporting strategy must be included, which also specifies who is responsible for monitoring each identified risk. Any amendment to the plan must be provided to the Minister within 14 days of the trustees approving the amendment.

Compliance of the approved scheme with the plan must be monitored at least every three months. Any breach of the plan which is considered by the trustees to have a material adverse effect must be notified immediately to the Minister in writing. The assessment of the adequacy of the plan, and any breaches of the plan, must be included in the annual report to the Minister."

The trustees must assess whether the compliance plan is adequate for the purposes of the approved scheme and report that assessment, and any breaches of the compliance plan that the trustees are aware of, to the Minister at the end of each financial year (Clause 55(e)). If the compliance plan is amended, the trustees must provide the Minister with a copy of the new compliance plan within 14 days of its approval by the trustees (Clause 49).

Scope of Plan

The compliance plan ('the Plan') outlines the measures trustees must apply in managing an approved scheme. Key responsibilities include:

- **Compliance Assurance:** Ensuring adherence to the *Building Act 2004* (the Building Act), related regulations and any conditions of approval under section 100.

- **Risk Management:** Identifying, understanding, addressing, and monitoring financial and non-financial risks, including balance sheet, market, credit, operational and reputational risks.
- **Breach Reporting:** Detecting and rectifying compliance breaches, with immediate written notification to the Minister if a material adverse effect is expected.
- **Risk Oversight:** Assigning responsibility for monitoring each risk and reviewing the scheme's compliance at least quarterly.
- **Regular Monitoring and Oversight of the Plan:** Assessing the adequacy of the compliance plan itself; ensuring compliance with the plan; and reporting findings, including breaches, to the Minister.
- **Plan Amendments:** Submitting any updated compliance plan to the Minister within 14 days of trustee approval.

These measures ensure the scheme operates within regulatory requirements while maintaining financial and operational integrity.

Relevant Laws & Regulations

The following laws and regulations are included in the scope of this plan:

- *Building Act 2004*
- *Building (General) Regulation 2008*
- *Building (Prudential Standards) Determination 2005*
- *Building (Master Builders Fidelity Fund Assets) Determination 2009*
- The approved Trust Deed

Key Trustee Responsibilities & Duties

Building (Prudential Standards) Determination 2005 requires that Trustees must:

- Formulate, adopt and give effect to a compliance plan (Cl 45)
- Review compliance with the plan at least quarterly (Cl 46)
- Immediately notify the Minister in writing of material breaches (Cl 47)
- Annually assess and report on the plan's adequacy and any breaches (Cl 48)
- Provide the Minister with updated plans within 14 days of trustee approval (Cl 49)

Other Key Duties

- Ensure compliance with the investment strategy
- Prevent insolvent trading

Key Trustee Responsibilities

- Monitor significant Fund asset transactions
- Understand applicable legal and regulatory frameworks
- Review management reports and financial statements
- Review compliance matters at meetings

Key Stakeholders

Party	Requirement
Trustees	Responsible for overall administration of the scheme as required by the Building Act, Regulations, Prudential Standards and Trust Deed
MBACT CEO	Responsible for overall strategy and direction
MBACT Corporate Services Director	Leads a small team within MBACT and is responsible for most of the compliance aspects that MBACT manages
MBACT Technical Manager	Responsible for technical aspects of the fund including disputes between owners and builders; site inspections; and claims against the Fund
Fund Administrator	Responsible for processing applications for cover; processing Project Application Forms (PAF) for specific projects; and managing claims
Fund Assessors	Independent, external assessors review financial viability of applicants and provide recommendations on appropriate levels of cover for each applicant.
Fund Auditor	The Fund engages an external auditor to review the Financial Statements (prepared by MBACT Finance Team). The Fund's current auditor is ██████████ at RSM.
Fund Actuary	The Fund must have an approved actuary engaged who completes reports bi-annually. These reports are provided to the Trustees and the Minister.

Compliance Framework

Commitment

The Trustees are committed to fostering a strong compliance culture within the Board and with Master Builders ACT ('MBACT') staff. This includes:

- Encouraging the identification, resolution and reporting of breaches.
- Integrating the compliance plan into the Fund's operations.
- Ensuring all staff understand the plan's purpose and related documents.
- Assigning responsibility for maintaining and monitoring the plan to the CEO of MBACT (or their nominee).

This commitment ensures proactive compliance management and accountability.

Plan Governance

Trustees' Responsibilities & Duties

- Ensure ongoing legal compliance of the Plan
- Address breaches and follow up on recommendations
- Monitor significant Fund asset transactions
- Prevent insolvent trading
- Ensure Fund actions comply with the Trust Deed
- Review compliance matters at meetings

Management Responsibilities (MBACT)

The MBACT manages the Fund. Compliance oversight is delegated to the CEO. Key MBACT responsibilities:

- Implementing internal systems and monitoring compliance
- Reporting compliance matters to Trustees and the Minister
- Ensuring adherence to Trustees' resolutions and decisions
- Promoting a compliance culture
- Stay up to date with regulatory changes
- Update the Plan and notify relevant stakeholders of changes
- Ensure compliance procedures are documented, understood and followed.
- Monitoring and reporting compliance breaches
- Amending and lodging the Plan based on Trustees' recommendations

Trustee Meetings

Trustees must review compliance matters in every meeting. The compliance agenda includes:

- Reports from management
- Compliance breaches and corrective actions
- Amendments to the Plan, Contingency Plan or regulatory frameworks

Plan Oversight

The Trustees review this plan at least quarterly to ensure the plan remains current and aligned with legislative and operational needs. The Trustees amend the compliance plan as necessary and as circumstances change (amendments are ratified in Trustee meeting minutes) and amended plans must be provided to the Minister within 14 days of Trustee approval.

The management team (MBACT) report material procedural breaches as and when they occur. In addition, external oversight of key aspects of the Fund's compliance activities occurs from two (2) distinct, independent professional services providers:

External Auditor

- Annual audit of financial statements
- Confirmation of Fund's capital adequacy

- Certification of financial position accuracy
- Other matters as determined by the Minister

Actuarial Review

- Annual assessment of Fund solvency
- Valuation of Fund liabilities
- Determination of contribution adequacy

Risk and Materiality

The Materiality and Risk Assessment framework described below ensures that compliance breaches are evaluated based on their potential impact on the Fund's financial stability, operational integrity, and reputation. Trustees and management must categorise risks appropriately and take necessary action when material breaches occur.

Risk Categorisation

Risks (and related breaches) are categorised into three levels based on their potential impact.

High Risk: A breach that significantly affects the solvency, compliance status or regulatory approval of the Fund and is therefore considered “material”. Examples include insolvency, mismanagement of funds, or breaches that may result in regulatory penalties. Immediate corrective action is required for breaches of high-risk requirements, with immediate notification required to the Minister and relevant stakeholders.

Medium Risk: A breach that could cause moderate financial, operational, or reputational harm but does not immediately threaten the Fund’s ability to operate. Examples include non-compliance with reporting requirements, investment guideline deviations, or minor regulatory issues. Corrective action should be implemented within a short time frame, with monitoring by management.

Low Risk: A breach that has a minimal impact on Fund operations and does not pose significant financial or reputational harm. Examples include minor administrative errors or late filings that do not result in penalties. These issues should be rectified as part of ongoing compliance monitoring.

Materiality Assessment

Material breaches must be immediately notified to the Minister in writing. Our assessment of whether a breach is material considers:

Financial Impact:

- Quantification of potential financial loss or liability
- Whether the breach affects the Fund’s ability to meet obligations
- The monetary value of the breach

Regulatory Compliance:

- Whether the breach risks the Fund’s approved status or leads to regulatory penalties
- If the breach violates Prudential Standards or statutory obligations

- Reporting obligations triggered by the breach

Operational Impact:

- Disruptions to Fund operations, including risk to service delivery and internal processes
- Required procedural changes to mitigate recurrence

Reputational Risk:

- Potential damage to the Fund’s reputation among stakeholders, including regulators, builders and certificate holders
- Impact on public trust and confidence in the Fund

Material Breach Reporting

If a breach is deemed material, the following reporting requirements apply:

- Immediate notification to the Minister in writing, specifying:
 - Nature of the breach
 - Potential impact on the Fund
 - Planned or implemented corrective actions
- Regular monitoring and follow-up at Trustee meetings to ensure corrective actions are effective
- Annual Reporting:
 - All breaches, including material ones, must be reported to the Minister within 60 days of the financial year end.
 - The Fund must outline actions taken to prevent recurrence.

This framework provides a systematic approach to identifying, assessing, and resolving risks, safeguarding the Fund’s financial stability, operational efficiency, and regulatory compliance.

Compliance Register

We have developed a detailed Compliance Register (‘Register’) that includes specific procedures and risk assessments that address and references the Fund’s compliance requirements. The Register establishes a risk management and reporting approach and also specifies who is responsible for monitoring each identified risk. It includes clear steps for maintaining regulatory compliance, financial stability and effective oversight of Fund compliance and covers the following areas:

- **Oversight and Reporting:** Provides a documented record of compliance actions to support governance oversight
- **Assigning Responsibilities:** Designates specific individuals or teams responsible for each compliance task.
- **Monitoring Internal Compliance:** Schedules for internal reviews, training and policy updates.
- **Ensuring Consistency:** Helps maintain continuous adherence to compliance requirements, reducing the risk of breaches.
- **Risk Assessment:** Clearly identify risks and their management.

The Compliance Program is detailed in Appendix 1 and organized according to the applicable laws and regulations, including:

- *Building Act 2004*
- *Building (General) Regulation 2008*
- *Building (Prudential Standards) Determination 2005*
- *Building (Master Builders Fidelity Fund Assets) Determination 2009*
- Approved Trust Deed

Compliance Calendar

A compliance calendar is a structured schedule that outlines key compliance obligations, deadlines and reporting requirements for an organisation. It is a proactive tool to ensure regulatory, legal and internal compliance tasks are completed on time. We have developed a compliance calendar (see Appendix 2) that is to be used for tracking regulatory deadlines including submission dates for reports, audits, notifications, filings and other disclosures.

Appendix 1 – Compliance Program

See [Compliance Register](#)

Appendix 2 – Compliance Calendar

See [Compliance Register](#)

Appendix 3 – Trust Deed Compliance

Trustees of the Fund have established robust compliance procedures to ensure adherence to the trust deed and fiduciary duties including:

1. Governance and Oversight

- **Regular Trustee Meetings** – Documented meetings to review trust administration, investments, and compliance matters.
- **Conflicts of Interest** – Maintain a register and require trustees to disclose conflicts at every meeting.

2. Adherence to the Trust Deed

- **Periodic Legal Review** – Engage legal counsel to review the trust deed and ensure operations comply.

3. Financial Compliance

- **Independent Audit & Actuarial Reporting** – Engage external auditors and independent actuary to verify financial statements, compliance and reserves.
- **Budgeting & Expenditure Controls** – Approve budgets and ensure all expenditures align with the trust's purpose.
- **Investment Policy Statement (IPS)** – Define investment objectives, risk tolerance, and ensure compliance with the trust deed.

4. Beneficiary Management

- **Eligibility Verification** – Implement procedures to confirm beneficiaries' eligibility under the trust deed.
- **Transparent Claims Payment Process** – Ensure a documented and compliant process for claim payments.
- **Complaints & Dispute Resolution Mechanism** – Establish a formal process for handling beneficiary concerns.

5. Risk Management & Compliance Monitoring

- **Risk Register** – Maintain and regularly update a register of risks associated with trust administration.
- **Regulatory Compliance Register** – Ensure compliance laws and regulations.

6. Record-Keeping & Reporting

- **Document Retention** – Maintain records of trustee decisions, meeting minutes, financial transactions, and correspondence.
- **Regular Compliance Reports** – Trustees review and sign off on regular reports outlining compliance with legal and trust deed requirements.
- **Regulatory Filings** – Ensure all required reports (e.g., financial and actuary reports) are submitted on time.

Master Builders Fidelity Fund

Contingency Plan

Contingency Plan for the Master Builders Fidelity Fund required by the Building (Prudential Standards) Determination 2005

Version	Final	Replaces Version	7-Mar-2025
Updated by	Sch 2.2(a)(ii)	Advisor	7-Mar-2025
Reviewed		MBACT – Corporate Services Director	12-04-2025
Approved	MBFF Trustees	Master Builders Fidelity Fund Trustees	05-05-2025

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Sch 2.2(a)(iii)

Executive Summary

This plan demonstrates how the Trustees of the Master Builders Fidelity Fund (the Fund) will address major administrative difficulties caused by disasters, accidents, crimes, systems failures, or other unforeseen events beyond their control. The goal is to ensure continuous operation of the Fund with minimal disruption and loss. The Trustees will establish necessary procedures to implement and monitor the plan (see Appendices) and the plan will be regularly reviewed and updated as needed.

Authority

BUILDING (PRUDENTIAL STANDARDS) DETERMINATION 2005

Divisions 6.4 and 6.5 of the Building Act 2004 (the Act) establish a fidelity fund scheme for consumer protection. Section 103 of the Act empowers the Minister to set prudential standards for the scheme. Building (Prudential Standards) Determination 2005 imposes Trustee obligations relating to: liability calculations; capital adequacy; investment rules; financial management; trustee eligibility; auditor and actuary duties; risk management; reporting obligations to the government; and compliance and contingency planning.

EXPLANATORY STATEMENT TO THE PRUDENTIAL STANDARDS

“A contingency plan must be prepared that specifies how any unforeseen administrative difficulty caused by any event beyond the trustees’ control would be managed. This could include a disaster, crime or systems failure. The plan must include arrangements to keep duplicate records on and off-site, availability of administrative and human resources, the role of service providers and the availability of financial resources to fund rectification work. The Minister may also determine in writing, other matters that must be included in the contingency plan. The Minister’s determination is a disallowable instrument.

It is the responsibility of the trustees to ensure the necessary structures are in place to give effect to the contingency plan. If the contingency plan is activated, the trustees must advise the Minister in writing. Any changes to the contingency plan must be provided to the Minister within 14 days of the approval of the change.”

The trustees must amend the contingency plan as necessary and as circumstances change. If the contingency plan is amended, the trustees must provide the Minister with a copy of the new contingency plan within 14 days of its approval by the trustees (para 54 of the Prudential Standards).

Key Personnel

Party	Confidentiality Requirement
Trustees	Responsible for overall administration of the scheme as required by the Building Act, Regulations, Prudential Standards and Trust Deed
MBACT CEO	Responsible for privacy and overall strategy and direction
MBACT Corporate Services Director	Leads a small team within MBACT and is responsible for most of the compliance aspects that MBACT manages
MBACT Building Advisor	Responsible for technical aspects of the fund including disputes between owners and builders; site inspections; and claims against the Fund
Fund Administrator	Responsible for processing applications for cover; processing Project Application Forms (PAF) for specific projects; and managing claims
Fund Assessors	Independent, external assessors review financial viability of applicants and provide recommendations on appropriate levels of cover for each applicant.
Fund Auditor	The Fund engages an external auditor to review the Financial Statements (prepared by MBACT Finance Team). The Fund's current auditor is Sch 2.2(a)(ii) at RSM.
Fund Actuary	The Fund must have an approved actuary engaged (Adrian McGarva at PFS Consulting is the actuary), who completes reports bi-annually. These reports are provided to the Trustees and the Minister.

Scope of Plan

This plan addresses:

- Data protection
- Skills retention and acquisition
- Maintaining adequate financial resources
- Insurance
- Plan compliance, relevance and oversight
- Availability of IT systems, including disaster recovery planning
- Business continuity planning
- The role of service providers
- Maintaining duplicate records across multiple locations

Data Protection

The Fund collects confidential and private information from applicants and claimants, including financial records. The Trustees will implement procedures to protect this information from:

- Unauthorised disclosure (accidental or deliberate)
- Misuse
- Unplanned destruction

Confidentiality Agreements

All consultants will be required to sign confidentiality agreements. All staff employed by Master Builders Association of the ACT (MBA ACT) who provide services to the Fund have confidentiality requirements included in their contract of employment. The Trustees may initiate legal proceedings for any breaches of these confidentiality requirements.

It is a requirement that any consultants or third parties engaged by the Fund will either have a confidential agreement with their employees who provide services to the Fund or have an appropriate confidentiality clause included in their contracts of employment.

Party	Confidentiality Requirement
Consultants	Must sign confidentiality agreements
MBA ACT Staff	Have confidentiality clauses in employment contracts
External Service Providers	Must have confidentiality agreements with employees or confidentiality clauses in employment contracts

Privacy Policy

The Fund has developed and published a Privacy Policy compliant with the Privacy Act 1988. The CEO of MBA ACT (or nominee) serves as Privacy Officer to ensure compliance. The Fund collects and stores information about applicants (builders) and homeowners to:

- Maintain and administer the Fund
- Comply with business, legal, accounting, and legislative standards
- Provide information to the ACT Government and regulatory authorities as legally required

Information may be disclosed to external service providers for:

- Financial eligibility assessments
- Claim assessment and determination

External service providers:

- May only use information for their specific contracted purpose
- Do not receive the entire database

Information and Data Access Rights

Applicants and homeowners may access their personal information (with legal exceptions) and requests must be made in writing. The Fund reserves the right to charge for extraordinary costs

Record Retention and Backup

Financial records of the Fund must be retained for seven (7) years after the end of the financial year to which the records relate. Other administrative records must be retained for ten (10) years after the date of the document

Record Type	Retention Period
Financial records	7 years after the end of the financial year
Administrative records	10 years after document date

Administrative records include:

- Trustee meeting minutes
- Trustee decision records
- Trustee change documentation
- Fund operation documents
- Compliance Plan
- Contingency Plan
- Copies of Fidelity Fund Certificates
- Claim documentation (including rejections)
- Other documents determined by the Minister

Storage requirements:

- Preference for cloud-based storage hosted in Australia
- Current physical server at 1 Iron Knob Street, Fyshwick, ACT
- Daily backups of Fund database, accounting system and related documents
- Minimise use of physical documents

Skills Retention and Acquisition

Trustees

- Appointed based on skills, industry knowledge, experience and character
- Minimum of five Trustees required at all times
- Ministerial approval required before appointment

MBA ACT Staff

The Fund is managed by MBA ACT employees:

Position	Time Commitment
Chief Executive Officer	Part-time as required
Corporate Services Director	Part-time as required
Fidelity Fund Manager	Full-time, dedicated to the Fund
Finance Team	Part-time as required
Admin Support	Part-time as required
Building Advisor	Part-time as required

Other MBA ACT staff may provide services when needed. The Fund will maintain sufficient personnel with appropriate knowledge and experience.

External Service Providers

- Used for builder application assessments and claims evaluation
- Reviewed at least every three years to ensure Fund needs are met

Physical Resources

Office Space

The Fund primarily operates from secure office space that:

- Is in a non-remote location with access to services
- Separates public areas from working and data storage areas
- Has controlled after-hours access (security alarms/keys limited to staff and cleaning personnel)
- Includes fire monitoring by a reputable provider

The Fund rents office space and meeting rooms from MBA ACT. Operations may also be conducted remotely to accommodate modern working arrangements.

Equipment

- The Fund acquires equipment for efficient operations
- MBA ACT obtains and maintains equipment where appropriate
- Fund assets are protected from theft, damage, and misuse
- Maintenance agreements are established when required

Insurance

The Fund maintains insurance policies covering:

- Physical assets (contents policy)
- Financial assets

- Indemnity policy protecting against legal action related to Trustees or staff actions

Financial Management

The Trustees ensure adequate financial resources through the engagement of an approved actuary and regular reports to Government (at least every six months) on the adequacy of applicant contributions and fund solvency. The Fund also provides reports to the Minister (as required) and financial reporting by MBA ACT to Trustees at each Trustee meeting.

Plan Compliance, Relevance and Oversight

Reviewing the Plan

The Trustees review this plan at least annually to ensure the plan remains current and aligned with legislative and operational needs. The Trustees amend the contingency plan as necessary and as circumstances change (amendments are ratified in Trustee meeting minutes) and amended plans must be provided to the Minister within 14 days of Trustee approval

Compliance Monitoring

The Trustees monitor compliance with this plan through:

- Regular contingency plan reviews and updates
- Management team reporting of material procedural breaches
- External auditor reporting of compliance and related issues

External Audit

The Fund must appoint an independent auditor each year. The auditor must be approved by the Australian Prudential Regulation Authority (APRA) under section 46 of the *Insurance Act 1973* (Cth) as a person who may audit the accounts of entities carrying on insurance business (even though the Fund is not considered an insurance business). This auditor must perform an audit of the Fund annually. RSM has been the external auditor since the Fund's inception in 2002.

The auditor's report (including the management letter of audit findings) is tabled at a Trustee's meeting. Audit findings and recommendations are reviewed and actioned, including adapting this plan if required.

Appendix A – Plan for Compliance

Requirement	Risk Rating	Responsible Role	Steps to Ensure Compliance	Frequency	Compliance Plan	Compliance Status
Contingency Plan Review & Update	High	Trustees	Conduct annual review of the contingency plan.	Annually	Ensure plan remains current and aligned with legislative and operational needs.	Complete
	High	Trustees	Amend the plan as needed to reflect regulatory or operational changes.	Ongoing & Annually		
	High	Trustees	Obtain Trustee approval for updates.	Ongoing & Annually		
	High	Trustees	Provide updated plan to the Minister within 14 days of approval.	As required		
Data Protection & Privacy Compliance	High	CEO (Privacy Officer)	Implement and monitor data security measures to prevent unauthorised access.	Annually	Conduct privacy compliance audits and ensure proper data handling procedures.	
	High	CEO (Privacy Officer)	Conduct an annual review of confidentiality agreements for Trustees, staff and external providers.	Annually		
	High	CEO (Privacy Officer)	Ensure compliance with the Privacy Act 1988.	As required		
	High	CEO (Privacy Officer)	Conduct periodic audits on data security.	As required		
	High	CEO (Privacy Officer)	Provide privacy training for relevant personnel.	As required		

Requirement	Risk Rating	Responsible Role	Steps to Ensure Compliance	Frequency	Compliance Plan	Compliance Status
Record Retention & Backup	High	Corporate Services Director	Migrate records to cloud-based storage by 2024.	Ongoing & Annually	Verify compliance with record retention policies and data security requirements.	Complete
	High	Corporate Services Director	Conduct daily backups of the database, accounting system, and related documents.	Daily		
	High	Corporate Services Director	Maintain financial records for 7 years and administrative records for 10 years.	As required		
	High	Corporate Services Director	Conduct an annual audit of record retention compliance.	Annually		
Trustee Compliance with Prudential Standards	High	Trustees	Ensure a minimum of five Trustees are appointed at all times.	As required	Review Trustee composition at each meeting to ensure compliance.	
	High	Trustees	Seek Ministerial approval for new Trustee appointments.	As required		
	High	Trustees	Maintain records of Trustee decisions and changes.	As required		
	High	Trustees	Conduct an annual skills and compliance assessment of Trustees.	Annually		
Financial Viability & Capital Adequacy	High	Actuary	Engage an approved actuary to assess financial viability.	Every six months	Conduct financial viability assessments and ensure capital adequacy.	
	High	Actuary	Conduct solvency and financial adequacy assessments at least every six months.	Every six months		Ongoing

Requirement	Risk Rating	Responsible Role	Steps to Ensure Compliance	Frequency	Compliance Plan	Compliance Status
Financial Viability & Capital Adequacy	High	Actuary	Provide financial reports to Trustees and the Minister as required.	As required		
	High	Actuary	Implement corrective actions if financial risk is identified.	As required		
Insurance Policy Review & Renewal	Medium	Corporate Services Director	Maintain appropriate indemnity, asset, and financial insurance coverage.	Annually	Ensure adequate insurance coverage for Fund operations and personnel.	
	Medium	Corporate Services Director	Conduct an annual review of insurance policies.	Annually		
	Medium	Corporate Services Director	Renew or update insurance coverage as necessary.	As required		
	Medium	Corporate Services Director	Verify insurance compliance with risk management policies.	As required		
Service Provider Review	Medium	Trustees	Evaluate external service providers at least every three years.	Every three years	Maintain high standards for external service providers and review agreements.	
	Medium	Trustees	Ensure contracts include confidentiality clauses.	As required		
	Medium	Trustees	Assess provider performance and compliance with service agreements.	As required		

Requirement	Risk Rating	Responsible Role	Steps to Ensure Compliance	Frequency	Compliance Plan	Compliance Status
Service Provider Review	Medium	Trustees	Document findings and update contracts as needed.	As required		Pending/Ongoing/Complete
Audit & External Reporting	High	Trustees & External Auditor	Engage an APRA-approved external auditor.	Annually	Ensure full compliance with financial and operational audit requirements.	
	High	Trustees & External Auditor	Conduct an annual audit as required under the Insurance Act 1973 (Cth).	Annually		
	High	Trustees & External Auditor	Provide audit reports to the Minister.	Annually		
	High	Trustees & External Auditor	Implement corrective actions based on audit findings.	Annually		
Incident & Breach Reporting	High	CEO & Trustees	Investigate significant breaches or policy violations.	As required	Maintain and review a compliance breach register.	
	High	CEO & Trustees	Maintain an incident and breach register.	As required		
	High	CEO & Trustees	Report material breaches to Trustees and regulatory authorities as required.	As required		
	High	CEO & Trustees	Implement corrective actions to prevent recurrence.	As required		
Operational Procedures Manual Review	Medium	CEO	Review the Procedures Manual to ensure it aligns with Fund operations.	Annually	Maintain up-to-date operational procedures and ensure adherence.	Pending/Ongoing/Completed
	Medium	CEO	Update procedures to reflect operational and regulatory changes.	As required		

Requirement	Risk Rating	Responsible Role	Steps to Ensure Compliance	Frequency	Compliance Plan	Compliance Status
Operational Procedures Manual Review	Medium	CEO	Provide staff with training on revised procedures.	As required		Pending/Ongoing/Complete
	Medium	CEO	Investigate any deviations from standard procedures and implement corrective actions.	As required		

Sch 2.2(a)(iii)

Sch 2.2(a)(iii)

MASTER BUILDERS FIDELITY FUND
ABN: 19 861 512 557

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2020

MASTER BUILDERS FIDELITY FUND
ABN: 19 861 512 557

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RSM Australia Pty Ltd

Equinox Building 4, Level 2, 70 Kent Street Deakin ACT 2600
GPO Box 200 Canberra ACT 2601

T +61(0) 2 6217 0300

F +61(0) 2 6217 0401

www.rsm.com.au

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

MASTER BUILDERS FIDELITY FUND

Opinion

We have audited the financial report of Master Builders Fidelity Fund, which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the trustees' declaration.

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of Master Builders Fidelity Fund as at 30 June 2020, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and the Building (Prudential Standards) Determination 2002.

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 Master Builders Fidelity Fund in accordance with 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.

Responsibilities of Trustees for the Financial Report

The Trustees of the fund are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the trustees determine 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 trustees are responsible for assessing Master Builders Fidelity Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate Master Builders Fidelity Fund or to cease operations, or has no realistic alternative but to do so.

The trustees of the fund are responsible for overseeing the Entity's financial reporting process.

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Pty Ltd ACN 009 321 377 atf Birdanco Practice Trust ABN 65 319 382 479 trading as RSM

Liability limited by a scheme approved under Professional Standards Legislation

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 at 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.

Sch 2.2(a)(ii)

RSM Australia Pty Ltd

Canberra, Australian Capital Territory
Dated: 15 December 2020

Director

MASTER BUILDERS FIDELITY FUND
ABN: 19 861 512 557

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
Contributions	2	2,323,805	2,513,447
Claim payouts		(35,331)	(241,065)
Movement in asset provision for requests incurred but not reported		(477,329)	(543,759)
Movement in liability provision for requests incurred but not reported		1,917,169	(5,344)
Amortised acquisition costs		(394,024)	(430,439)
Underwriting results		<u>3,334,290</u>	<u>1,292,840</u>
Interest received	2	188,452	500,232
Unrealised gain / (loss) on investments	2	(34,355)	458,246
Investments loss realised		-	(415,331)
Other revenue	2	1,136	455
Total other income		<u>155,233</u>	<u>543,602</u>
Auditors' remuneration	3	(30,000)	(29,870)
Administration costs		(697,142)	(759,051)
Depreciation and amortisation expenses		(524)	(524)
Other expenses		(63,215)	(72,642)
Profit (Loss) before income tax		<u>2,698,642</u>	<u>944,355</u>
Income tax expense	4	(706,616)	-
Profit (Loss) for the year		<u>1,992,026</u>	<u>944,355</u>
Profit (Loss) attributable to beneficiaries of the Trust		<u>1,992,026</u>	<u>944,355</u>

The accompanying notes form part of these financial statements.

MASTER BUILDERS FIDELITY FUND
ABN: 19 861 512 557

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	2020 \$	2019 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	1,547,300	1,519,651
Trade and other receivables	8	152,619	284,835
Financial assets	6	12,605,857	11,247,723
Prepayments		6,333	-
Deferred acquisition costs	7	54,714	192,230
TOTAL CURRENT ASSETS		<u>14,366,823</u>	<u>13,244,439</u>
NON-CURRENT ASSETS			
Property, plant and equipment	9	742	1,266
Deferred acquisition costs	7	165,807	505,620
TOTAL NON-CURRENT ASSETS		<u>166,549</u>	<u>506,886</u>
TOTAL ASSETS		<u>14,533,372</u>	<u>13,751,325</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	168,147	167,573
Unearned contributions	10	1,708,969	1,931,607
Outstanding requests	11	317,635	309,785
Provision for income tax		589,870	-
TOTAL CURRENT LIABILITIES		<u>2,784,621</u>	<u>2,408,965</u>
NON-CURRENT LIABILITIES			
Unearned contributions	10	4,844,072	4,455,988
Deferred tax liabilities	15	116,746	-
Outstanding requests	11	650,869	2,741,334
TOTAL NON-CURRENT LIABILITIES		<u>5,611,687</u>	<u>7,197,322</u>
TOTAL LIABILITIES		<u>8,396,308</u>	<u>9,606,287</u>
NET ASSETS		<u>6,137,064</u>	<u>4,145,038</u>
EQUITY			
Retained surplus	14	6,137,064	4,145,038
TOTAL EQUITY		<u>6,137,064</u>	<u>4,145,038</u>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND
ABN: 19 861 512 557**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	Retained earnings	Total
	\$	\$
Balance at 1 July 2018	3,200,683	3,200,683
Result for the year	944,355	944,355
Balance at 30 June 2019	4,145,038	4,145,038
Result for the year	1,992,026	1,992,026
Balance at 30 June 2020	6,137,064	6,137,064

The accompanying notes form part of these financial statements.

MASTER BUILDERS FIDELITY FUND
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(789,720)	(939,170)
Interest received	90,580	123,276
Contributions received	2,928,555	3,126,627
Other receipts	1,136	455
Requests paid	(512,659)	(971,071)
Acquisition costs paid	(302,548)	(290,204)
Net cash provided by operating activities	19 <u>1,415,345</u>	<u>1,049,913</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	4,794	2,085
Payments / proceeds for investments	(1,392,490)	(771,786)
Net cash used in investing activities	<u>(1,387,696)</u>	<u>(769,701)</u>
Net increase (decrease) in cash held	27,649	280,212
Cash at beginning of financial year	1,519,651	1,239,439
Cash at end of financial year	5 <u>1,547,300</u>	<u>1,519,651</u>

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1 Summary of Significant Accounting Policies

The financial statements cover Master Builders Fidelity Fund (the Trust) as an individual entity. Master Builders Fidelity Fund is a trust, established and domiciled in Australia.

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs, except for the measurement at fair value of selected non-current assets, financial assets, and financial liabilities.

Income Tax

Income tax expense comprises of current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income ('OCI').

(i) Current tax

Current tax comprises of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax liability arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Trust expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Deferred tax assets and liabilities are offset only if certain criteria are met.

A deferred tax asset is recognised for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Trustee takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions, and may involve a series of judgements about future events. New information may become available that causes the Trustee to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax consequences relating to a non-monetary asset carried at fair value are determined using the assumption that the carrying amount of the asset will be recovered through sale.

Plant and Equipment

Plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment of losses.

Costs include purchase price, other directly attributable costs, and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Depreciation

Plant and equipment is depreciated over the asset's useful life to the Trust, commencing when the asset is ready for use.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation Rate
Plant and Equipment	10%-33%

At the end of each annual reporting period, the depreciation method, useful life, and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Financial Instruments

Classification and measurement of financial assets and financial liabilities

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVTPL'). The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. AASB 9 eliminates the previous AASB 139 categories of held to maturity, loans and receivables, and available for sale.

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities. The adoption of AASB 9 has not had a significant effect on the Trust's accounting policies related to financial liabilities and derivative financial instruments.

Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an expected credit loss ('ECL') model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity instruments. Under AASB 9, impairment losses are recognised earlier than under AASB 139.

For assets in the scope of the AASB 9 impairment model, impairment losses are generally expected to increase and become more volatile.

(i) Recognition and initial measurement

Unless otherwise noted below, all financial assets and financial liabilities are initially recognised when the Trust becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent movement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Trust changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Trust may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Trust may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Trust makes an assessment of the objective of the business model in which a financial asset is held on the basis of different classes of assets. The objectives of the business are considered when determining the business model type.

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by any impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognised in the profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt instruments at FVOCI

These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Impairment of Financial Assets

Non-derivative financial assets

Financial instruments

The Trust recognises loss allowances for expected credit losses (ECLs) on:

- Financial assets measured at amortised cost; and
- Debt instruments measured at FVOCI.

The Trust measures loss allowances at an amount equal to lifetime ECLs, except for the following financial instruments which are measured at 12-month ECL's:

- Debt securities that are determined to have a low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Trust considers reasonable and supportable information that is relevant and available without undue cost or effort.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Impairment of Non-Financial Assets

At the end of each reporting period the Trust determines whether there is evidence of impairment indicators for non-financial assets.

Where this indicator exists and regardless of goodwill, indefinite life intangible assets, and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit ('CGU') is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

Investments and Other Financial Assets

Recognition

Financial assets are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Cash and Cash Equivalents

Cash and cash equivalents comprises of cash on hand, demand deposits, and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts also form part of cash equivalents and are presented within current liabilities on the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Revenue and Other Income

Contribution revenue comprises of amounts charged for the issue of warranty certificates. The earned portion of the contribution received and receivable is recognised as revenue. The pattern of recognition over the certificate period is based on the pattern of risk underwritten. The proportion of contributions received and receivable not earned at balance date are recognised in the balance sheet as unearned contributions liability.

The Trust recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Trust is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Trust: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer, and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Interest revenue

Interest revenue is recognised using the effective interest rate method.

Goods and Services Tax (GST)

Revenue, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ('ATO').

Receivables and payables are stated inclusive of GST.

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

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Comparative Amounts

Comparatives are consistent with prior years, unless otherwise stated. Where a change in comparatives has also affected the opening retained earnings previously presented in a comparative period, an opening statement of financial position at the earliest date of the comparative period has been presented.

New or Amended Accounting Standards and Interpretations Adopted

The Trust has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been adopted early. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Trust.

The following Accounting Standards and Interpretations are most relevant to the Trust:

AASB 15 Revenue from contracts with customers

The Trust has adopted AASB 15 from 1 July 2019. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

AASB 17 Insurance contracts

AASB 17 Insurance contracts (AASB 17) is the first Australian accounting standard for insurance and replaces AASB 4 (Definition of insurance), AASB 1023 (General insurance) and AASB 1038 (Life insurance). The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of this new standard is to ensure the Trust provides relevant information (to users of financial statements) that faithfully represents insurance contracts (including reinsurance contracts) and investment contracts with discretionary participation features.

The new standard is applicable to annual reporting periods beginning on or after 1 January 2021. Early application is permitted if the Trust is applying AASB 9 (Financial instruments) and AASB 15 (Revenue from contracts with customers) on or before the date of initial application of this standard.

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

AASB 16 Leases

The Trust has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

AASB 15 and AASB 16 were adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact on opening retained profits as at 1 July 2019.

Critical Accounting Estimates

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, external advice, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying value of assets and liabilities estimates. The Trusts most significant estimates relate to warranty certificates (see Note 12). The key actuarial assumptions are:

Contribution liability

Contributions are considered in two parts; insolvency risks and warranty risk. Insolvency risk relates to the constructions phase and ceases once the construction is finalised. Warranty risk covers a period of up to 6 years.

Insolvency requests

In respect of insolvency requests, management have assumed an insolvency claim rate of 0.24% (2019: 0.19%) (inclusive of catastrophe, GST, and gross of excess).

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Warranty requests

The warranty requests are assumed at 0.09% (2019: 0.07%) (inclusive of catastrophe, GST, and gross of excess).

Economic assumptions:

The contribution and request liabilities are calculated on a discounted present value basis, using rates appropriate to Commonwealth Government Bonds. Management have not made an explicit inflation assumption in relation to request payments, which are, however, consistent with inflation at 2.5% (2019: 3%) per annum.

Acquisition Costs

A portion of acquisition costs relating to the unearned premium revenue is deferred as an asset as it represents future benefits to the Trust. Deferred acquisition costs are measured at the lower of cost and the recoverable amount. A write-down to the recoverable amount is recognised where the present value of expected future requests (including settlement costs), in relation to the business written to the reporting date, exceeds related unearned premiums. Deferred acquisitions costs are amortised in accordance with the expected pattern of incidence of risk under related contracts.

Requests

Requests incurred expenses and liabilities for outstanding requests which are recognised in respect to certificates issued. The liability covers incurred but not reported requests and the anticipated direct and indirect costs of settling those requests. Requests outstanding are assessed by reviewing individual claim files and estimating un-notified requests and settlement costs using statistics based on past experience trends.

The liability for outstanding requests is measured as the central estimate of the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling requests. The expected future payments are then discounted to a present value at reporting date using discount rates based on Commonwealth Government Bonds.

Finance Costs

Finance costs are recognised in the statement of comprehensive income in the period in which they are incurred.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
2 Revenue and Other Income		
Contributions	2,323,805	2,513,447
Interest received	188,452	500,232
Movement in net market values	(34,355)	42,915
Other revenue	1,136	455
Total revenue	2,479,038	3,057,049
3 Auditors' Remuneration		
Auditors' remuneration	30,000	29,870
4 Income Tax Expense		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie tax payable on profit before income tax at 27.5% (2019: 27.5%):	742,126	259,698
Add:		
Tax effect of:		
Gross up of fully franked dividends	3,474	4,617
Permanent differences	1,293	42
	746,893	264,357
Less:		
Tax effect of:		
Franked dividends converted into losses	-	16,789
Tax effect of timing differences not brought into account	-	247,568
Effect of reduction in future tax rate on deferred tax balances (from 27.5% to 26%)	6,735	-
Initial recognition of deferred tax balances	33,542	-
Income tax expense attributable to the Trust	706,616	-

The tax rate used in calculating current tax is the corporate tax rate of 27.5% payable by Australian corporate base rate entities on taxable profits under Australian Tax Law. On the basis the Trust has met the eligibility criteria of a base rate entity for the 2020 financial year, the applicable tax rate is 27.5% in the current financial year. Further, AASB 112.47 requires deferred tax balances to be measured at the tax rate expected to apply in the period in which the assets and liabilities will likely be realised or settled. As the base rate entity corporate tax rate will be 26% from 1 July 2020, this has resulted in a restatement of deferred tax balances at the future expected corporate base rate entity tax rate of 26%.

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NOTES TO THE FINANCIAL STATEMENTS
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	2020	2019
	\$	\$
<p>Deferred tax liabilities were brought into account during the 2020 financial year. In the 2019 financial year, deferred tax assets were not brought to account, the benefits of which were to be realised if the Trust derived future assessable income of a nature of and of an amount sufficient to enable the benefit from any deductions for the losses.</p>		
Deferred tax assets (unrealised)	-	82,731
Deferred tax liabilities (recognised)	116,746	-
Recognised Deferred Tax Balances		
The following deferred tax balances have been recognised in the accounts:		
Assets relating to:		
- Tax losses	-	345,587
- Accrued Expenditure	16,072	18,331
Liabilities relating to:		
- Accrued Interest	(2,256)	(3,705)
- Investments	(71,580)	(85,574)
- Prepayments	(1,647)	-
- Deferred acquisition costs	(57,335)	(191,908)
Net Deferred Tax Asset/(Liability)	(116,746)	82,731
5	Cash and Cash Equivalents	
Bank account	847,300	819,651
Express saver	700,000	700,000
	1,547,300	1,519,651
Reconciliation of cash		
Cash and cash equivalents reported in the statement of cash flows are reconciled to the equivalent items in the statement of financial position as follows:		
Cash and cash equivalents	1,547,300	1,519,651
	1,547,300	1,519,651
6	Financial Assets	
Current		
Public Trustee cash fund	1,038,286	945,797
Term deposit 1470	3,500,000	2,800,000
Term deposit 4561	1,800,000	1,200,000
Public Trustee balanced fund	5,367,571	5,401,926
Term deposit 5021	900,000	900,000
	12,605,857	11,247,723

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
7 Deferred Acquisition Costs		
Deferred acquisition costs at beginning of the year	697,850	1,231,626
Capitalisation	444,011	440,420
Amortisation	(394,024)	(430,438)
Impairment	(527,316)	(543,758)
Deferred acquisition costs at end of the year	<u>220,521</u>	<u>697,850</u>
Allocation		
Current	54,714	192,230
Non-current	165,807	505,620
	<u>220,521</u>	<u>697,850</u>
8 Trade and Other Receivables		
Current		
Sundry debtors	33,878	13,473
Trade debtors	118,741	271,362
	<u>152,619</u>	<u>284,835</u>
9 Plant and Equipment		
Fixed assets	151,046	151,046
Less: accumulated depreciation	(150,304)	(149,780)
Total Plant and Equipment	<u>742</u>	<u>1,266</u>

Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment	Total
	\$	\$
Balance at 1 July 2018	1,790	1,790
Depreciation expense	(524)	(524)
Balance at 30 June 2019	1,266	1,266
Depreciation expense	(524)	(524)
Carrying amount at 30 June 2020	<u>742</u>	<u>742</u>

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$	2019 \$	
10 Unearned Contributions			
Unearned contributions at the beginning of the year	6,387,595	6,159,097	
Contributions income deferred	2,489,251	2,741,945	
Contributions income recognised	<u>(2,323,805)</u>	<u>(2,513,447)</u>	
Unearned contributions at the end of the year	<u>6,553,041</u>	<u>6,387,595</u>	
Analysis of total provisions			
Current	1,708,969	1,931,607	
Non-current	<u>4,844,072</u>	<u>4,455,988</u>	
	<u>6,553,041</u>	<u>6,387,595</u>	
11 Outstanding Requests			
Current			
Claims incurred, not reported	<u>317,635</u>	<u>309,785</u>	
Non-current			
Claims incurred, not reported	<u>650,869</u>	<u>2,741,334</u>	
12 Outstanding Requests - Detail			
2020			
	Current	Non-Current	Total
Reported request liabilities	276	-	276
Valuation margin - reported	<u>138</u>	-	<u>138</u>
Reported request provision	<u>414</u>	-	<u>414</u>
IBNR request liabilities	190,295	321,237	511,532
Valuation margin (IBNR)	<u>154,615</u>	<u>386,371</u>	<u>540,986</u>
IBNR provision	<u>344,910</u>	<u>707,608</u>	<u>1,052,518</u>
Gross request provision	<u>345,324</u>	<u>707,608</u>	<u>1,052,932</u>
GST / Excess recoveries	<u>(27,690)</u>	<u>(56,739)</u>	<u>(84,429)</u>
Net claims provision	<u>317,634</u>	<u>650,869</u>	<u>968,503</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
12 Outstanding Requests - Impact of Discounting		
2020		
	Undiscounted	Discount
		Discounted
Reported request liabilities	276	-
Valuation margin - reported	138	-
Reported request provision	414	-
IBNR request liabilities	515,577	(4,044)
Valuation margin (IBNR)	545,860	(4,874)
IBNR provision	1,061,437	(8,918)
Gross request provision	1,061,851	(8,918)
GST / Excess recoveries	(85,145)	715
Net claims provision	976,706	(8,203)
13 Trade and Other Payables		
Current		
GST payable	20,347	28,619
Trade creditors	85,983	72,294
Accruals	61,817	66,660
	<u>168,147</u>	<u>167,573</u>
14 Retained Earnings		
Retained earnings at the beginning of the financial year	4,145,038	3,200,683
Net profit attributable to beneficiaries	1,992,026	944,355
Retained earnings at the end of the financial year	<u>6,137,064</u>	<u>4,145,038</u>
15 Deferred Tax Liabilities		
Non-current		
Provision for deferred tax liability	<u>116,746</u>	<u>-</u>

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2020
\$

2019
\$

16 Contingent Liabilities

The Trust is not aware of any contingent liabilities or contingent assets existing relative to any future claims which may be made against the Trust for the year ended 30 June 2020.

17 Events After the Reporting Period

As a result of the evolving nature of the COVID-19 outbreak and the rapidly evolving government policies of restrictive measures put in place to contain it, as at the date of these financial statements, the Trust is not in a position to reasonably estimate the financial effects of the COVID-19 outbreak on the future financial performance and financial position of the Trust.

Other than the current disclosures, there has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Trust, the results of those operations, or the state of affairs of the Trust in subsequent financial periods.

There were no other events that occurred after 30 June 2020, and/or prior to the signing of the financial statements, that would affect the ongoing structure and financial activities of the Trust.

18 Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions. These terms and conditions are no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

During the 2003 financial year the Trust entered into an agreement with the Master Builders Association of the ACT for provision of administration services. Payments made in accordance with this agreement for the year were \$697,142 (2019: \$789,051).

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
<hr/>		
19 Cash Flow Information		
Reconciliation of cash flow from operations with Profit for the year		
Profit for the year	1,992,026	944,355
Non-cash flows in profit		
Depreciation	524	524
Unrealised (gain) / loss on investments	34,355	(42,915)
Income tax expense	706,616	-
Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries		
(Increase) / Decrease in receivables	119,150	(112,479)
(Increase) / Decrease in prepayments	(6,333)	-
(Increase) / Decrease in deferred acquisition costs	477,329	533,776
Increase / (Decrease) in payables	8,847	(274,692)
Increase / (Decrease) in outstanding requests	(2,082,615)	(227,154)
Increase / (Decrease) in unearned contributions	165,446	228,498
	1,415,345	1,049,913

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
<hr/>		
20 Financial Risk Management		
<p>The Trust is exposed to a variety of financial risks through its use of financial instruments.</p> <p>This note discloses the Trust's objectives, policies and processes for managing and measuring these risks.</p> <p>The Trust's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.</p>		
	2020	2019
	\$	\$
Financial assets		
Cash and cash equivalents	1,547,300	1,519,651
Investments	12,605,857	11,247,723
Receivables	152,619	284,835
Total financial assets	<u>14,305,776</u>	<u>13,052,209</u>
Financial liabilities		
Payables	(168,147)	(167,571)

The Trust does not have any derivative instruments at 30 June 2020.

The most significant financial risks to which the Trust is exposed to are described below:

Specific risks

The Trust's financial instruments consist mainly of deposits with banks, short-term investments, listed equities, and accounts receivable and payables. The Trustees' overall risk management strategy seeks to assist the Trust in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Trustees on a regular basis. These include the credit risk policies and future cash flow requirements.

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
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2020
\$

2019
\$

Market risk

Interest rate risk

The main risks the Trust is exposed to through its financial instruments are interest rate risk and market rate risk. The Trust has funds invested in fixed rate term deposits which are exposed to the fluctuations in interest rates and funds invested in listed equities. The Trustees review the Trust's exposure on a regular basis in accordance with the Trust's investment strategy.

Liquidity risk

The Trust manages liquidity risk by monitoring forecast cash flows.

2020	Weighted Average Effective Interest Rate	Floating Interest Rate or Fixed for Less than 12 months	Fixed Interest Rate Maturing 1 to 5 Years	Non-Interest Bearing	Total
	%	\$	\$	\$	\$
Financial assets - cash flows realisable					
Cash and cash equivalents	0.00	700,000	-	847,300	1,547,300
Investments	2.60	7,238,286	-	5,367,571	12,605,857
Receivables		-	-	152,619	152,619
Total anticipated inflows		<u>7,938,286</u>	<u>-</u>	<u>6,367,490</u>	<u>14,305,776</u>
Financial liabilities - cash flows realisable					
Payables		-	-	(168,147)	(168,147)
Net (outflow)/inflow on financial instruments		<u>7,938,286</u>	<u>-</u>	<u>6,199,343</u>	<u>14,137,629</u>
2019					
Financial assets - cash flows					
	%	\$	\$	\$	\$
Cash and cash equivalents	0.49	700,000	-	819,651	1,519,651
Investments	3.66	5,845,797	-	5,401,926	11,247,723
Receivables		-	-	284,835	284,835
Total anticipated inflows		<u>6,545,797</u>	<u>-</u>	<u>6,506,412</u>	<u>13,052,209</u>
Financial liabilities - cash flows					
Payables		-	-	(167,571)	(167,571)
Net (outflow)/inflow on financial instruments		<u>6,545,797</u>	<u>-</u>	<u>6,338,841</u>	<u>12,884,638</u>

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$
<hr/>		
Trade and sundry payables are expected to be paid as follows:		
	2020	2019
	\$	\$
Less than 6 months	168,147	167,571
	<u>168,147</u>	<u>167,571</u>

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There are no material amounts of collateral held as security at 30 June 2020. The Trust does not have any material credit risk exposure at any single receivable or group of receivables under financial instruments entered into the Trust. Credit risk is reviewed regularly by the Trustees. It arises from exposures to customers as well as through deposits with financial institutions.

The Trust does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2020 2019
 \$ \$

Other risk

Certificate risk management:

Certificate activities primarily involve the underwriting of risks and the management of requests. A disciplined approach to risk management is adopted. Statistical models that combine historical and protected data are used to calculate premiums and monitor request patterns. Management information systems are maintained that provides timely and reliable data on the risks to which the Trust is exposed. The Trust also undertakes due diligence process for all builders prior to issuing a certificate. The Trust has not entered into any reinsurance arrangements.

Fair values

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

	2020		2019	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	1,547,300	1,547,300	1,519,651	1,519,651
Investments	12,605,857	12,605,857	11,247,723	11,247,723
Receivables	152,619	152,619	284,835	284,835
Total financial assets	<u>14,305,776</u>	<u>14,305,776</u>	<u>13,052,209</u>	<u>13,052,209</u>
Financial liabilities				
Payables	(168,147)	(168,147)	(167,571)	(167,571)
Total financial liabilities	<u>(168,147)</u>	<u>(168,147)</u>	<u>(167,571)</u>	<u>(167,571)</u>

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	\$	\$

Sensitivity analysis

Interest rate

The Trust has performed a sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest rate sensitivity analysis

At 30 June 2020, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2020	2019
	\$	\$
Change in profit		
Increase in Interest Rate by 1%	79,383	65,458
Decrease in Interest Rate by 1%	(79,383)	(65,458)
Change in equity		
Increase in Interest Rate by 1%	79,383	65,458
Decrease in Interest Rate by 1%	(79,383)	(65,458)

The Trust has no exposure to fluctuations in foreign currency.

Market value

The Trust has performed a sensitivity analysis relating to its exposure to market value risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Market value sensitivity analysis

At 30 June 2020, the effect on profit and equity as a result of changes in the market value, with all other variables remaining constant would be as follows:

	2020	2019
	\$	\$
Change in profit		
Increase in market value by 10%	536,757	540,193
Decrease in market value by 10%	(536,757)	(540,193)
Change in equity		
Increase in market value by 10%	536,757	540,193
Decrease in market value by 10%	(536,757)	(540,193)

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2020 2019
\$ \$

21 Fair Value Measurement

The Trust measures the following assets and liabilities at fair value on a recurring basis.

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position.

Refer to Note 1 for detailed disclosures regarding the fair value measurement of the Trust's financial assets and financial liabilities.

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Trust. Most of these instruments, which are carried at amortised cost, are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Trust.

Fair value hierarchy

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Unobservable inputs for the asset or liability.

The table below shows the assigned level for each asset and liability held at fair value by the Trust:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
30 June 2020				
Recurring fair value measurements				
Financial assets				
Shares in listed companies	5,367,571	-	-	5,367,571
Total financial assets	<u>5,367,571</u>	<u>-</u>	<u>-</u>	<u>5,367,571</u>

MASTER BUILDERS FIDELITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	2020		2019
	\$		\$
30 June 2019			
Recurring fair value measurements			
Financial assets			
Shares in listed companies	5,401,926	-	5,401,926
Total financial assets	<u>5,401,926</u>	<u>-</u>	<u>5,401,926</u>

22 Capital Management

a. Capital adequacy test

Master Builders Fidelity Fund has the following externally imposed capital requirements:

As detailed in Section 17 of the Building (Prudential Standards) Determination 2002 (the Standards) the Trust must maintain sufficient capital at all times. Section 28 of the Standards requires the outstanding requests liability and fidelity certificate liabilities of the Trust to be calculated in accordance with the prudential standard GPS 320 issued by the Australian Prudential Regulation Authority. Based on an actuarial report and Certificate of Solvency, dated 16 September 2020 prepared by Professional Financial Solutions Pty Ltd, in accordance with GPS 320 the Trust exceeds the required capital thresholds as at 30 June 2020 by approximately \$5,839,450 (2019: \$3,136,093) as shown below.

Capital adequacy required as per section 17 of the Standards	1,000,000	1,000,000
Less: Capital calculated in accordance with GPS 320	<u>6,839,450</u>	<u>4,136,093</u>
Capital in excess of requirements	<u>5,839,450</u>	<u>3,136,093</u>

This requirement has been met.

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ABN: 19 861 512 557

NOTES TO THE FINANCIAL STATEMENTS
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	2020	2019
	\$	\$
b. Liability adequacy test		
<p>The liability adequacy test has been conducted using the central estimate of the premium liabilities, adjusted as appropriate, together with an appropriate margin. The test is based on prospective information and is also heavily dependent on assumptions and judgements.</p>		
Unearned contribution liability	6,553,041	6,387,595
Deferred acquisition costs	<u>(220,521)</u>	<u>(697,850)</u>
	<u>6,332,520</u>	<u>5,689,745</u>
<p>Central estimate of present value of expected future cash flows from future requests in accordance with GPS 320</p>		
- Warranty requests	4,637,607	4,356,735
- Insolvency requests	<u>1,694,913</u>	<u>1,333,010</u>
	<u>6,332,520</u>	<u>5,689,745</u>
Net surplus	<u>-</u>	<u>-</u>

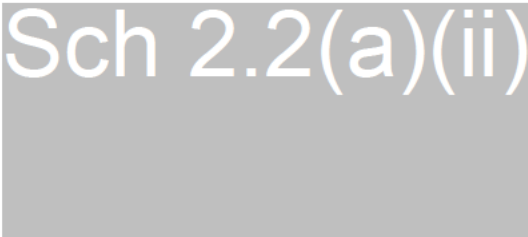
**MASTER BUILDERS FIDELITY FUND
ABN: 19 861 512 557**

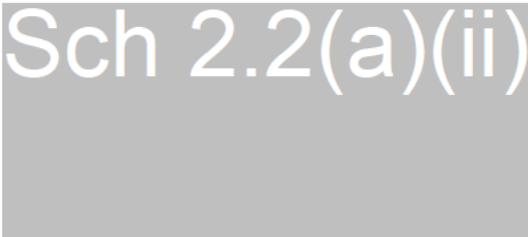
TRUSTEES' DECLARATION

The Trustees declare that:

- a) The financial statements and notes, as set out on pages 2 to 30, present fairly the Trust's financial position as at 30 June 2020 and its performance for the year ended on that date in accordance with Australian Accounting Standards (including Australian Accounting Interpretations); and
- b) There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Trustees.

Trustee:  _____

Trustee:  _____

Dated *15 DECEMBER 2020*



RSM Australia Pty Ltd

Equinox Building 4, Level 2, 70 Kent Street Deakin ACT 2600
GPO Box 200 Canberra ACT 2601

T +61(0) 2 6217 0300

F +61(0) 2 6217 0401

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Master Builders Fidelity Fund for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the audit.



RSM AUSTRALIA PTY LTD



Director

Canberra, Australian Capital Territory
Dated: 15 December 2020

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RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Pty Ltd ACN 009 321 377 atf Birdanco Practice Trust ABN 65 319 382 479 trading as RSM

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