

2025 FRANCHISING KEY DEVELOPMENTS

This fact sheet outlines the latest regulatory developments to help franchisors stay compliant. In particular, the *Franchising Code of Conduct* has been overhauled, taking effect on 1 April 2025. The new Code attempts to address the power imbalance between franchisors and (prospective) franchisees, increase transparency, reduce disputes, and provide fair dispute resolution procedures.

KEY NEW CODE CHANGES



- A new 'specific purpose funds' to capture all marketing and cooperative funds (more on this below).
- Franchise agreements must provide franchisees with a reasonable opportunity to make a return on their investment.
- Removing the Key Facts Sheet to reduce information duplication, franchisor administrative burden, and the number of documents franchisees must review.
- Existing franchisees may opt out of the mandatory disclosure process in certain circumstances.
- Franchisors must disclose Fair Work proceedings.
- The expansion of the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) powers and penalties.

SPECIFIC PURPOSE FUNDS



- The previous term 'marketing or cooperative funds' is no longer used.
- The new term 'specific purpose funds' is intended to capture any monies used for a specified purpose under the franchise agreement.
- Changes to requirements for annual financial statements include the requirement to provide the percentage of total income spent on:
 - expenses listed in the disclosure document, legitimate expenses for the specified purpose, or expenses approved by a majority of contributing franchisees; and
 - costs of administering and auditing the fund.
- Compliance is essential to avoid financial penalties and potential claims by the ACCC or franchisees.

COMPENSATION FOR EARLY TERMINATION



- Franchisors who close their franchise network must now compensate franchisees for early termination of their agreements.
- Franchisees can return items, and franchisors must either buy them back or compensate the franchisees for:
 - stock specified by the franchisor and needed to run the business, which the franchisee has purchased; and
 - essential speciality equipment, branded products, or merchandise specified by the franchisor which cannot be used in a similar business.

VULNERABLE WORKERS OBLIGATIONS



- The *Fair Work Amendment (Protecting Vulnerable Workers) Act 2017* holds franchisors accountable for a franchisee's breach where franchisors failed to take reasonable steps to ensure compliance.
- The ACCC will continue to focus on compliance in this area, especially for franchisors.
- Penalties for contravention are up to \$93,900 for corporations per breach. Recent proceedings against a franchisor resulted in a \$1.44 million penalty.
- Franchisors must take steps to ensure franchisee compliance to reduce their breach liability risk.

NEXT STEPS



Franchisors should update their franchise agreements and disclosure documents to ensure compliance with the new Code from April 2025. Contact LegalVision for assistance with your franchising needs.