LEGAL PRACTITIONERS' LIABILITY COMMITTEE

ANNUAL REPORT
2018–19

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

The Legal Practitioners' Liability Committee (LPLC) has been insuring legal practitioners practicing in Victoria since 1986. It is the successor body to the Solicitors' Liability Committee. LPLC administers the Legal Practitioners' Liability Fund.

Pursuant to the *Legal Profession Uniform Law Application Act 2014 (Vic),* LPLC is the insurer to law practices (solicitors and barristers) engaging in legal practice in Victoria, as well as most of Australia's largest national firms.

LPLC is an independent statutory authority, a market leader in a specialised market and insurer of nearly 20,000 legal practitioners.

LPLC's statutory scheme is underpinned by the objectives of the Uniform Law in relation to professional indemnity insurance, which are:

- to ensure that Australian legal practitioners are covered by approved professional indemnity insurance
- to ensure that clients of law practices have adequate protection against the consequences of professional negligence.

The functions of LPLC are:

- to provide professional indemnity insurance to law practices
- to undertake liability under contracts of professional indemnity insurance entered into with law practices
- any other functions conferred upon it by the Legal Profession Uniform Law Application Act 2014 (Vic).

LPLC has the power to enter into contracts or arrangements relating to insurance and reinsurance.

LPLC also provides risk management services to law practices.

LPLC reports to the Attorney-General and to the Assistant Treasurer of the State of Victoria.

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FROM THE CHAIR

This report marks LPLC's 33rd consecutive year of providing compulsory professional indemnity insurance to Australian legal practitioners.

I am pleased to report the Legal Practitioners Liability Fund remains in a healthy financial position with net equity of $121.3m, a figure boosted this year by stronger than forecast investment returns for the reporting period.

In 2018–2019 the pool insured by LPLC grew from 18,800 to 19,559 practitioners, comprising 17,439 solicitors (in 4,539 law practices, including most of Australia's largest law firms) and 2,120 barristers.

LPLC's statutory self-insurance scheme serves the interests of the legal profession and consumers of legal services by meeting the twin objectives under Part 4.4 of the Legal Profession Uniform Law to ensure that:

- legal practitioners are covered by approved professional indemnity insurance; and
- clients of law practices have adequate protection against the consequences of professional negligence.

The scheme provides a secure supply of high-quality insurance cover for practising lawyers together with a transparent and stable premium structure. It provides practitioners with support from LPLC's team of experienced claims and risk solicitors in their time of crisis — when access to knowledgeable and objective advice is most needed; and it invests back into the profession through a multi-faceted risk management program educating practitioners about old and new professional risks in daily legal practice, and reducing the incidence of negligence claims.

The stability of LPLC's scheme contrasts with regular fluctuations in the availability and cost of insurance in commercial markets. The enduring value of LPLC's statutory scheme is the way it protects the profession from the cyclical chaos of commercial insurance markets — as we saw again this year. The breadth of LPLC's cover and our premium pool were unaffected by the dramatic reduction in capacity, and the enormous increase in price of top-up insurance for law practices from commercial insurers.

Contrast also the stability of LPLC's scheme with the travails of architects, engineers and other building professionals who rely on commercial insurers for their insurance programs, and currently find themselves struggling to obtain the cover needed to do their jobs because of the impact of combustible cladding exposures.

In July 2018 we welcomed Danny Barlow as a newly appointed Committee member to fill the vacancy created by Miranda Milne's retirement. He is a director of Dawes & Vary Riordan Pty Ltd in Shepparton and a past President of the Law Institute of Victoria. Danny has brought to the Committee an intimate knowledge of legal practise and valuable insights into issues of practical importance to the profession, as well as a voice for the interests of regional practitioners.

Operationally the Committee has enjoyed a productive year. Justin Toohey in his first full year as Chief Executive Officer has initiated a strong renewal program across the business, bringing fresh ideas and new energy to the Committee's operations. He also brings a strong emphasis on ensuring LPLC's culture and corporate governance are uppermost in the way the organisation conducts business, engages with stakeholders (the Victorian Legal Services Board, Legal Services Council, Law Institute of Victoria and the Victorian Bar in particular) and manages compliance with public sector regulation.

An important initiative during the reporting year was our engagement of new actuarial consultants (Finity Consulting) to review LPLC's premium philosophy, pricing structure and capital management policy. The review made some recommendations for adjustments to our model to extend the gross fee income (GFI) method of premium assessment (in place of practitioner headcount), and to modify the risk rating system to place greater weight on claims frequency for claims loading purposes. Implementation of their recommendations has commenced and will continue next year.

LPLC continues to devote equivalent resources to both risk management and claims management, reflecting our commitment to pro-actively assist practitioners in learning how to improve their risk profiles, as much as helping them when problems arise. In contemporary legal practise in most firms, sophisticated risk management now extends to practice management, business strategy, business processes and better use of technology.

The rise of cybercrime, which emerged as a claims trend last year, continued during this year. Our risk management program now focuses heavily on alerting practitioners to this new risk and ways to make their practice more cybersecure. During the year LPLC also worked with Marsh insurance brokers and Chubb Insurance Company in their development and launch of a new cyber insurance policy to sit alongside LPLC's professional indemnity policy as optional cover for firms wishing to purchase greater insurance protection against cybercrime.

It is a credit to LPLC's ongoing focus on risk management initiatives, in combination with the efforts of practising lawyers, that the number of claims per thousand insured practitioners shows continuing long-term decline, notwithstanding the increasing complexity and demands of legal practice, and a continuing rise in the number of practitioners insured by LPLC.

Insurance for the profession which compensates consumers for losses caused by negligent advice and enhances the practise of law is, and will remain, the fundamental purpose of our work at LPLC. I thank my fellow Committee members for their diligence and support with this important work during the year. I also thank the respective sub-committee Chairs, Patricia Kelly (Remuneration & Appointments), Helen Thornton (Audit & Risk) and John Cain (Investment) for their leadership in each of these areas. Finally, I recognise and thank the Committee's management and staff who continue to serve the profession with distinction.

John Corcoran AM
Chair

FROM THE CEO

Compulsory professional indemnity insurance is an important safeguard in the regulatory framework for the legal profession, with twin statutory objectives of ensuring the availability of broad insurance protection for all practitioners, and providing a source of compensation for clients where their errors and omissions cause financial loss.

Our statutory insurance scheme grew by more than 750 practitioners in 2018–2019 — the result of many firms increasing employee numbers in response to greater client demand for their services, and new practitioners entering the profession at a faster rate than those departing.

Strong financial results for 2018–2019 were achieved by a combination of:

- proactive claims management continuing to reduce outstanding liabilities, particularly from earlier underwriting years
- buoyant investment returns during the second half of the year, and
- vigilant cost control.

However, the success of our insurance scheme is not measured by 12-month results. It is measured by performance over a longer time horizon, and for this reason our financial focus involves managing trends rather than looking at moment-in-time positions. Our goal is a strong and sustainable insurance scheme over the long-term, and on this metric I am pleased to report that LPLC is trending favourably.

In 2018 the Committee approved a three-year Strategic Plan to rejuvenate and reset LPLC's insurance and risk management. In the first year of the plan we have made good progress addressing our core objectives and strategic priorities.

Key achievements for the 2018–2019 financial year included:

- the review of LPLC's premium model by new actuarial consultants, Finity Consulting, with some resultant modifications to premium assessments for a number of firms
- the excellent work of our team of experienced claims solicitors who finalised 554 claims and notifications during the year (solicitors and barristers), whilst at the same time achieving a significant reduction in the number of litigated claims
- a return of 7.78% ($19.8m) on invested funds
- sell-out attendances at new workshops for conveyancing practitioners (Building a Better Section 32 Statement and Contract of Sale Tune-Up) as part of our focus on improving conveyancing practice
- working with Marsh and Chubb Insurance Company to create a tailored optional cyber insurance policy for law firms insured by LPLC

- a review of our legal panel and entry into new three-year contracts with a refreshed panel for the management of litigated claims
- appointment of new staff and consultants to enhance our communications, IT security, risk and compliance functions
- more regular liaison with the Victorian Legal Services Board, Legal Services Council, Law Institute of Victoria and Victorian Bar Council on insurance and risk-related matters
- continued dialogue with regulators and with key industry participants (including PEXA and Sympli) in relation to the phased implementation of electronic conveyancing across the country.

The review of our premium model by Finity Consulting in 2018 resulted in the Committee extending the gross fee income (GFI) premium rating method to all firms with turnover above $3m (previously $5m). Further lowering of the turnover threshold for GFI assessment is planned in 2019.

Changes were also made to the risk rating system of claims loadings to target firms with higher claims frequency, whilst at the same time reducing loadings for firms with just one claim.

While there were some 'winners' and some 'losers' among the law practices impacted by these adjustments, there is a much clearer correlation between claims costs and GFI, than between claims costs and practitioner headcount. The GFI method also enables us to more equitably distribute the premium burden among an increasing variety of law practice structures.

Solicitor premium rates for 2019 were subject to a 2.5% increase for claims inflation across the pool. Barrister premium rates remained the same as for 2018. Bernadette Mallia and her Insurance Services team once again managed a busy renewal period with aplomb.

During the 2019 renewal period, for the first time we collected data from law practices categorising firm revenues by areas of practice. We will be reflecting on that data ahead of the 2020 renewal, as to whether there is significant cross-subsidisation across areas of practice in our flat pricing model. The data will also better inform our risk management approach.

The work of our claims team, led by Jodie Potts, remains the engine-room of LPLC's core insurance business. Their skill in evaluating complex scenarios, distilling the key issues, establishing claim reserves, and moving matters from inception to resolution as proactively as circumstances permit, was again to the fore. It is most visibly felt by the insured practitioners they assist, but the reliability of LPLC's claims estimating is a critical input to the scheme's success and enables our scheme to run with minimum reliance on reinsurance.

Of the claims team, I would particularly like to acknowledge and recognise Alex Macmillan's remarkable 25th year of continuous, and unfinished, service to LPLC this year.

Our team of experienced Risk Managers, led by Heather Hibberd, maintained LPLC's vibrant and popular program of affordably-priced and highly relevant risk education for practitioners and support staff in the city, suburbs and throughout regional Victoria. This year there was a significant focus on conveyancing, cyber risk and on client/matter intake — all of these being claims-prone areas of practice.

We also delivered the risk management module of all approved Practice Management Courses to new applicants for principal practising certificates, and our Risk Managers continued to conduct numerous in-house training programs for industry groups and many of our larger law firms in Melbourne and interstate.

These activities are important for raising awareness of areas of risk in legal practice and reminding practitioners of LPLC's available publications and practice management tools to support their work. Of equal importance is the reciprocal opportunity for us to engage with and keep a finger on the pulse of the profession.

There are exciting opportunities ahead for us to incorporate new technology into our risk management offering for practitioners and this is an area of focus for us in 2019. There is no 'silver bullet' for eliminating professional liability risk, but technology can certainly assist us to inform and educate practitioners, and to develop tools for reducing the risk of professional errors in their practise of law.

LPLC's scheme is founded on the principle of mutuality — its ongoing success rests on a continuing partnership between practitioners and LPLC to minimise the incidence of claims. I thank all practitioners who have contributed to that endeavour this year.

I also thank the LPLC Chair, each of the Sub-Committee Chairs, and all Committee members who provided management with clear strategic direction and operational support where required.

Finally, I also thank our hard-working executive leadership team, LPLC staff and all our external service providers for their contribution to LPLC's achievements this year.

Justin Toohey
Chief Executive Officer

CLAIMS

LPLC's claims management philosophy is for early notification by practitioners, with early assessment of potential exposures once notified, and pro-active management to resolve claims as expeditiously and cost effectively as possible.

Many notifications are precautionary. In quite a number of these situations, the underlying problem is resolved by the practitioner with some advice from LPLC and no claim eventuates.

Approximately 60 per cent of matters notified to LPLC are claims, but only half proceed to litigation. A small number of litigated claims are intractable disputes where the claim is assessed as having no merit and is defended. The rest are resolved after investigation and negotiation.

Most claims are resolved either through private negotiation prior to the commencement of proceedings, or at mediation when proceedings are required to define the issues and allow for interlocutory processes to help with assessing liability and damages questions.

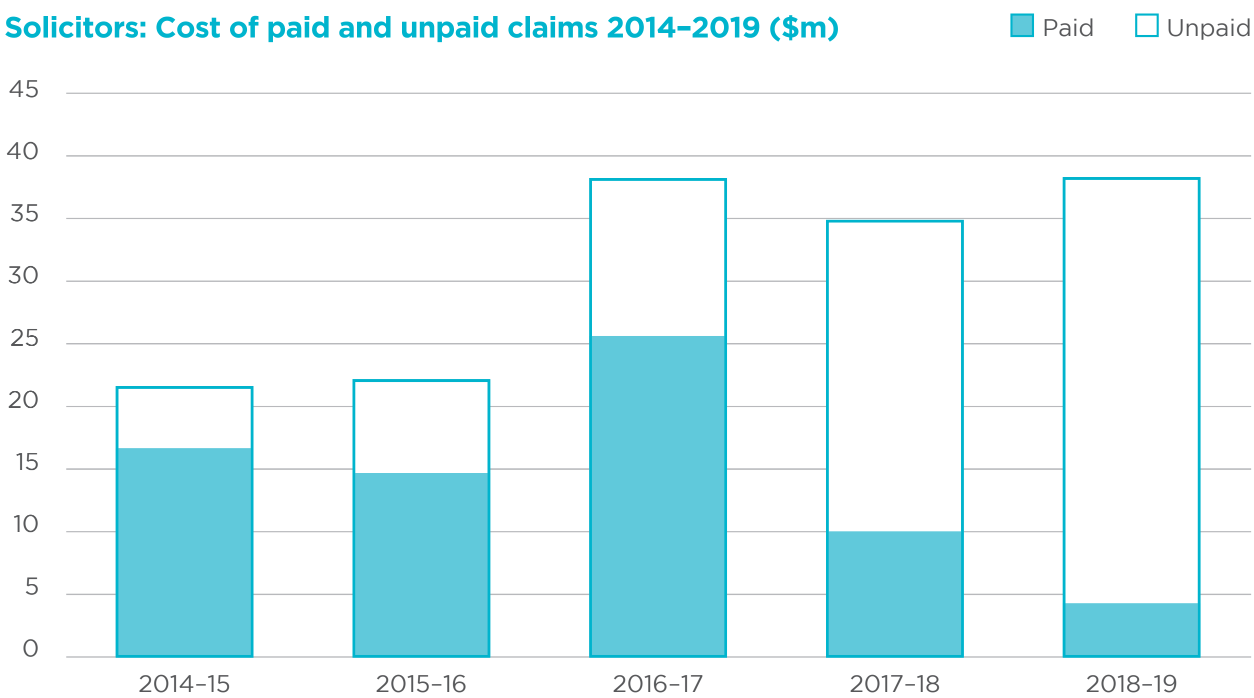
Claims - Solicitors

During the reporting period, claims solicitors finalised 484 claims and notifications from solicitors across the current and earlier underwriting years.

Many of these matters were handled in-house by LPLC's experienced claims team. There was a substantial reduction in the number of matters briefed to panel solicitors, reflecting fewer litigated claims, as well as our strategy to proactively resolve matters and prevent litigation.

There were 455 claims and notifications from solicitors during 2018–2019 with incurred estimates of $39.18 million. While the number of claims and notifications is slightly lower, the incurred estimate is similar to 2017–2018.

Solicitors: Cost of paid and unpaid claims 2014–2019 ($m)



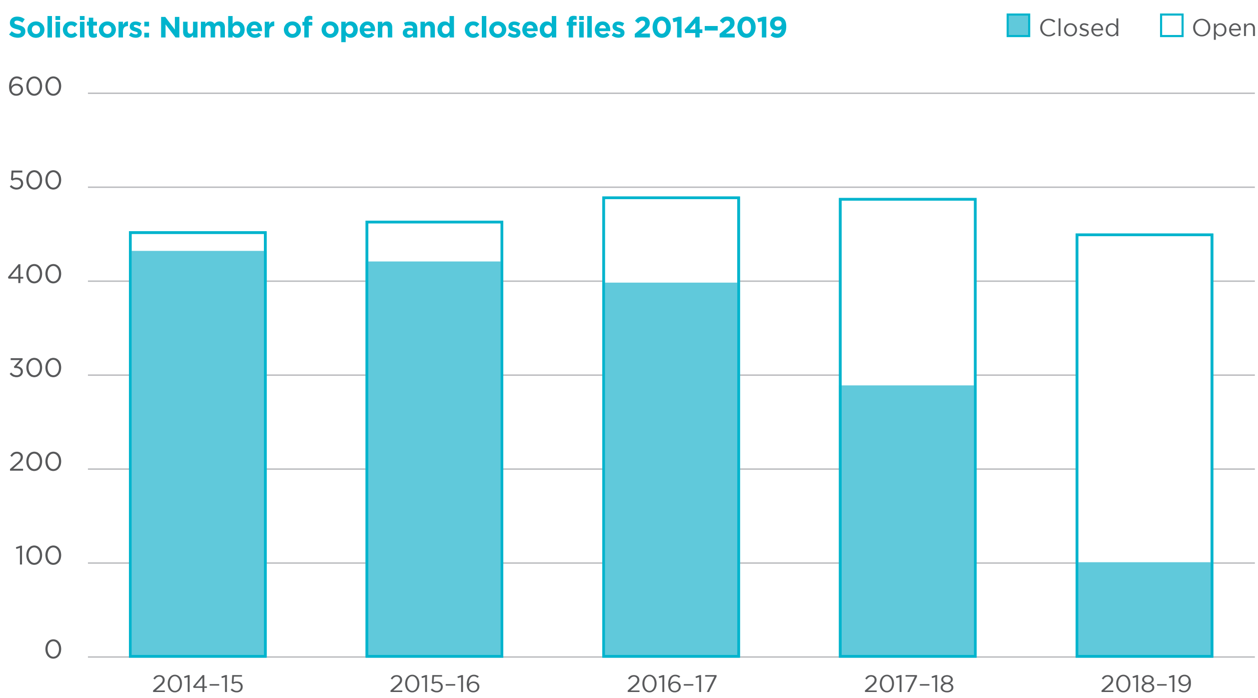
Areas of high claims experience in 2018–2019 were:

- **property and conveyancing, accounting for approximately 30% of claims.** They arose from defective vendor statements, drafting errors in contracts of sale, cyber fraud, erroneous stamp duty advice, inadequate advice about property restrictions, and inadequate advice on contract terms
- **commercial law, accounting for approximately 15% of claims.** Significant claims in this area arose from drafting errors, negligent tax advice, and alleged misrepresentations in connection with client investments
- **commercial litigation also accounted for approximately 15% of claims,** a sharp increase from prior underwriting years. Principal areas of concern were claims of negligence in relation to settlement of matters and alleged breaches of overarching obligations under the *Civil Procedure Act 2010*.

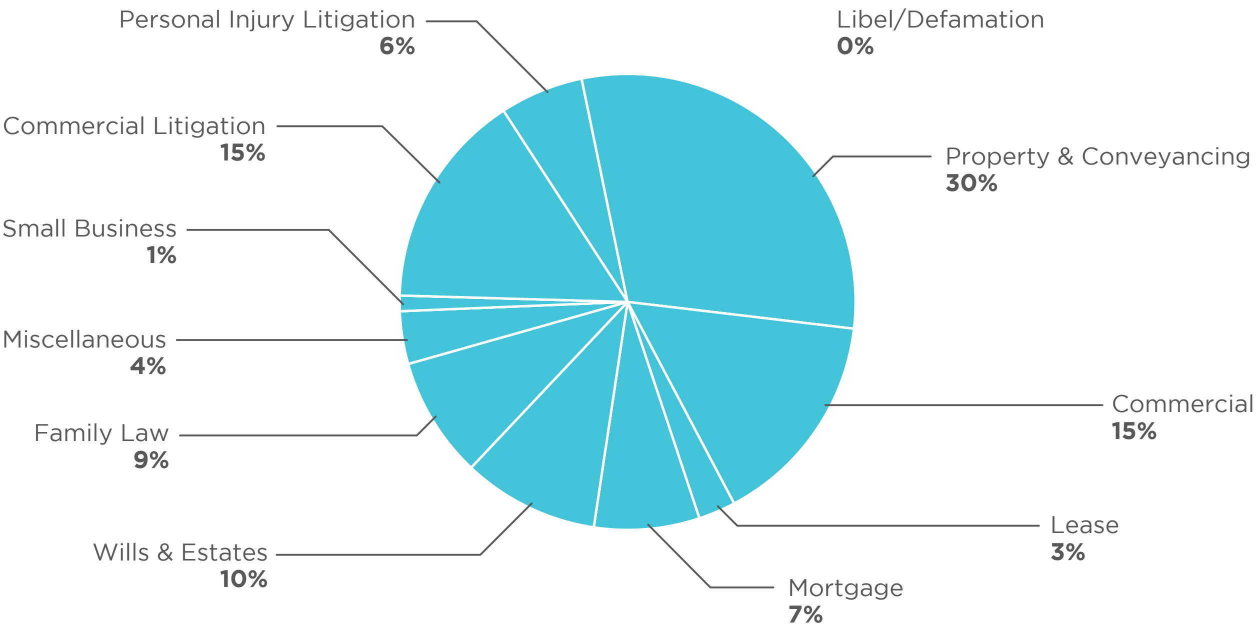
Solicitors remain vulnerable targets for cyber-criminals with the number of claims and notifications arising from cyber-related incidents increasing in 2018–2019. The most common scenario is business email compromise, where practitioner and/or client email are intercepted by fraudsters and altered to re-direct settlement funds from property, estate, family law or litigation.

Claims from earlier underwriting years continued to develop within estimates with significant reserve releases. This helped to offset the higher than anticipated claims costs from the current year.

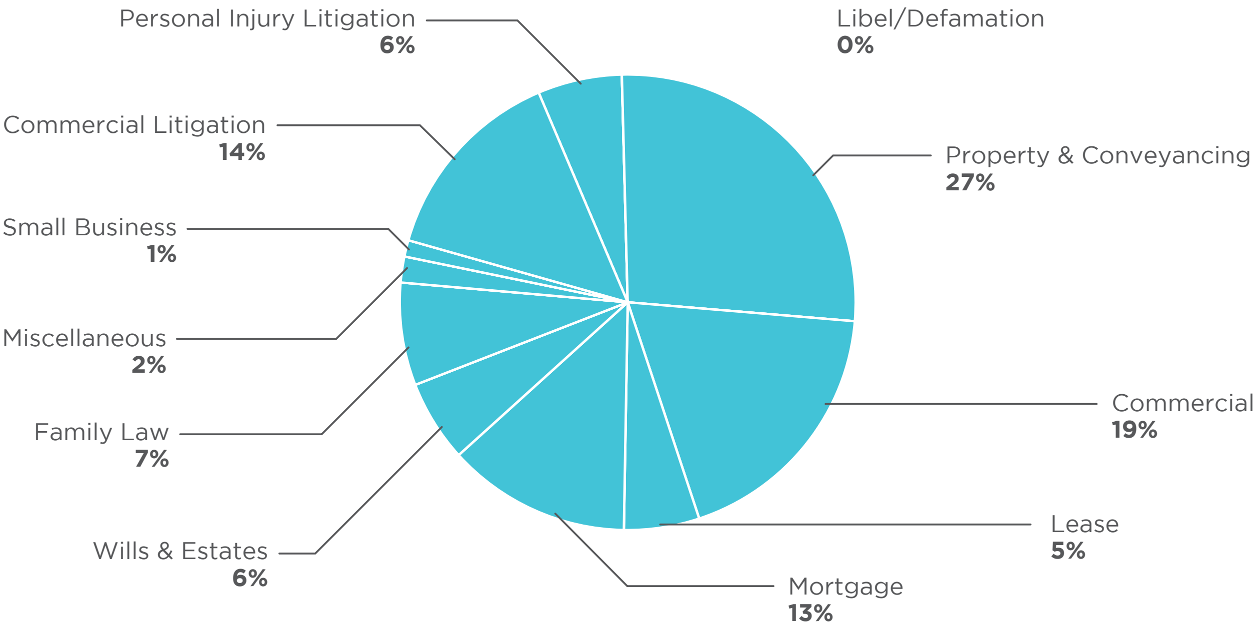
Solicitors: Number of open and closed files 2014–2019



Solicitors: Percentage number of claims by area of practice 2018–19



Solicitors: Percentage cost of claims by area of practice 2018–19



CLAIMS (continued)

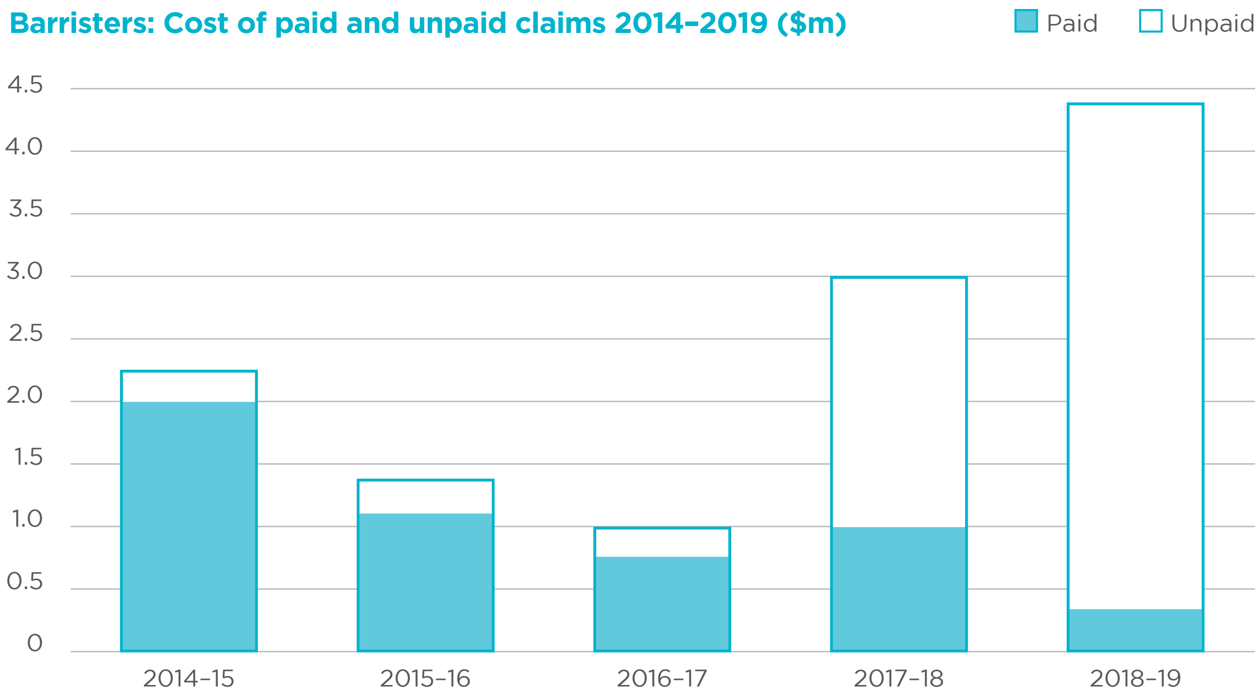
Claims - Barristers

During the reporting period, claims solicitors finalised 70 claims and notifications from barristers across the current and earlier underwriting years.

For the 2018–2019 underwriting year, there were 51 claims and notifications from barristers, with incurred estimates of $4.38 million.

These estimates are significantly higher than prior underwriting years but are not indicative of a rising trend of claims against barristers. Rather, they highlight the greater risk of claims volatility and the impact of occasional large matters in a smaller pool of practitioners.

Barristers: Cost of paid and unpaid claims 2014–2019 ($m)

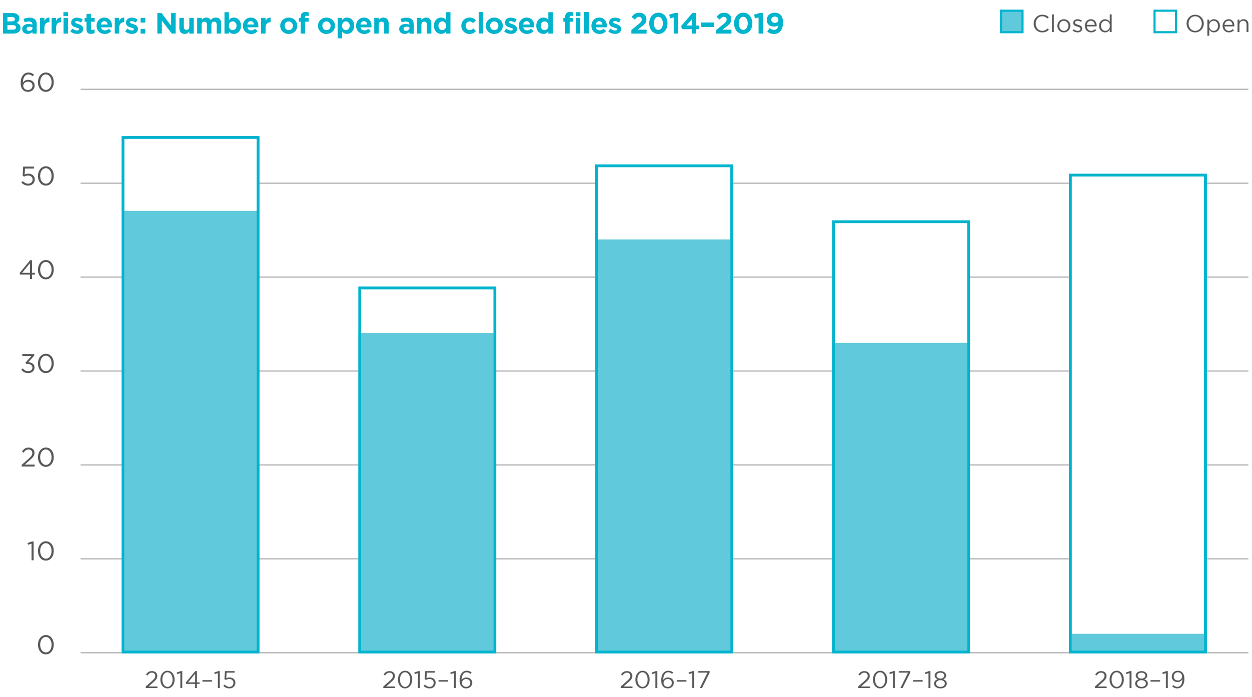


Major themes giving rise to claims and notifications reported during 2018–2019 concerned:

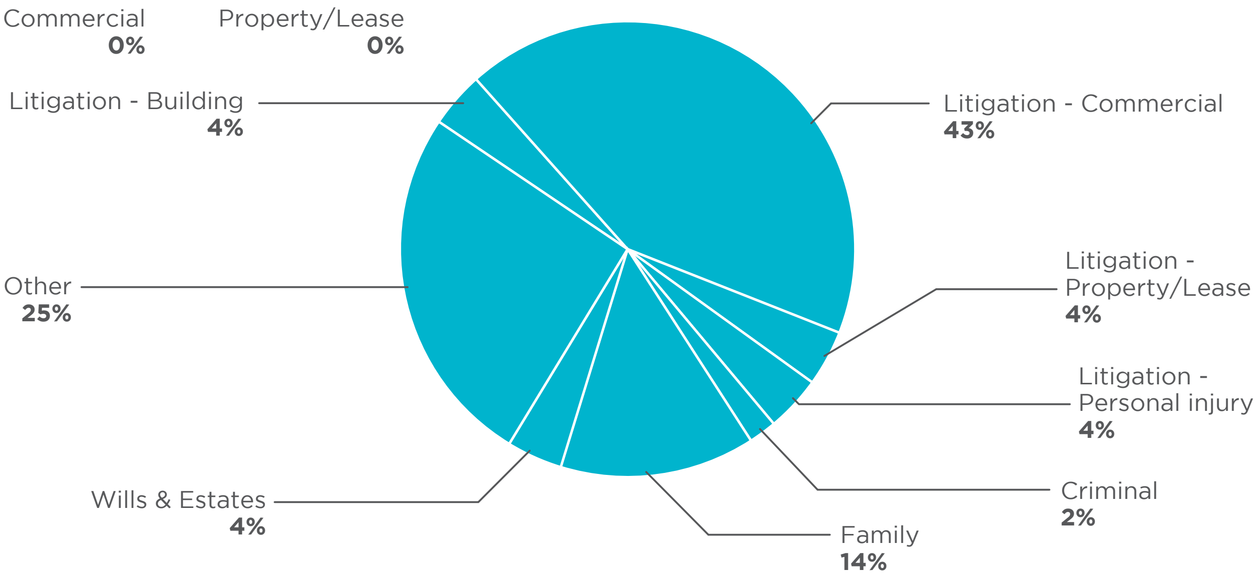
- disputes emerging following the settlement of litigation — there were several variations of this theme arising from commercial disputes, family law litigation and personal injury claims, with allegations ranging from errors and omissions in settlement agreements, negligent advice to settle (rather than proceed to trial), failure to advise on tax/stamp duty aspects of settlement agreements, under-settlement, and a number of matters where fee disputes arose following settlements
- claims by dissatisfied litigants
- alleged deficiencies in a barrister's preparation or involvement in litigation, including drawing of pleadings, acting without instructions, bringing claims in the wrong jurisdiction, missing limitation dates, and inadequate advice in relation to prospects of success.

Pleasingly, there were fewer claims this year against barristers for alleged breaches of the Civil Procedure Act 2010.

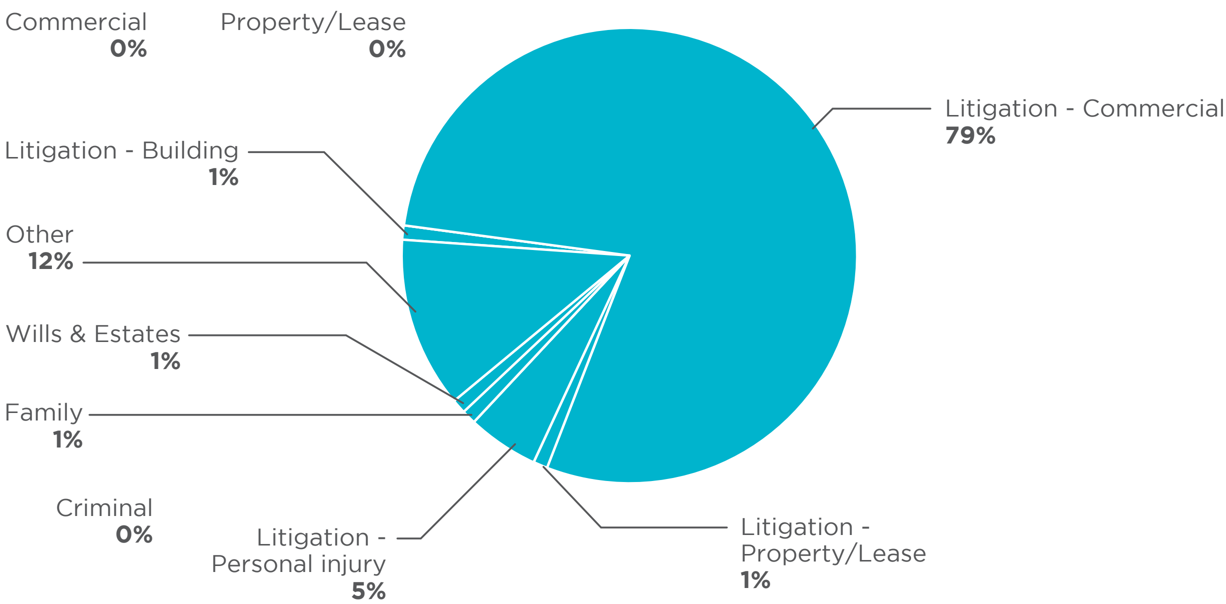
Barristers: Number of open and closed files 2014–2019



Barristers: Percentage number of claims and notifications by area of practice 2018-19



Barristers: Percentage cost of claims and notifications by area of practice 2018-19



RISK MANAGEMENT

LPLC's risk management services contribute significantly to our strategic objectives of protecting the interests of legal practitioners and their clients and maintaining public confidence in the legal profession.

Risk management activities are multipronged to address the variety of risk issues and target underlying causes of claims. They are conducted via face-to-face education sessions, publications and direct contact with practitioners. They address legal issues, practice management systems and behavioural issues emerging from the underlying causes of claims.

This year our risk management activities had a clear focus on the avoidance of conveyancing errors and managing cyber risk. We also increased our face-to-face contact with firms and practitioners and worked with key legal profession stakeholders.

Initiatives for the safer practise of conveyancing

We increased the reach of our Conveyancing Best Practise Program, looking at sample contracts and section 32 statements, and providing feedback to practices on their compliance with legislative requirements. Practitioners participating in the program found this 'peer review' a valuable and effective service.

We ran conveyancing specific seminars on section 32 statements and contracts of sale over a series of events to sell-out audiences during the year. The sessions provided training to improve practitioner understanding of the legal issues underpinning standard form documents, and helped bring practitioners up-to-date with changes in the law affecting the preparation of these documents.

Property topics featured heavily in our annual major risk management events in the city, regional and metropolitan areas.

Increasing legal understanding of conveyancing risks and pitfalls was also achieved through a series of articles in the May Law Institute Journal, and through important bulletins to the profession on proposed retrospective changes to off the plan contracts, the new GST withholding regime, PEXA and electronic funds transfer.

Our GST and general enquiries lines helped practitioners deal with more than 1,000 property-related legal enquiries.

Addressing cyber risks

Cyber claims continued to be an emerging area of risk for all legal practices no matter their size or location. Law practices handling significant electronic funds transfers in connection with the settlement of conveyancing, probate, family law and litigation matters are most at risk.

We started a five-step cyber campaign with our renewal notices for the 2018–2019 year and supported that initiative during the year with seminars at most of our risk management events around Melbourne and regional Victoria. We also published a variety of materials including a risk video, bulletin and periodic blogs addressing cyber risk issues.

The impact of this activity has increased awareness and diligence by many firms, who have now introduced verification procedures for checking email instructions in relation to electronic funds transfers. They also provide warnings to their clients not to rely solely on email communications in relation to money transfers.

Direct contact with firms

FIRM VISITS

We continued our program of visiting law practices in city and suburban locations, raising awareness of LPLC's risk management services, and talking to practitioners in their own environment about ways in which they manage their professional risk profiles. Many practitioners work on their own or in small firms, and these visits introduce them to LPLC's practice resources and establish a relationship to increase the likelihood of them contacting us to seek assistance when they most need it.

In some cases, our firm visits resulted in impromptu cyber risk or general risk management discussions with other solicitors and support staff in the firm.

HELPING NEWLY ESTABLISHED FIRMS

In addition to setting up their insurance policy, LPLC has three contact points with principals establishing their own new firm:

1. presentation of the risk management module of each of the practice management courses available for new principals in Victoria offered by the Law Institute of Victoria (LIV), College of Law and Leo Cussen Institute
2. phone or email contact initiated upon opening a new practice and introduction to the range of practice support materials available from LPLC
3. invitation to attend one of our Building Solid Foundations workshops, where a small group of practitioners all starting their own firms are introduced to each other, and provided with guidance on business strategy and key risk issues to consider when growing a sustainable legal practice.

These activities build rapport with practitioners when they are starting a new phase in their career, open up networking opportunities, and help them put good risk management strategies in place from the outset.

RISK ASSISTANCE PROGRAM

We continued our Risk Assistance Program during the year, visiting firms identified from our claims data as needing special assistance to address the occurrence of multiple claims brought against them by dissatisfied clients.

These visits entail in-depth discussion about the firm's specific risk management strategies and development of a tailored practice management improvement plan.

All participating firms report positive feedback on this program.

RISK MANAGEMENT ASSISTANCE

Meetings were held with many other firms facing specific practice management issues resulting in recommendations to improve the organisation of their office, systems and business plans. In a busy practice many practitioners are often so consumed with day-to-day pressures, they find it hard to take time to pause and reflect objectively on important structural elements of legal practice.

We also answered over 2,000 matter specific risk enquiries through our general enquiry service and specific GST enquiry service. These enquiries are by telephone or email and give practitioners objective risk advice and an opportunity to talk through things concerning them in particular matters.

Through these enquiries we are often able to direct practitioners to resources that not only help solve their immediate query, but also provide information and resources to increase their own knowledge and understanding of practice areas.

Ad hoc telephone and email assistance of this nature helps practitioners make more informed decisions and minimises the risk of claims occurring.

LARGE FIRM RISK MANAGERS NETWORK

Large and mid-tier firms all have dedicated staff tasked with responsibility for leading risk management functions within their firms. The number and scope of these roles has grown considerably in the last 10 years, and they interact with LPLC in a variety of ways and on a broad variety of topics.

During the year we convened two meetings of this Risk Manager's Network Group, which focused on cyber risks and information governance.

Raising awareness of claims and their causes

A core part of our risk management program is the analysis of the root causes of negligence claims made against practitioners during the year. This analysis informs LPLC's publication of materials and speaking engagements to raise the awareness of the causes and appropriate mitigation strategies for firms to avoid re-occurrence. Some of the practice management topics covered during the year were:

- retainer management
- dealing with difficult clients
- using empathy in mediation for better outcomes
- reviewing precedent letters and using precedents properly
- destruction of files
- handling trust money
- developing risk management strategies.

Our publications also addressed new laws including cladding rectification, ipso facto laws, the new *Medical Treatment Planning and Decisions Act 2016 (Vic)* and the *Oaths and Affirmations Act 2018 (Vic)*.

LPLC WEBSITE

The LPLC website is the organisation's primary publicly accessible, digital communication channel with legal practitioners. The site is widely used by individuals and peak bodies within the legal sector as a key publication channel and information source with a focus on risk management and practice support. Traffic to the site grows steadily each year and content is continually added and reviewed to ensure information is current, relevant and helpful to the profession.

Sections of the site accessed by practitioners with the highest frequency included checklists and frequently asked questions about specific practice areas, bulletins providing specific risk alerts and advice about changes in law, blogs addressing claims hotspots, and our resources that support practitioners to better communicate with clients.

Working with regulators and professional associations

Supervision failures are a recurring theme in negligence claims against solicitors, and a clearer understanding of supervision obligations and practices will benefit the profession and the consumers of legal services.

This year LPLC worked with the Victorian Legal Services Board and Commissioner (VLSBC) to help VLSBC develop clearer guidelines and education for practitioners about their responsibilities to adequately supervise staff, both for the purposes of supervised legal practice certification and more generally.

LPLC has also supported the VLSBC's innovation regulatory consultation project to assess alternative legal service models and digital tools — LPLC's assistance provides the VLSBC with perspectives on insurance and risk aspects of different proposals submitted to VLSBC. This consultation is important to help and encourage firms to innovate in ways that minimise risks to consumers of legal services and to the firms themselves.

VLSBC staff co-presented at LPLC's metropolitan risk seminars this year on their new policies and risk-based preventative focus. Many of the underlying causes of negligence claims and VLSBC complaints are the same and coordination in delivering this education is beneficial for the profession.

We continued our bimonthly meetings with staff from the VLSBC and the LIV, discussing issues of mutual concern, trends and problems affecting the legal profession, activities and projects each organisation is undertaking and opportunities for collaboration.

LPLC staff spoke at several events throughout the year for the LIV and a number of its regional and suburban associations.

Risk management activity	2018–2019 no. (attendees)
SPEAKING ENGAGEMENTS	
Risk Management Intensive	3 (619)
Metro Series	4 (208)
Conveyancing Series	5 (507)
Building Solid Foundations	17 (120)
Large firm event	1
Practice management course presentation on risk management (run by LIV, College of Law and Leo Cussen)	15
In-house seminars to law firms	21
Presentations to other external groups	34
Victorian Bar Reader's Course	2
PUBLICATIONS	
Blog posts	28
Short video bites	9
Law Institute Journal articles	17
LPLC quarterly 'In Check' newsletter	4
Risk Management Bulletins on changes in law or practice	5
Checklists for use in legal practice (updated)	2
Practice Risk Guides (updated)	4
Practice management tool	1
CONTACT WITH FIRMS	
Telephone and email enquiries	1,744
New firm phone contact	260
GST hotline	302
Contact and Connect visits to law firms	35
Conveyancing Best Practise Project (CBPP) reports / visits	12 / 4
Risk assistance visits	24
Practice assistance meetings	15
Risk Manager's Network Group meetings	2

INVESTMENTS

LPLC's investment goal is to achieve long term real growth in the investment portfolio, generating returns enabling the Committee to maintain lower premiums for the profession.

The Legal Practitioners' Liability Fund seeks to achieve a return of CPI + three per cent over a rolling five-year period. It is constructed as a balanced fund with an average allocation of 60 per cent to growth assets and 40 per cent to defensive assets matching claims liabilities.

Within the growth allocation, LPLC maintains a diverse portfolio of managed fund investments comprising equities, real return, property and infrastructure.

The investment return for the reporting period was 7.78 per cent, a pleasing result at a time when the outlook is for lower returns.

Australian and international equities recorded strong returns during the reporting year. Equities were weighted in favour of international investments, with a lower exposure to Australian equities. There was an exposure to hedged and unhedged funds within the international equities to address currency fluctuation risk.

During the reporting year a new investment was made into the Lighthouse Infrastructure Fund Trust to increase LPLC's exposure to infrastructure assets. Additional investments were also made into the Vanguard Australian Government Bond Index Fund to increase LPLC's portfolio duration.

LPLC maintains an investment in unlisted wholesale commercial property, which has provided diversity in the growth portfolio.

This investment has, over time, provided steady returns through fluctuations in markets for equities.

Willis Towers Watson Australia Pty Ltd were investment advisers to the Committee during the reporting period.

Funds were held with the following managers:

Australian Equities

- Vanguard Australian Shares Index Fund

International Equities

- GQG Global Equity
- Real Index Global Share Fund
- Schroder Emerging Markets Fund
- Schroder Real Return Fund
- Vanguard International Shares Index Fund

Property

- Dexus Wholesale Property Fund

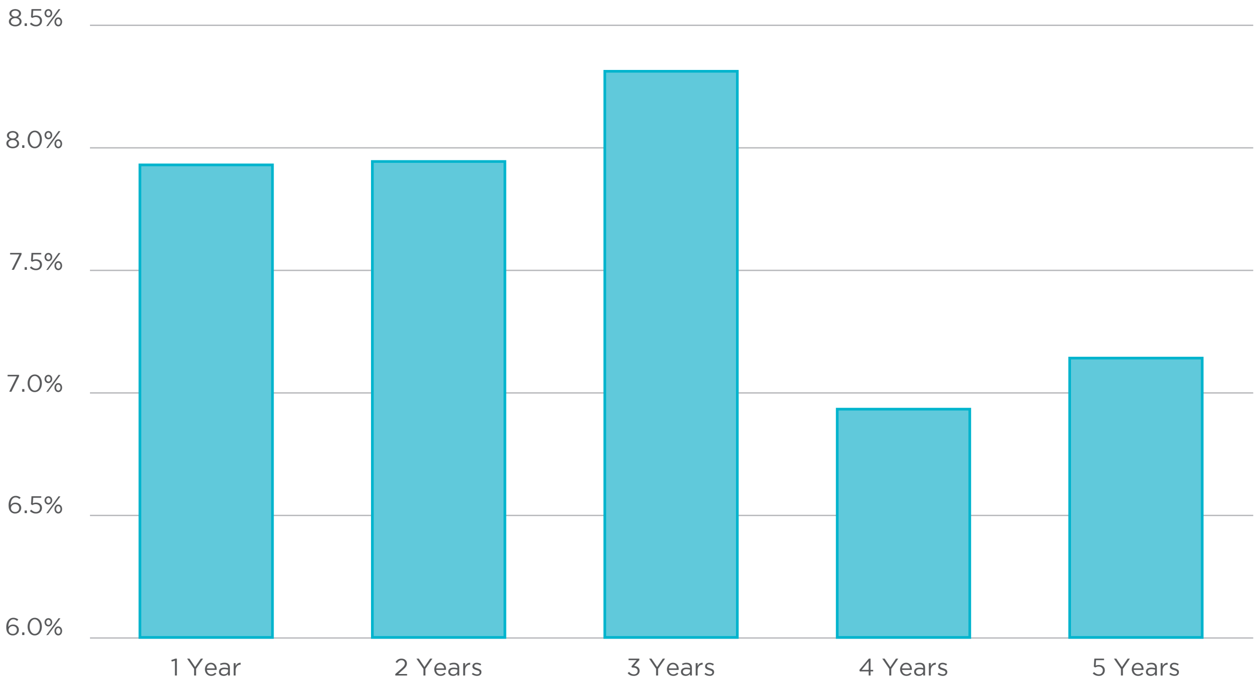
Infrastructure

- Palisade Diversified Infrastructure Fund
- Lighthouse Infrastructure Fund Trust

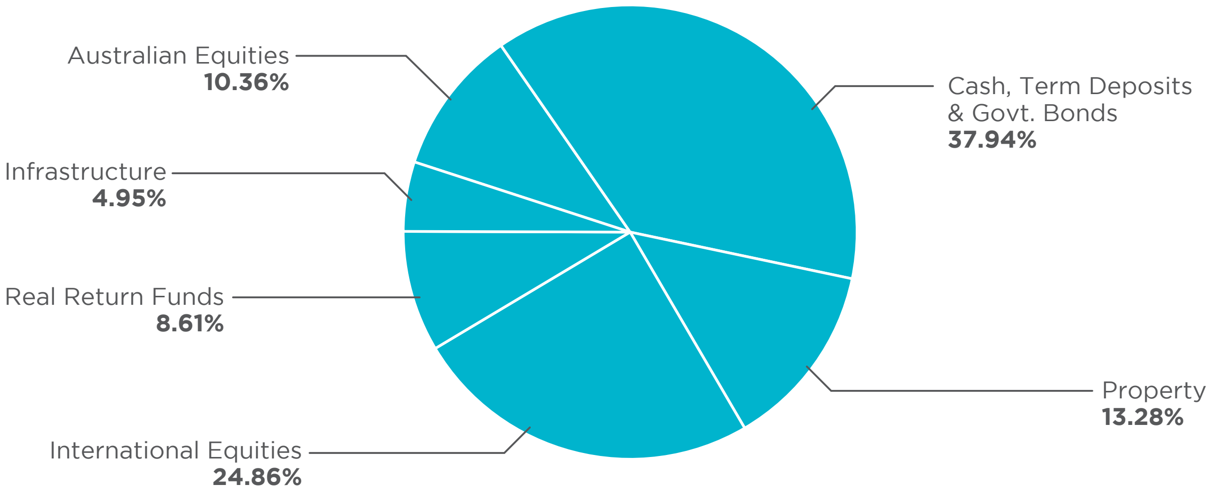
Cash

- Cash was invested by way of term deposits with Westpac and National Australia Bank
- Vanguard Australian Government Bond Index Fund

Investment return over different time horizons (%)



Asset allocation as at 30 June 2019



LEGAL PRACTITIONERS’ LIABILITY COMMITTEE

John Corcoran AM
Committee Chairperson

John Corcoran AM is a principal at the law practice of Russell Kennedy and was Chair of that firm for 10 years until 30 June 2017. He is a member of the board of Mercy Health. He has been a board member of the Victorian Legal Services Board as well as the International Bar Association. John is also a past President of the Law Institute of Victoria and was President of the Law Council of Australia in 2009.

His experience as a commercial lawyer is in the areas of commercial property, retirement and aged care, as well as sale and purchase of business, and securities.

Patricia Kelly
Committee Member | Chair Remuneration and Appointments Committee

Tricia Kelly has extensive experience in the financial services industry. She held leadership roles at Suncorp/AAMI including Executive General Manager Strategy & Business Development Personal Insurance and General Manager AAMI New South Wales. Prior to that she was a Director and Executive General Manager Life & Superannuation at Norwich Union Life Australia.

Tricia is a past president and honorary life member of the Insurance Institute of Victoria and a former Director of the Australian Insurance Institute. She is currently a non-executive Director of RACV and subsidiary companies and the Chair and non-executive director of ANSVAR Insurance.

Helen Thornton
Committee Member | Chair Audit and Risk Committee

Helen is a Chartered Accountant with over 30 years' experience across a wide range of industries including financial services. Helen has extensive experience in governance, audit and risk management and she has held senior leadership roles at Deloitte, KPMG, BHP Ltd and BlueScope Steel Ltd, where she was responsible for the global risk management and insurance program.

Helen has over 19 years' experience as a non-executive director and is an experienced Chair of audit and risk committees. She is currently on the boards of ISPT Pty Ltd, Treasury Corporation of Victoria, Yarra Valley Water, Ansvar Insurance and Austin Health.

John Cain
Committee Member | Chair Investment Committee

John Cain has extensive legal experience in both the public and private sectors. Currently he is the Solicitor for Public Prosecutions managing the Office of Public Prosecution. Prior to his current appointment John was the Managing Partner at Herbert Geer from 2011 to 2014 and the consultant overseeing the merger of that firm with Thomson Lawyers to create Thomson Geer. During John's five years as Victorian Government Solicitor starting in 2006, he oversaw the restructuring of that office as well as the creation of a whole of government legal services panel. While in that position John also represented the Victorian Government and its departments and agencies at the 2009 Bushfire Royal Commission. Prior to these roles John was the CEO at the Law Institute of Victoria (2002-2006) and Managing Partner at Maurice Blackburn from 1991 to 2002.

John is the chair of the Centre for Innovative Justice, RMIT University, an advisory board member in the School of Business and Law, Victoria University, an advisory board member of the Sir Zelman Cowen Centre and a member of the Victorian College of Law Chapter Board.

Catriona Lowe
Committee Member

Catriona Lowe is a lawyer with extensive experience in the consumer sector including directorships at the Australian Financial Complaints Authority, the Financial Adviser Standards and Ethics Authority and the Telecommunications Industry Ombudsman. Catriona is also Co-Chair of the Australian Competition and Consumer Commission Consumer Consultative Committee. Catriona is a former Chair of the Consumers' Federation of Australia and former Co-CEO of the Consumer Action Law Centre.

Catriona's skills and expertise include policy analysis and corporate governance, strategic legal practice management and consumer and competition law as well as dispute resolution and regulation.

Adrian Finanzio SC
Committee Member

Adrian Finanzio signed the Victorian Bar Roll in 1998 and was appointed Silk in 2012. Adrian is a member of the Bar Council, Deputy Chairman of Barristers Chambers Limited and a long-standing member of the Bar Readers' Course Committee (formerly as Vice Chair). He was also a longstanding member and Vice President of the Board of the Victorian Planning and Environmental Law Association.

Adrian is one of Victoria's leading environmental, town planning and local government law barristers — advising all levels of government in relation to major projects, the development industry and community groups.

Danny Barlow
Committee Member

Danny Barlow is a principal of the regionally based law firm Dawes & Vary Riordan, practising primarily in the areas of commercial litigation and agribusiness. He has previously served as President of the Law Institute of Victoria and Director of the Law Council of Australia.
He is currently a member of the Ethics Committee of the Law Institute of Victoria.

ORGANISATIONAL STRUCTURE

Committee and sub-committees

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

John Corcoran AM | Chair
Helen Thornton | Danny Barlow
Patricia Kelly | John Cain
Catriona Lowe | Adrian Finanzio SC

AUDIT AND RISK COMMITTEE

Helen Thornton | Chair
Patricia Kelly
Adrian Finanzio SC
Danny Barlow

REMUNERATION AND APPOINTMENTS COMMITTEE

Patricia Kelly | Chair
John Corcoran AM
Helen Thornton

INVESTMENT COMMITTEE

John Cain | Chair
John Corcoran AM
Catriona Lowe

LPLC Staff

Chief Executive Officer
Justin Toohey

Executive Assistant to CEO
Lauren Hage
(from 7/1/19)

EXECUTIVE LEADERSHIP TEAM

Heather Hibberd
Chief Risk Manager

Jodie Potts
Head of Claims

Bernadette Mallia
Corporate Services Manager

Martin Dohnt
Chief Finance Officer

Tracey Johnston
Digital Communications Manager
(from 8/10/18)

Risk Managers
Stephen Bubb
Phil Nolan
Matthew Rose

Admin & Events Coordinator
Suzana Bonnici
(from 11/7/18)

Claims Managers
Prue Campton
Josh Clutterbuck
Bronwyn Hine
Alex Macmillan
Ryan Lee
(from 11/6/19

Claims Administration
Jenny Aitken
Jackie Miller

Insurance Officer
Terri Hedt

Administration
Barbara McKay
Inge Gallery

Communications Officer
Emily D'Elia
(from 29/4/19)

Communications Manager
Sophie Patten
(until 28/8/18)

Digital Content Manager
Kelly Cooper
(until 14/8/18)

Projects and Events Manager
Kristy Fruga
(until 14/12/18

GOVERNANCE

LPLC provides professional indemnity insurance and risk management services for law practices.

The Committee:

- oversees and monitors the affairs of LPLC
- determines the terms of and submits policies of professional indemnity insurance for legal practitioners in Victoria for approval by the Victorian Legal Services Board
- oversees the investment of the Legal Practitioners' Liability Fund (the 'Fund')
- develops policy relating to national practice issues and professional indemnity insurance
- recommends the implementation of effective risk management for legal practitioners.

The Audit and Risk Committee comprised Helen Thornton (Chair), Patricia Kelly, Danny Barlow and Adrian Finanzio SC.

The Audit and Risk Committee oversees LPLC's:

- financial reporting
- financial and budgeting procedures
- actuarial and reserving functions
- internal risk and control environment
- corporate governance and regulatory compliance
- internal and external audits.

The Investment Committee comprised John Cain (Chair), John Corcoran AM and Catriona Lowe.

The Investment Committee:

- makes recommendations to LPLC on benchmarks, asset classes and asset allocation
- monitors the Fund's investment strategies and performance
- makes recommendations to the Committee on the appointment of fund managers and investment advisers.

The Remuneration and Appointments Committee comprised Patricia Kelly (Chair), John Corcoran AM and Helen Thornton.

The Remuneration and Appointments Committee:

- advises and makes recommendations to LPLC in relation to nominations to the Legal Services Board for appointment of the Chair and Committee members
- advises and makes recommendations to LPLC in relation to the appointment, remuneration and performance review of the CEO
- oversees executive succession planning, staff remuneration and people matters.

Committee meeting attendance 2018–2019

	Committee meetings		Audit and Risk Committee		Investment Committee		Remuneration and Appointments Committee	
	Eligible	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**
John Corcoran AM	9	9	-	-	4	4	2	2
Patricia Kelly	9	8	4	4	1	1	2	2
Helen Thornton	9	8	4	4	1	1	2	2
Catriona Lowe	9	8	-	-	4	4	-	-
John Cain	9	7	-	-	4	4	-	-
Adrian Finanzio SC	9	6	4	3	-	-	-	-
Danny Barlow	9	9	4	4	-	-	-	-

Executive management team

Justin Toohey
Chief Executive Officer

Justin was appointed as Chief Executive Officer in 2018, having previously served as Deputy CEO and Head of Claims at LPLC since 2005.

Prior to joining LPLC, Justin's career spanned five years in a senior executive position with the Institute of Architects' professional indemnity scheme and 15 years in private legal practice; including time as a partner with Tress Cocks & Maddox where he specialised in professional indemnity litigation as a panel solicitor to LPLC.

Jodie Potts
Head of Claims

Jodie joined LPLC in 2018 as Head of Claims.

Prior to joining LPLC in January 2018 Jodie was a partner in the professional indemnity team of Moray & Agnew, Melbourne, having joined that firm in 2006 from Herbert Geer & Rundle. Jodie is an experienced insurance litigator with strong property and commercial dispute resolution experience having worked for Australian and international insurers across a wide range of business classes.

Martin Dohnt
Chief Financial Officer

Martin joined the Committee as Chief Financial Officer in January 2014. Martin manages LPLC's accounting, finance and payroll functions. Prior to commencing at LPLC, Martin worked in the financial services industry for over 20 years holding senior finance management positions at Defence Force Credit Union and ASG Friendly Society.

Heather Hibberd
Chief Risk Manager

Heather was appointed Chief Risk Manager in 2010 having previously served as a risk manager with LPLC since 2001.

Prior to joining LPLC Heather was an insurance litigation solicitor for eight years with Minter Ellison, specialising in professional indemnity claims defending legal practitioners and hospitals.

Bernadette Mallia
Corporate Services Manager

After working in the property/leasing department of several city law firms, Bernadette joined the Committee in 1988. In addition to supervising the annual renewal of insurance and overseeing the maintenance of the LPLC database, Bernadette is the reference point for insured practitioners, LPLC service providers and other stakeholders.

Tracey Johnston
Digital Communications Manager

Tracey joined LPLC in October 2018 and has worked as a communications professional for 18 years in the not-for-profit sector with a focus on health and Aboriginal and Torres Strait Islander initiatives. With a specialty in online communications, she is responsible for the website, social media and all digital communications produced by LPLC.

SUPPLEMENTARY INFORMATION

Legislation administered by the *Committee*

The Legal Practice Act 1996 — 1 July 2005 to 11 December 2005.

The Legal Profession Act 2004 — 12 December 2005 to 30 June 2015.

The Legal Profession Uniform Law Application Act 2014 — 1 July 2015 to 30 June 2018.

Financial management regulations

The information specified in the Financial Management Regulations has been prepared and is available on request to the Attorney-General, Members of Parliament and the public.

Protected Disclosures

LPLC is committed to the objectives of the *Protected Disclosures Act 2012 (Vic).* LPLC recognises the value of transparency and accountability and will support the making of any disclosures pursuant to the guidelines set out in the Protected Disclosures Act 2012 (Vic).

LPLC's Protected Disclosures Statement containing information about the Protected Disclosures Act, who can make a protected disclosure, and the procedure for making a protected disclosure is available on LPLC's website or at LPLC's office on request.

Compliance with the *Building Act 1993 (Vic)*

LPLC does not own any buildings and consequently is exempt from notifying its compliance with the building and maintenance provisions of the Building Act 1993 (Vic).

Categories of documents held by LPLC

- applications by legal practitioners for insurance
- assessment notices
- notifications by legal practitioners of claims or circumstances likely to give rise to claims
- practitioner enquiries
- board papers and minutes for LPLC and LPLC sub committees
- management records
- reinsurance records
- administration records
- finance, accounting and investment records
- risk and compliance records
- library material.

Freedom of information

LPLC received no requests pursuant to the *Freedom of Information Act 1982 (Vic)* for the reporting period.

Occupational health and safety

LPLC continued its commitment to OH&S compliance during the reporting period and undertook a range of initiatives to support staff health, safety and wellbeing including ergonomic assessments, flu shots, massage and mindfulness activities. Three staff members are trained as first aid officers.

All issues relating to safe workplace practices are considered and reported at staff meetings.

There were no reported OH&S-related incidents in the reporting year (previous year, nil).

Workforce data

The Committee undertakes an annual performance appraisal and salary review of the CEO. The CEO and Executive Managers conduct annual performance reviews of their respective direct reports.

Internal staff training sessions were held regularly throughout the year addressing a variety of topics including workplace culture, cyber security awareness, enterprise risk management awareness, complaints management, cultural awareness and appropriate workplace behaviours. Staff members also attended a variety of external courses and conferences.

Staff members can raise grievances or other issues privately with the CEO, Corporate Services Manager or LPLC external HR consultant at any time. Alternatively, matters can be raised with a member of the Committee.

2017–2018

Position	Male	Female	Total
Chief Executive Officer	1 (from 01/01/18)	1 (until 31/12/17)	1
Chief Financial Officer	1		1
Head of Claims	1 (until 31/12/17)	1 (from 22/01/18)	1
Claims Manager	1	3	4
Risk Manager	3	1	4
Corporate Services Manager		1	1
Communications Manager		1	1
Premiums Manager		1	1
Digital Content and Reporting Manager		1	1
Receptionist/EA/Administration		6 (until 05/06/18) 5 (from 06/06/18)	6
Total	**6**	**15**	**21**

2018–2019

Position	Male	Female	Total
Chief Executive Officer	1		1
Chief Financial Officer	1		1
Claims Manager	1 (until 11/6/19) 2 (from 11/6/19)	4	6
Risk Manager	3	1	4
Corporate Services Manager		1	1
Digital Communications Manager		1	1
Premiums Manager		1	1
Communications Officer (from 29/4/19)		1	1
Receptionist/EA/Administration		6	6
Total	**7**	**15**	**22**

Environmental issues

LPLC has an environmental management plan (EMP) which assists to manage the environmental impact of day to day business activities.

Monitoring the EMP has been allocated to a team within the office.

The plan covers the 2018–2019 reporting year.

Energy consumption

LPLC will continue with its energy saving initiatives such as using natural light in offices where possible, shutting down computers and printers after hours and only having lights on in the parts of the office where necessary. LPLC again made a commitment to purchase no less than 20 per cent green power for office requirements.

Total energy usage was approximately 58,716 kWh compared to 58,480 kWh in 2017–2018 and the energy used per square metre of office area was 83.28 kWh compared to 82.95 kWh in 2017–2018. kWh of energy used per FTE was 3262.

The 2019–2020 target is to reduce energy usage by at least 10 per cent.

Waste generation

LPLC continues to monitor the levels of waste generated by its operations and staff. Building management continue to provide a commingled recycling service which has assisted greatly in reducing the waste generated by LPLC being sent to landfill.

LPLC continues to reduce waste generation through recycling of all computer components, CDs, DVDs, used printer cartridges, old dictating equipment, old mobile phones, old landline phones and any other computer peripherals by using a not for profit recycling service, Byte Back.

LPLC continued to recycle close to 90 per cent of its waste for the reporting period.

Paper consumption

LPLC adheres to policies that include purchasing only printers that are capable of double-sided copying, defaulting all communal printers to double sided and using electronic documents instead of paper whenever possible.

A very high percentage of LPLC's paper and cardboard waste is recycled through a secure paper recycling contractor. LPLC recycled approximately 1.2 tonnes of paper in the reporting period which contributed to a reduction in greenhouse gas emissions of more than 1.6 tonnes of carbon over 2018–2019.

Units of paper used per FTE (A4 reams/FTE) was approximately 15.66 compared to 23.56 in the previous reporting period.

The target for the 2019–2020 year is to reduce the paper consumption by at least 10 per cent compared with 2018–2019.

Transport

LPLC does not operate a fleet of vehicles for business use and has a travel policy which includes the purchase of carbon credits for all air travel undertaken.

Competition policy

Until 11 December 2005, section 227A of the *Legal Practice Act* provided:

'For the purposes of the *Trade Practices Act 1974* of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a person or firm and the Liability Committee under sections 224, 225, 226 or 227 is authorised by this Act.'

From 12 December 2005 until 30 June 2015, section 3.5.5 of the *Legal Profession Act 2004* provided:

'For the purposes of the Trade Practices Act 1974 of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a law practice and the Liability Committee under this Part is authorised by this Act.'

From 1 July 2015 section 119 of the Legal Profession Uniform Law Application Act 2014 provides:

'For the purposes of the *Competition and Consumer Act 2010* of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a law practice and the Liability Committee is authorised by this Act'.

Consultants

Consultants each year provide specialist advice to assist with decision making and risk management programs. During 2018–2019 total consultancy expenditure as defined by the *Financial Management Act 1994 (Vic)* was approximately $439,282.

Finity Consulting Pty Ltd — actuaries

During the reporting year Finity Consulting was engaged to review LPLC's premium model, to provide pricing advice and to review LPLC's half-yearly valuation of outstanding liabilities. Expenditure for the reporting period was $92,933. Finity Consulting has been retained again for the 2019–2020 period.

Cumpston Sarjeant — actuaries

During the reporting year LPLC obtained half-yearly valuation reports of outstanding liabilities and other ad hoc actuarial advice from Cumpston Sarjeant. The consulting fee paid to this firm for the reporting period was $48,708. Cumpston Sarjeant has been retained again for the 2019–2020 reporting period.

Willis Towers Watson — investment advisers

During the year Willis Towers Watson continued to be engaged as LPLC's investment advisers for which consulting fees of $297,641 were paid.

Declarations of pecuniary interests

Declarations of pecuniary interests have been duly completed by Committee members and relevant staff.

Legal Practitioners' Liability Committee Financial Management Compliance Attestation Statement

I, John Corcoran AM, on behalf of the Responsible Body, certify that the Legal Practitioners' Liability Committee has complied with the applicable Standing Directions 2018 under the Financial Management Act 1994 and Instructions.

Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
MELBOURNE VIC 3000
DX 431
ABN: 45 838 419 536
T: (03) 9672 3800
F: (03) 9670 5538
W: lplc.com.au

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

FINANCIAL REPORT

For the Financial Year Ended 30 June 2019

DECLARATION BY MEMBERS OF THE COMMITTEE

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

DECLARATION BY COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

The attached financial statements for the Legal Practitioners' Liability Committee have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the Financial Management Act 1994 (FMA), applicable Financial Reporting Directions, Australian Accounting Standards, including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2019 and financial position of the Legal Practitioners' Liability Committee at 30 June 2019.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial report to be misleading or inaccurate.

We authorise the attached financial statements for issue on 11 September 2019.

....

John Corcoran AM - Chairman

....

Nicholas J Toohey - Chief Executive Officer

....

Martin Dohnt - Chief Financial Officer

Dated this 11th day of September 2019

AUDITOR-GENERAL'S REPORT

VAGO
Victorian Auditor-General's Office

Independent Auditor's Report

To the Committee of the Legal Practitioners Liability Committee

Opinion

I have audited the financial report of the Legal Practitioners' Liability Committee (the committee) which comprises the:

- balance sheet as at 30 June 2019
- statement of comprehensive income for the year then ended
- statement of changes in equity for the year then ended
- cash flow statement for the year then ended
- notes to the financial statements, including significant accounting policies
- declaration by committee members, chief executive officer and chief financial officer.

In my opinion the financial report presents fairly, in all material respects, the financial position of the committee as at 30 June 2019 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.

Basis for Opinion

I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

My independence is established by the *Constitution Act 1975.* My staff and I are independent of the committee 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 my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Committee's responsibilities for the financial report

The Committee of the committee is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Committee determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Committee is responsible for assessing the committee'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 it is inappropriate to do so.

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

AUDITOR-GENERAL'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the financial report	As required by the *Audit Act 1994,* my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

I communicate with the Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE
18 September 2019

Charlotte Jeffries
as delegate for the Auditor-General of Victoria

2

Statement of Comprehensive Income

for the Financial Year Ended 30 June 2019

	Note	2019 $	2018 $
UNDERWRITING			
Premium revenue	2.2	34,197,207	32,891,142
Outwards reinsurance expense	3.2	(1,000,000)	(1,000,000)
Net earned premiums		33,197,207	31,891,142
Claims expense	3.3	(31,037,607)	(31,507,298)
Net claims incurred		(31,037,607)	(31,507,298)
Movement in unexpired risk liability	5.4	(664,497)	(1,858,251)
UNDERWRITING RESULT		**1,495,103**	**(1,474,407)**
Investment income	2.3	19,828,221	18,950,984
Other income	2.4	238,914	184,476
Employment expenses	3.1.1	(3,542,624)	(3,492,800)
Depreciation	4.1.1	(100,713)	(71,679)
Other expenses	3.4	(3,015,933)	(2,884,608)
Net result		**14,902,968**	**11,211,966**
Other comprehensive Income		**-**	**-**
Total comprehensive Income		**14,902,968**	**11,211,966**

Notes to and forming part of these financial statements are set out in pages 42 to 114

Balance Sheet
as at 30 June 2019

	Note	2019 $	2018 $
CURRENT ASSETS			
Cash and cash equivalents	6.1	12,425,913	16,169,376
Receivables	5.1	1,193,443	1,407,739
Other financial assets	4.3	44,674,101	63,090,411
Other non-financial assets	5.3	159,306	158,026
Total current assets		58,452,763	80,825,552
NON-CURRENT ASSETS			
Other financial assets	4.3	222,174,185	184,817,519
Property, plant & equipment	4.1	156,789	101,777
Intangible assets	4.2	28,574	63,193
Total non-current assets		222,359,548	184,982,489
TOTAL ASSETS		**280,812,311**	**265,808,041**
CURRENT LIABILITIES			
Outstanding claims liability	5.5	34,011,000	34,405,000
Payables	5.2	944,754	1,383,980
Unearned premium liability	5.4	47,207,000	45,253,000
Provisions	3.1.2	696,092	678,281
Total current liabilities		82,858,846	81,720,261
NON-CURRENT LIABILITIES			
Outstanding claims liability	5.5	76,558,000	77,596,000
Provisions	3.1.2	56,847	56,130
Total non-current liabilities		76,614,847	77,652,130
TOTAL LIABILITIES		**159,473,693**	**159,372,391**
NET ASSETS		**121,338,618**	**106,435,650**
EQUITY			
Accumulated funds	8.1	121,338,618	106,435,650
TOTAL EQUITY		**121,338,618**	**106,435,650**

Notes to and forming part of these financial statements are set out in pages 42 to 114

Cash Flow Statement

for the Financial Year Ended 30 June 2019

	Note	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium revenue received		39,081,262	37,489,487
Other income		222,407	200,771
Dividend received		1,092,424	753,816
Interest received		2,223,631	2,384,560
Other income from investments		5,289,834	5,845,549
Claims paid		(33,857,504)	(31,423,258)
Outward reinsurance premium paid		(1,000,000)	(1,000,000)
Payments to suppliers and employees		(8,767,714)	(7,753,449)
Net cash provided by/(used in) operating activities	6.1.1	4,284,340	6,497,476
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(121,106)	(91,237)
(Purchase)/sale of investments		(26,323,007)	(5,919,479)
Net cash provided by/(used in) investing activities		(26,444,113)	(6,010,716)
Net increase/(decrease) in cash held		(22,159,773)	486,760
Cash and cash equivalents at beginning of period		79,259,787	78,773,027
Cash and cash equivalents at end of period	6.1	**57,100,014**	**79,259,787**

Notes to and forming part of these financial statements are set out in pages 42 to 114

Statement of Changes In Equity
for the Financial Year Ended 30 June 2019

	Note	Accumulated Funds $	Total $
At 1 July 2017		95,223,684	95,223,684
Net result for the year		11,211,966	11,211,966
Other comprehensive income for the year		-	-
At 30 June 2018		106,435,650	106,435,650
Net result for the year		14,902,968	14,902,968
Other comprehensive income for the year		-	-
At 30 June 2019	8.1	**121,338,618**	**121,338,618**

Notes to and forming part of these financial statements are set out in pages 42 to 114

Notes to the Financial Statements
for the year ended 30 June 2019

1. ABOUT THIS REPORT

The reporting entity is the Legal Practitioners' Liability Committee (LPLC). The Legal Practitioners' Liability Committee is a statutory authority established under the Legal Profession Act 2004 (from 1 July 2015 The Legal Profession Uniform Law Application Act 2014). The Committee administers the transactions of the Legal Practitioners' Liability Fund. The Legal Practitioners' Liability Committee is specifically regulated out of the Commonwealth Insurance Act and is not regulated by the Australian Prudential Regulatory Authority. The LPLC has the power to impose a levy in the event of insolvency. The assets, liabilities and financial transactions of the Legal Practitioners' Liability Fund are reported in this financial report.

Its principal address is: Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
Melbourne, Vic 3000

Basis of Preparation

These financial statements are in Australian dollars and the historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

The fund makes estimates and assumptions in respect of certain key assets and liabilities. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

The ultimate liability arising from claims made under insurance contracts.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance date. The estimated cost of claims include direct expenses to be incurred in settling claims. The fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established. For assumptions and methods used refer Note 8.7.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in applying Australian Accounting Standards (AAS) that have significant effects on the financial statements and estimates are disclosed in the notes under the heading: 'Significant judgement or estimates'.

Notes to the Financial Statements
for the year ended 30 June 2019

1. ABOUT THIS REPORT (CONTINUED)

These financial statements cover the Legal Practitioners' Liability Committee as an individual reporting entity and included all the controlled activities of the Committee.

Amounts in the financial statements have been rounded to the nearest dollar unless otherwise stated.

Compliance Information

These general purpose financial reports have been prepared in accordance with the Financial Management Act 1994 (FMA) and applicable Australian Accounting Standards (AASs) which includes interpretations, issued by the Australia Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of AASB 1049 Whole of Government and General Government Sector Financial Reporting (AASB 1049).

Where appropriate, those AASs paragraphs applicable to not-for-profit entities have been applied. Accounting policies selected and applied in these financial statements ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or events is reported.

Income Tax

The Fund is exempt from income tax pursuant to item 5.2 of section 50-25 of the Income Tax Assessment Act 1997.

Goods and Services Tax (GST)

Revenues and expenses are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the taxation authority, are presented as operating cash flow.

Notes to the Financial Statements
for the year ended 30 June 2019

2. FUNDING DELIVERY OF OUR SERVICES

Introduction

LPLC is the professional indemnity insurer to Victorian legal practices and the insurer to many national law firms. In addition, LPLC provides a comprehensive program of risk management services to legal practices that insure with us. LPLC's long-held values are; equity and fairness, transparency, probity, stability.

To enable LPLC to fulfil its values and provide outputs as described in section 4, it receives income (predominantly premium revenue).

Structure

2.1 Summary of income that funds the delivery of our services

	Note	2019 $	2018 $
Premium revenue	2.2	34,197,207	32,891,142
Investment income	2.3	19,828,221	18,950,984
Other income	2.4	238,914	184,476
Total income		54,264,342	52,026,602

Income is recognised to the extent it is probable the economic benefits will flow to the LPLC and the income can be reliably measured at fair value. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes.

Notes to the Financial Statements
for the year ended 30 June 2019

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.2 Premium Revenue

	2019 $	2018 $
Gross written premiums	35,486,711	34,010,890
Movement in unearned premium	(1,289,504)	(1,119,748)
Net premium revenue	34,197,207	32,891,142

Premium revenue comprises amounts charged to solicitors and barristers, excluding amounts collected on behalf of third parties, principally stamp duties and goods and services tax.

Premium revenue is recognised in the Statement of Comprehensive Income when it has been earned. Premium revenue is recognised in the Statement of Comprehensive Income from the attachment date over the period of the contract.

The proportion of premium received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Balance Sheet as an unearned premium liability.

Notes to the Financial Statements
for the year ended 30 June 2019

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.3 Investment Income

	2019 $	2018 $
Net fair value gains on financial assets at fair value through profit or loss	11,033,661	9,805,309
Managed fund distributions	5,282,688	5,961,063
Other income	183,080	140,901
Dividend income	1,092,424	753,816
Interest income	2,236,368	2,289,895
Total investment income	19,828,221	18,950,984

Investment income is accrued and includes capital movements, distributions and interest income. Any investment income relating to the current period that is not received during the accounting year is accrued to that accounting year.

Interest income includes interest received on bank term deposits and other investments and the unwinding over time of the discount on financial assets.

Interest income is recognised using the effective interest method, which allocates the interest over the relevant period.

Other income includes distributions received from managed investment funds.

2.4 Other Income

	2019 $	2018 $
Seminar income	238,914	184,476
Total income	238,914	184,476

Seminar income is income received for seminars and workshops held during the financial year. Seminars and workshops are aimed at assisting practitioners to avoid risks and minimise their exposure to claims. Income is recognised when the seminar or workshop has been completed.

Notes to the Financial Statements
for the year ended 30 June 2019

3. THE COST OF DELIVERING SERVICES

Introduction

This section provides an account of the expenses incurred by Legal Practitioners' Liability Committee in delivering services and outputs. In section 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded. Section 4 discloses aggregated information in relation to the income and expenses by output.

Structure

3.1 Expenses incurred in delivery of services

	Note	2019 $	2018 $
Employee benefit expenses	3.1.1	3,542,624	3,492,800
Outwards reinsurance expense	3.2	1,000,000	1,000,000
Claims expense	3.3	31,037,607	31,507,298
Other operating expenses	3.4	3,015,933	2,884,608
Total expenses incurred in delivery of services		38,596,164	38,884,706

3.1.1 Employee benefits expense in the comprehensive operating statement

	Note	2019 $	2018 $
Defined contribution superannuation expense		283,201	274,990
Salaries and wages, annual leave and long service leave		3,259,423	3,217,810
Total employee expenses		3,542,624	3,492,800

Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums.

The amount recognised in the comprehensive operating statement in relation to superannuation is employer contributions for members of defined contribution superannuation plans that are paid or payable during the reporting period.

Notes to the Financial Statements
for the year ended 30 June 2019

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.2 Employee benefits in the balance sheet

Provision is made for the Fund's liability for employee benefits arising from services rendered by employees to balance date and recorded as an expense during the period the services are delivered.

	2019 $	2018 $
CURRENT PROVISIONS		
Annual leave		
unconditional and expected to settle within 12 months	192,103	156,690
unconditional and expected to settle after 12 months	21,115	82,320
Long service leave		
unconditional and expected to settle within 12 months	63,898	-
unconditional and expected to settle after 12 months	329,237	352,207
Provisions for on-costs		
unconditional and expected to settle within 12 months	37,888	23,065
unconditional and expected to settle after 12 months	51,851	63,999
Total current provisions	696,092	678,281
NON-CURRENT PROVISIONS		
Employee benefits	49,518	48,924
On-costs	7,329	7,206
Total non-current provisions	56,847	56,130
Total provisions for employee benefits	752,939	734,411

Reconciliation of movement in on-cost provision

	2018 $
Opening balance	94,270
Additional provisions recognised	32,756
Reductions arising from payments/other sacrifices of future economic benefits	(29,959)
Closing balance	**97,068**
Current	89,739
Non-current	7,329

Notes to the Financial Statements
for the year ended 30 June 2019

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.2 Employee benefits in the balance sheet (continued)

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits annual leave and accumulating sick leave, are all recognised in the provision for employee benefits as current liabilities, because the Legal Practitioners' Liability Committee does not have an unconditional right to defer settlements of these liabilities.

The liability for wages and salaries are recognised in the balance sheet at remuneration rates which are current at the reporting date. As the Legal Practitioners' Liability Committee expects the liabilities to be wholly settled within 12 months of reporting date, they are measured at undiscounted amounts.

The annual leave liability is classified as a current liability and measured at the undiscounted amount expected to be paid, as the Legal Practitioners' Liability Committee does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

No provision has been made for sick leave as all sick leave is non-vesting and it is not considered probable that the average sick leave taken in the future will be greater than the benefits accrued in the future. As sick leave is non-vesting, an expense is recognised in the Statement of Comprehensive income as it is taken.

Employment on-costs such as payroll tax, workers compensation and superannuation are not employee benefits. They are disclosed separately as a component of the provision for employee benefits when the employment to which they relate has occurred.

Long Service Leave

Unconditional LSL is disclosed in the notes to the financial statements as a current liability, even where the Legal Practitioners' Liability Committee does not expect to settle the liability within 12 months because it will not have an unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- undiscounted value - if expected to wholly settle within 12 months: or
- present value - if not expected to wholly settle within 12 months.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL Liability is measured at present value.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction.

Provisions for on-costs such as payroll tax, workers compensation and superannuation are recognised separately from the provision for employee benefits.

Notes to the Financial Statements
for the year ended 30 June 2019

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.3 Superannuation Contributions

Employees of LPLC are entitled to receive superannuation benefits and the LPLC contributes to defined contribution plans on their behalf.

Superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of LPLC.

	Paid contribution for the year		Contribution outstanding at year end	
	2019	**2018**	**2019**	**2018**
DEFINED CONTRIBUTION PLANS				
Legal super	131,122	143,266	-	-
Other	52,079	131,724	-	-
Total	**283,201**	**274,990**	**-**	**-**

3.2 Outwards reinsurance expense

	2019 $	2018 $
Outwards reinsurance expense	1,000,000	1,000,000
Total	**1,000,000**	**1,000,000**

Premium paid to reinsurers is recognised as an expense in accordance with the expected pattern of risk. Where applicable, a portion of outwards reinsurance premium is treated at the reporting date as a prepayment. Reinsurance recoveries are recognised as revenue for claims incurred.

The Legal Practitioners' Liability Fund carries a stop loss insurance policy, with a defined sum insured, to cover the payment of claims made during the year ended 30 June 2019 in excess of $46.0m (2018:$45.0m).

Notes to the Financial Statements
for the year ended 30 June 2019

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.3 Claims Expense

Claims expense recognises the estimated cost of claims incurred for the current year, less or plus any adjustment for the improvements/deterioration in prior policy/accounting years.

NET CLAIMS INCURRED

	2019 Current Year $	Previous Years $	Total $	2018 Current Year $	Previous Years $	Total $
Gross claims expense	43,462,000	(15,456,393)	28,005,607	41,838,000	(9,977,702)	31,860,298
Discount movement	(966,000)	3,998,000	3,032,000	(1,916,000)	1,563,000	(353,000)
	42,496,000	(11,458,393)	31,037,607	39,922,000	(8,414,702)	31,507,298
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	-	-	-	-	-	-
Discount movement	-	-	-	-	-	-
	-	-	-	-	-	-
Net claims incurred	42,496,000	(11,458,393)	31,037,607	39,922,000	(8,414,702)	31,507,298

Current year amounts relate to risks borne in the current financial year. Prior periods amount relate to a reassessment of the risks borne in all previous financial years.

Notes to the Financial Statements
for the year ended 30 June 2019

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.4 Other Operating Expenses

	2019 $	2018 $
Administration expenditure	2,122,317	2,077,615
Consulting & professional services expenditure	508,525	444,785
Operating leases	385,091	362,208
Total other operating expenses	**3,015,933**	**2,884,608**

Other operating expenses generally represent the day-to-day running costs incurred in normal operations.

Supplies and services are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when the inventories are distributed.

Operating lease payments (including contingent rentals) are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

Notes to the Financial Statements
for the year ended 30 June 2019

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Introduction

The Legal Practitioners' Liability Committee controls infrastructure and other investments that are utilised in fulfilling its objectives and conducting its activities. They represent the resources utilised by the LPLC for delivery of those outputs.

Significant judgement: Classification of investments as 'key assets'

The LPLC has made the judgement that investments are key assets utilised to support the LPLC's objectives and outputs.

Fair Value measurement

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 7.3 in connection with how those fair values were determined.

Structure

4.1 Total property, plant and equipment

	2019 $	2018 $
Furniture & equipment:		
At fair value	274,978	254,293
Accumulated depreciation	(219,725)	(182,621)
	55,253	71,672
Leasehold improvements:		
At fair value	215,787	125,017
Accumulated depreciation	(114,251)	(94,912)
	101,536	30,105
Total	156,789	101,777

Notes to the Financial Statements
for the year ended 30 June 2019

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1 Total property, plant and equipment (continued)

Initial Recognition

All non-current physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition. Assets transferred as part of a merger/machinery of government are transferred at their carrying amount.

The cost of leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease of their estimated useful lives.

Subsequent Measurement

Property, plant and equipment (PPE) are subsequently measured at fair values less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset) and is summarised below by asset category.

Refer to Note 7.3 for additional information on fair value determination of property, plant and equipment.

4.1.1 Depreciation and impairment

Charge for the period

	2019 $	2018 $
Furniture & equipment	37,104	29,620
Leasehold improvements	19,339	6,691
Intangibles	44,270	35,368
	100,713	71,679

Furniture and equipment is depreciated on a straight line or diminishing value basis over their useful life to the Fund commencing from the time the assets are held ready for use.

Intangibles are amortised on a straight line or diminishing value basis over their useful life to the Fund commencing from the time the assets are held ready for use.

Notes to the Financial Statements
for the year ended 30 June 2019

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1.1 Depreciation and impairment (continued)

The depreciation rates used for current and prior years are:

Class of Asset	Prime Cost Depreciation Rate	Diminishing Value Depreciation Rate
Furniture and equipment	20 - 40%	15 - 33%
Leasehold improvements	10 - 25%	n/a
Intangibles	40%	n/a

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

Impairment

Non-financial assets, including items of property, plant and equipment, are tested for impairment whenever there is an indication that the asset may be impaired.

The assets concerned are tested as to whether their carrying value exceeds the recoverable amount. Where an asset’s carrying value exceeds its recoverable amount the difference is written off as an “other economic flow”, except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However this reversal should not increase the asset’s carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less cost to sell. Recoverable amount for assets held primarily to generate cash inflows is measured at the higher of the present value of future cash inflows expected to be obtained from the asset and fair value less costs to sell.

Notes to the Financial Statements
for the year ended 30 June 2019

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1.2 Reconciliation of movements in carrying amount of property, plant and equipment

	Furniture Equipment $	Leasehold Improvements $	Total $
2019			
Balance at the beginning of the year	71,672	30,105	101,777
Additions	20,685	90,770	111,455
Disposals	-	-	-
Depreciation expense	(37,104)	(19,339)	(56,443)
Carrying amount at the end of the year	**55,253**	**101,536**	**156,789**
2018			
Balance at the beginning of the year	73,216	17,386	90,602
Additions	28,076	19,410	47,486
Disposals	-	-	-
Depreciation expense	(29,620)	(6,691)	(36,311)
Carrying amount at the end of the year	**71,672**	**30,105**	**101,777**

4.2 Intangible assets

	2019	2018
GROSS CARRYING AMOUNT		
Opening balance	102,877	59,126
Additions	9,651	43,751
Disposals or classified as held for sale	-	-
Closing balance	**112,528**	**102,877**
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT		
Opening balance	(39,684)	(4,316)
Amortisation of intangible assets	(44,270)	(35,368)
Disposals or classified as held for sale	-	-
Closing balance	**(83,954)**	**(39,684)**
Net book value at end of financial year	**28,574**	**63,193**

Notes to the Financial Statements
for the year ended 30 June 2019

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.2 Intangible assets (continued)

Initial recognition

Purchased intangible assets are initially recognised at cost. When the recognition criteria in AASB 138 Intangible assets is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Depreciation and amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent measurement

Intangible produced assets with finite useful lives, are depreciated as an “expense from transactions” on a straight line basis over their useful lives. Produced intangible assets have useful lives of between 2 and 5 years.

Impairment of intangible assets

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

The policy in connection with testing for impairment is outlined in section 4.1.1.

Notes to the Financial Statements
for the year ended 30 June 2019

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.3 Investments and other financial assets

	2019 $	2018 $
CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Term deposits:		
Australian dollar term deposits > three months	44,674,101	63,090,411
Total current investments and other financial assets	44,674,101	63,090,411
NON-CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Managed unit trusts		
- Overseas equities	69,458,805	62,726,219
- Property fund	37,088,147	35,134,088
- Infrastructure fund	13,890,792	13,112,166
- Australian equities	28,953,273	26,007,274
- Diversified funds	24,053,656	22,762,851
- Government securities	48,729,512	25,074,921
Total non-current investments and other financial assets	222,174,185	184,817,519
Total investments and other financial assets	266,848,286	247,907,930

Other financial assets

For financial assets that are held for trading or designated at fair value through the profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset and this gain or loss is recognised in the profit or loss.

Net market values have been determined as follows:

1. Units in managed equity funds by reference to the unit redemption price at the end of the reporting period as determined by the respective constitutions governing each fund.

2. Units in a managed property fund by reference to unit redemption price at the end of the reporting period which is 98% of the current asset value which has been the basis of recent sales.

Notes to the Financial Statements
for the year ended 30 June 2019

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.3 Investments and other financial assets (continued)

Asset backing general insurance liabilities

As part of its investment strategy the fund actively manages its investment portfolio to ensure that the investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

With the exception of property plant and equipment, the fund has determined that other financial assets are held to back general insurance liabilities and their accounting treatment is described above. As these assets are managed under the fund's Risk Management Statement on a fair value basis and are reported to the Committee on this basis, they have been valued at fair value through profit or loss.

Ageing analysis of investments and other financial assets

	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1-3 months	3 months - 1 year	1-5 years
2019						
Managed unit trusts	222,174,185	222,174,185	-	-	-	-
Term deposits	44,674,101	44,674,101	-	-	-	-
Total	**266,848,286**	**266,848,286**	**-**	**-**	**-**	**-**
2018						
Managed unit trusts	184,817,519	184,817,519	-	-	-	-
Term deposits	63,090,411	63,090,411	-	-	-	-
Total	**247,907,930**	**247,907,930**	**-**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2019

5. OTHER ASSETS AND LIABILITIES

Introduction

This section sets out those assets and liabilities that arose from the LPLC's operations.

Structure

5.1 Receivables

	2019 $	2018 $
CONTRACTUAL		
Deductibles receivable & cost recovery	474,298	512,967
Allowance for impairment losses of contractual receivables	(474,298)	(110,000)
Accrued investment income	1,193,443	1,004,772
Total receivables	1,193,443	1,407,739

Contractual receivables are classified as financial instruments and categorised as "financial assets at amortised cost". They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest rate method, less any impairment.

Deductibles receivable and cost recoveries include excesses payable and costs recoverable, on terms, by insured practitioners.

Notes to the Financial Statements
for the year ended 30 June 2019

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.1 Receivables (continued)

Ageing analysis of contractual receivables

	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1-3 months	3 months - 1 year	1-5 years
2019						
Deductibles receivable & cost recovery	-	-	-	-	-	-
Accrued investment income	1,193,443	1,193,443	-	-	-	-
Total	**1,193,443**	**1,193,443**	**-**	**-**	**-**	**-**
2018						
Deductibles receivable & cost recovery	402,967	402,967	-	-	-	-
Accrued investment income	1,004,772	1,004,772	-	-	-	-
Total	**1,407,739**	**1,407,739**	**-**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2019

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.2 Payables

	2019 $	2018 $
CONTRACTUAL		
Supplies and services	155,670	220,612
Deferred other income	51,484	67,991
STATUTORY		
GST payable	240,646	408,991
Other taxes payable	496,954	686,386
	944,754	**1,383,980**
Represented by:		
Current payables	944,754	1,383,980
Non-current payables	-	-

Payables consist of:

- contractual payables, classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to Legal Practitioners' Liability Committee prior to the end of the financial year that are unpaid, and arise when Legal Practitioners' Liability Committee becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

Notes to the Financial Statements
for the year ended 30 June 2019

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.2 Payables (continued)

Maturity analysis of contractual payables

	Carrying amount	nominal amount				Maturity dates
			Less than 1 month	1-3 months	3 months - 1 year	1-5 years
2019						
Supplies and services	155,670	155,670	155,670	-	-	-
Deferred other income	51,484	51,484	-	51,484	-	-
Total	**207,154**	**207,154**	**155,670**	**51,484**	**-**	**-**
2018						
Supplies and services	220,612	220,612	220,612	-	-	-
Deferred other income	67,991	67,991	-	67,991	-	-
Total	**288,603**	**288,603**	**220,612**	**67,991**	**-**	**-**

5.3 Other non-financial assets

	2019 $	2018 $
CURRENT OTHER ASSETS		
Prepayments	159,306	158,026
Total current other assets	**159,306**	**158,026**
NON-CURRENT OTHER ASSETS		
Other	-	-
Total non-current other assets	-	-
Total other assets	**159,306**	**158,026**

Prepayments represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

Notes to the Financial Statements
for the year ended 30 June 2019

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.4 Unearned premium liability

	2019 $	2018 $
Unearned premium liability 1 July	45,253,000	42,275,000
Earning of premiums written in previous periods	(33,171,002)	(32,051,253)
Deferral of premium contracts written in period	34,460,505	33,171,002
Unexpired risk liability recognised for year ending 30 June (note 7.5.1)	664,497	1,858,251
Unearned premium liability 30 June	47,207,000	45,253,000

Unexpired Risk Liability

At each reporting date the fund assessed whether the unearned premium liability is sufficient to cover all the expected future cash flows relating to the future claims against current insurance contracts. This assessment is referred to as the Liability Adequacy Test

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less any related intangible assets and deferred acquisition costs then the unearned premium liability is deemed to be deficient. The fund applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see note 5.5.

The entire deficiency, gross and net of insurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

Notes to the Financial Statements
for the year ended 30 June 2019

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims made at the reporting date under general insurance contracts issued by the fund, with an additional risk margin to allow for the uncertainty in the central estimate.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees and other costs that can only be indirectly associated with individual claims, such as claims administration expense.

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

5.5.1 Outstanding Claims Liability

	2019 $	2018 $
Central estimate of claims still to be paid	**96,105,000**	**100,346,000**
Discount to present value	**(2,792,000)**	**(5,824,000)**
	93,313,000	**94,522,000**
Present value of claims handling costs	**6,299,000**	**6,380,000**
Risk margin	**10,957,000**	**11,099,000**
Gross outstanding claims liability	**110,569,000**	**112,001,000**
Gross outstanding claims liability - undiscounted	**113,361,000**	**117,825,000**
Current	**34,011,000**	**34,405,000**
Non-current	**76,558,000**	**77,596,000**
Total	**110,569,000**	**112,001,000**

5.5.2 Risk margin applied	**11.000%**	**11.000%**

Notes to the Financial Statements
for the year ended 30 June 2019

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding Claims Liability (continued)

5.5.3 Reconciliation of movement in discounted outstanding claims liability

	2019 $	2018 $
Brought forward	**112,001,000**	**110,337,000**
Increase in claims incurred/recoveries anticipated over the year	**(15,456,393)**	**(9,977,702)**
Incurred claims recognised in the statement of comprehensive income	**43,462,000**	**41,838,000**
Claims payments/recoveries during the year	**(32,469,607)**	**(29,843,298)**
Movement in net present value adjustment	**3,032,000**	**(353,000)**
Carried forward	**110,569,000**	**112,001,000**

5.5.4 Claims Development table ($m)

	2015	2016	2017	2018	2019	Total
Estimate of ultimate claim cost at end of policy year	37.066	34.389	35.414	34.130	35.321	
One year later	31.690	29.760	35.364	31.634		
Two years later	26.454	27.337	35.615			
Three years later	24.585	23.656				
Four years later	24.080					
Current estimate	24.080	23.656	35.615	31.634	35.321	150.306
Cumulative payments	-18.592	-15.675	-26.318	-10.821	-4.514	-75.920
Undiscounted central estimate	5.488	7.981	9.297	20.813	30.807	74.386
Discount						-2.792
Inflation to future values						6.410
Present value of claims handling expenses						6.299
Undiscounted central estimate prior years						15.309
Risk margin						10.957
Total outstanding claims						110.569

Notes to the Financial Statements
for the year ended 30 June 2019

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding Claims Liability (continued)

5.5.5 Net present value adjustment to outstanding claims

	2019 $	2018 $
Opening balance	5,824,000	5,471,000
Prior year	(3,998,000)	(1,563,000)
Current year	966,000	1,916,000
Closing balance	2,792,000	5,824,000

Notes to the Financial Statements

for the year ended 30 June 2019

6. HOW WE FINANCED OUR OPERATIONS

Introduction

This section provides information on the sources of finance utilised by the Legal Practitioners' Liability Committee during its operations, along with interest expenses (the cost of borrowing) and other information related to financing activities of the department

Structure

6.1 Cash flow information and balances

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, bank bills and investments in term deposits. Cash and cash equivalents at end of the financial year as shown in the cash flow statement is reconciled to items in the Balance Sheet as follows:

	2019 $	2018 $
Cash and cash equivalents	12,425,913	16,169,376
Cash trusts & deposits	44,674,101	63,090,411
	57,100,014	79,259,787

6.1.1 Reconciliation of Operating profit for the year to the net cash flows from operations:

	2019	2018
Operating profit	14,902,968	11,211,966
Depreciation	100,713	71,679
(Profit)/Loss on sale of property, plant & equipment	-	-
Changes in net market value of investments	(11,033,661)	(9,805,307)
Unexpired risk liability	664,497	1,858,251
Change in assets and liabilities	-	-
Increase/(decrease) in provision for long service and annual leave	18,528	26,416
(Increase)/decrease in receivables & prepayments	213,017	60,504
Increase/(decrease) in creditors	(439,226)	290,219
Increase/(decrease) in premiums received in advance	1,289,504	1,119,748
Increase/(decrease) in claims outstanding	(1,432,000)	1,664,000
Net cash and cash equivalents provided by operating activities	4,284,340	6,497,476

The fund has no credit standby arrangements or loan facilities (2018: Nil)

Notes to the Financial Statements
for the year ended 30 June 2019

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.2 Commitments for expenditure

Commitments for future expenditure include operating capital commitments arising from contracts. These commitments are recorded below at their nominal value and inclusive of GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

6.2.1 Total commitments payable

Nominal Amounts 2019	Less than 1 year	1 - 5 years	5+ years	Total
Operating and lease commitments payable	461,959	1,564,886	-	2,026,845
Other commitments payable	248,654	-	-	248,654
Total commitments (inclusive of GST)	**710,613**	**1,564,886**	**-**	**2,275,499**
Less GST recoverable				206,864
Total commitments (exclusive of GST)				**2,068,635**

2018	Less than 1 year	1 - 5 years	5+ years	Total
Operating and lease commitments payable	432,835	1,745,157	205,522	2,383,514
Other commitments payable	237,719	-	-	237,719
Total commitments (inclusive of GST)	**670,554**	**1,745,157**	**205,522**	**2,621,233**
Less GST recoverable				238,294
Total commitments (exclusive of GST)				**2,382,939**

Operating and lease commitments include a property lease which is a non-cancellable lease. The lease is for a 10 year term, with an option for a further 5 years. Rental increases are fixed annually on the anniversary of the commencement date. Figures are inclusive of Goods and Services Tax (GST).

Other commitments payable include an ongoing agreement with Willis Towers Watson for the provision of investment advice.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

The LPLC is exposed to risk from its activities and outside factors. In addition it is necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the LPLC related mainly to fair value determination.

The fund's principal financial instruments comprise of unquoted unit trusts and cash and cash equivalents. The main purpose of these financial instruments is to ensure that there is sufficient ability to meet the obligations under the policies of insurance that have been issued. These instruments are managed by the Investment Committee who utilise the services of our external advisor - Willis Towers Watson. The main risk arising from the fund's financial instruments are interest rate risk, equity market risk, foreign currency risk and credit risk which are discussed in note 7.1.3 below. There are no significant concentrations of credit risk within the fund.

Structure

7.1 Financial instruments specific disclosures

Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the Fund's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 Financial Instruments: Presentation. For example, statutory receivables arising from taxes, fines and penalties do not meet the definition of financial instruments as they do not arise under contract.

From 1 July 2018, the LPLC applies AASB 9 and classifies all of its financial assets based on the business model for managing assets and the asset's contractual terms.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Categories of financial instruments under AASB 9

Financial assets at amortised cost

Financial assets are measured at amortised cost if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by the LPLC to collect the contractual cash flows, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interest.

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

LPLC recognises the following assets in this category:

- cash and deposits
- receivables (excluding statutory receivables)
- term deposits

Financial assets at fair value through other comprehensive income

Debt investments are measured at fair value through other comprehensive income if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by the LPLC to achieve its objective both by collecting the contractual cash flows and by selling the financial assets, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interests.

Equity investments are measured at fair value through other comprehensive income if the assets are not held for trading and the LPLC has irrevocably elected at initial recognition to recognise in this category.

These assets are measured at fair value with subsequent change in fair value in other comprehensive income.

Upon disposal of these debt instruments, any related balance in the fair value reserve is reclassified to profit or loss. However, upon disposal of these equity instruments, any related balance in fair value reserve is reclassified to retained earnings.

LPLC recognises certain unlisted instruments within this category.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial assets at fair value through net result

Equity instruments that are held for trading as well as derivative instruments are classified as fair value through net result. Other financial assets are required to be measured at fair value through net result unless they are measured at amortised costs or fair value through other comprehensive income.

However, as an exception to those rules above, the LPLC may, at initial recognition, irrevocably designate financial assets as measured at fair value through net result if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different bases.

LPLC recognises listed equity securities as mandatorily measured at fair vale through net result and designated all of its managed investment schemes as fair value through net result.

Categories of financial assets previously under AASB 139

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment.

Loans and receivables category includes cash and deposits, term deposits with maturity greater than three months, trade receivables, loans and receivables, but not statutory receivables.

Categories of financial liabilities under AASB 9 and previously under AASB 139

Financial assets and liabilities at fair value through net result.

Financial assets are categorised as fair value through profit or loss at trade date if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through net result on the basis that the financial assets form part of a group of financial assets that are managed by the entity concerned based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies.

Financial instruments at fair value through net result are initially measured at fair value and attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as economic flows. Any dividend or interest on a financial asset is recognised in the net result from transactions.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group or similar assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the fund retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the fund has transferred its rights to receive cash from the asset and either (a) has transferred substantially all the risk and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.1 Financial Instruments: Categorisation

	Cash and deposits	Financial assets/ liabilities designated at fair value through profit /loss (FVTPL)	Financial assets measured at fair value through other comprehensive income (FVOCL)	Financial Assets at amortised cost (AC)	Financial liabilities at amortised cost (AC)	Total
2019						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	12,425,913	-	-	-	-	12,425,913
Receivables (a)						
Deductibles receivable & cost recovery	-	-	-	-	-	-
Accrued investment income	-	-	-	1,193,443	-	1,193,443
Investments and other contractual assets						
Term deposits	-	-	-	44,674,101	-	44,674,101
Managed unit trusts	-	222,174,185	-	-	-	222,174,185
Total contractual financial assets	**12,425,913**	**222,174,185**	**-**	**45,867,544**	**-**	**280,467,642**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	-	-	-	-	155,670	155,670
Deferred other income	-	-	-	-	51,484	51,484
Total contractual financial liabilities	-	-	-	-	207,154	207,154

Note: (a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian government and GST input tax credit recoverable and taxes payable).

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.1 Financial Instruments: Categorisation (continued)

	Contractual financial assets/ liabilities designated at fair value through profit/loss	Contractual financial assets/ liabilities held-for-trading at fair value through profit/loss	Contractual financial assets - loans and receivables and cash	Contractual financial assets - available for sale	Contractual financial liabilities at amortised cost	Total
2018						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	-	-	16,169,376	-	-	16,169,376
Receivables (a)						
Deductibles receivable & cost recovery	-	-	402,967	-	-	402,967
Accrued investment income	-	-	1,004,772	-	-	1,004,772
Investments and other contractual assets						
Term deposits	-	-	63,090,411	-	-	63,090,411
Managed unit trusts	-	-		184,817,519	-	184,817,519
Total contractual financial assets	**-**	**-**	**80,667,526**	**184,817,519**	**-**	**265,485,045**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	-	-	-	-	220,612	220,612
Deferred other income	-	-	-	-	67,991	67,991
Total contractual financial liabilities	**-**	**-**	**-**	**-**	**288,603**	**288,603**

Note: (a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian government and GST input tax credit recoverable and taxes payable).

Notes to the Financial Statements

for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.2 Financial Instruments - Net holding gain/(loss) on financial instruments by category

	Net Holding gain/(loss)	Total interest income (expense)	Fee income/ (expense)	Impairment loss	Total
2019					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets at amortised cost - other than on derecognition	-	2,236,368	-	-	2,236,368
Equity investments designated at fair value through profit/loss	11,033,661	-	-	-	11,033,661
Total contractual financial assets	**11,033,661**	**2,236,368**	**-**	**-**	**13,270,029**
Contractual financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-	-
Total contractual financial liabilities	**-**	**-**	**-**	**-**	**-**

Notes to the Financial Statements

for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.2 Financial Instruments - Net holding gain/(loss) on financial instruments by category (continued)

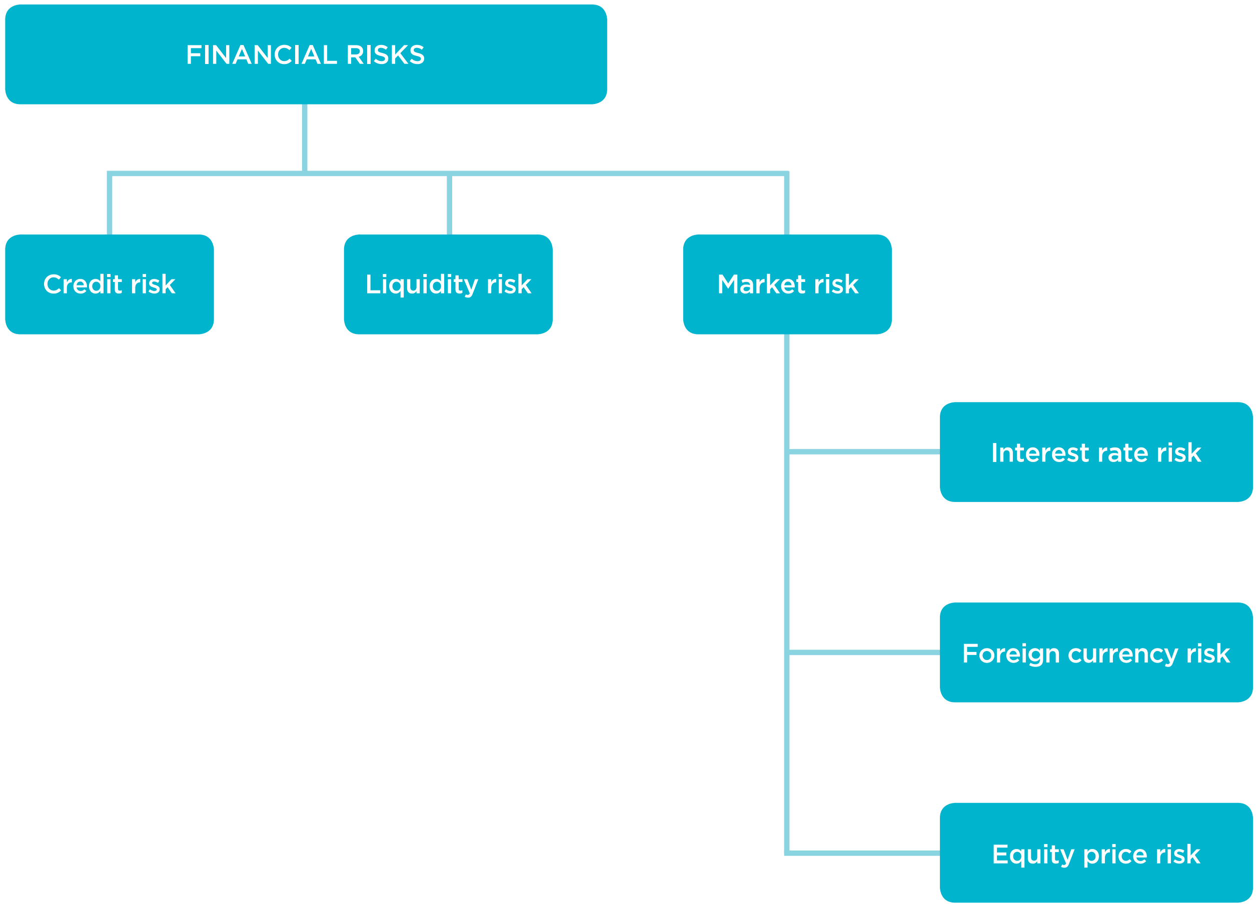
	Net Holding gain/(loss)	Total interest income (expense)	Fee income/ (expense)	Impairment loss	Total
2018					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets designated at fair value through profit/loss	-	-	-	-	-
Financial assets - loans and receivables	-	2,289,895	-	-	2,289,895
Financial assets available-for-sale recognised in net result	9,805,309	-	-	-	9,805,309
Financial assets available for sale recognised in other comprehensive result	-	-	-	-	-
Total contractual financial assets	**9,805,309**	**2,289,895**	**-**	**-**	**12,095,204**
Contractual financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-	-
Total contractual financial liabilities	**-**	**-**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies



As a whole the LPLC's financial risk management program seeks to manage these risks and the associated volatility of its financial performance.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument above are disclosed in Note 7.3 to the financial statements.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial instruments: Credit risk

Credit risk arises from the contractual financial assets of the Fund, which comprise cash and deposits and other financial assets. The Fund's exposure to credit risk arises from potential default of a counter party on their contractual obligations resulting in financial loss to the Fund. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the Fund's contractual financial assets is minimal because the main assets are cash at bank and other investments. It is the fund's policy to only deal with entities with high credit ratings.

The Fund has an investment policy detailing controls in regard to credit risk. Any investments in a financial institution must be approved by the Committee. Investments are monitored regularly by management and an external investment advisor and are reported to the Committee on a monthly basis. Any investment deposit or redemption is approved by the Committee.

In addition, the fund does not engage in hedging for its contractual financial assets and has contractual financial assets that are primarily cash at bank but also includes funds invested by the Committee in approved fund managers having considered advice from an independent expert investment advisor.

There has been no material change to LPLC's credit risk profile in 2018-19.

Impairment of financial assets under AASB 9 - applicable from 1 July 2018

From 1 July 2018, the LPLC has been recording the allowance for expected credit loss for the relevant financial instruments, replacing AASB 139's incurred loss approach with AASB's Expected Credit Loss approach. Subject to AASB 9 impairment assessment include the LPLC's contractual receivables and statutory receivables.

Equity instruments are not subject to impairment under AASB 9. Other financial assets mandatorily measured or designated at fair value through net result are not subject to impairment assessment under AASB 9. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Contractual receivables at amortised cost

The LPLC applies AASB 9 simplified approach for all contractual receivables to measure expected credit losses using a lifetime expected loss allowance based on the assumptions about risk of default and expected loss rates. The LPLC has grouped contractual receivables on shared credit risk characteristics and days past due and select the expected credit loss rate based on the LPLC's past history, existing market conditions, as well as forward-looking estimates at the end of the financial year.

On this basis, the LPLC has determined the opening loss allowance on initial application date of AASB 9 and the closing loss allowance at the end of the financial year.

Contractual receivables are written off when there is no reasonable expectation of recovery and impairment losses are classified as a transaction expense. Subsequent recoveries of amounts previously written off are credited against the same line item.

In prior years, a provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected and bad debts are written off when identified. A provision is made for estimated irrecoverable amounts from the sale of goods when there is objective evidence that an individual receivable is impaired. Bad debts considered as written off by mutual consent.

Financial instruments: Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due.

To ensure adequate liquidity to meet cash outflows the fund maintains the necessary funds in cash and short term bank bills or term deposits.

While the receipt of the annual premium provides sufficient cash to meet most if not all of the fund's requirements during the year, additional cash is held in reserve.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial instruments: Market risk

The fund is exposed to the risk of market movements in the local and overseas equity markets through its investment in managed unit trusts in these asset classes and are primarily through interest rate risk, foreign currency risk and equity market risk.

Sensitivity Disclosure Analysis

Taking into account past performance, future expectations and management's knowledge and experience of the financial markets, the fund believes the following movements are 'reasonably possible' over the next 12 months:

- a shift of +.5% or -.25% in market interest rates from year end rates of 1.50%

- a shift of + 10% or - 10% in the average weighted market value of local equities, overseas equities and local property unquoted unit trusts.

The tables that follow show the impact on the LPLC's net result and equity for each category of financial instrument held by the LPLC at the end of the reporting period, if the above movements were to occur.

Notes to the Financial Statements

for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Interest Rate Risk

The fund's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

30 June 2019			**Fixed Interest maturing in:**				
	Weighted Average Interest Rate	**Floating Interest Rate**	**Within Year**	**1 to 5 Years**	**Over 5 Years**	**Non Interest Bearing**	**Total**
Financial Assets:							
Cash	0.659%	12,425,913	-	-	-	-	12,425,913
Receivables	n/a		-	-	-	1,193,443	1,193,443
Units in managed funds	n/a	-	-	-	-	222,174,185	222,174,185
Term deposits	2.37%	-	44,674,101	-	-	-	44,674,101
Total financial assets		12,425,913	44,674,101	-	-	223,367,628	280,467,642
Financial liabilities:							
Creditors - contractual	n/a	-	-	-	-	155,670	155,670
Outstanding claims	n/a	-	-	-	-	110,569,000	110,569,000
Total financial liabilities		-	-	-	-	110,724,670	110,724,670

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Interest Rate Risk (continued)

30 June 2018			**Fixed Interest maturing in:**				
	Weighted Average Interest Rate	**Floating Interest Rate**	**Within Year**	**1 to 5 Years**	**Over 5 Years**	**Non Interest Bearing**	**Total**
Financial assets:							
Cash	0.59%	16,169,376	-	-	-	-	16,169,376
Receivables	n/a		-	-	-	1,407,739	1,407,739
Units in managed funds	n/a	-	-	-	-	184,817,519	184,817,519
Term deposits	2.60%	-	63,090,411	-	-	-	63,090,411
Total financial assets		16,169,376	63,090,411	-	-	186,225,258	265,485,045
Financial liabilities:							
Creditors - contractual	n/a	-	-	-	-	220,612	220,612
Outstanding claims	n/a	-	-	-	-	112,001,000	112,001,000
Total financial liabilities		-	-	-	-	112,221,612	112,221,612

Notes to the Financial Statements

for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Interest Rate Risk (continued)

The fund's exposure to the risk of change in market interest rates relate primarily to the fund's investments in cash and cash equivalents. The fund's policy is to invest cash and cash equivalents with a recognised bank. Banks are selected on recommendation of our external advisors and their performance is monitored.

Interest rate risk sensitivity

		Interest Rate Risk				Other Price Risk			
2019	Carrying	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial assets	Amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	57,100,014	(142,750)	(142,750)	285,500	285,500				
Units in managed funds	222,174,185					(22,217,419)	(22,217,419)	22,217,419	22,217,419
2018	Carrying	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial assets	Amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	79,259,787	(198,149)	(198,149)	396,299	396,299				
Units in managed funds	184,817,519					(18,481,752)	(18,481,752)	18,481,752	18,481,752

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Foreign Currency Risk

The fund's exposure to the risk of change in exchange rates relate primarily to the fund's investments in overseas equities. A combination of partially and fully hedged funds are used.

Managers are selected on recommendation of our external advisors and their performance is monitored.

Equity Market Risk

The fund's exposure to the risk of change in equity markets relate primarily to the fund's investments in local and overseas equities. The fund's policy is to use independent investment managers to manage our exposure to local and overseas equities.

Managers are selected on recommendation of our external advisors and their performance is monitored.

7.2 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet but are disclosed and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Contingent Assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

There are no contingent assets.

Contingent Liabilities

Contingent liabilities are:

- possible obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligations that arise from past events but are not recognised because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or
    - the amount of the obligations cannot be measured with sufficient reliability.

There are no contingent liabilities.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination

This section sets out information on how the LPLC determined fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value hierarchy

In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is observable.

For the purpose of fair value disclosures, Legal Practitioners' Liability Committee has determined classes of assets and liabilities on the basis of nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

7.3.1 Fair value determination of financial assets and liabilities

The financial instruments recognised at fair value in the Balance Sheet have been analysed and classified using a fair value hierarchy reflecting the significance of inputs used in making the measurements. The fair value hierarchy consists of the following levels:

Level 1 - the fair value of financial instrument with standard terms and conditions and traded in active markets are determined with reference to quoted market prices;

Level 2 - the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and

Level 3 - the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

Financial assets measured at fair value

	Level 1 $	Level 2 $	Level 3 $	Total $
30-Jun-19				
FINANCIAL ASSETS				
- Unit in managed funds	185,086,038	37,088,147	-	222,174,185
30-Jun-18				
FINANCIAL ASSETS				
- Unit in managed funds	149,683,431	35,134,088	-	184,817,519

Included in Level 1 are the managed equity funds and in Level 2 is the managed property fund. Their market value has been determined as per note 4.3

There have been no transfers between levels during the period.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

7.3.2 Fair value determination: Non-financial physical assets

Fair Value measurement hierarchy

	Fair value measurement at end of reporting period using:		
	Level 1 $	**Level 2 $**	**Level 3 $**
2019			
Furniture & equipment	-	-	55,253
Leasehold improvements	-	-	101,536
Total assets at fair value			**156,789**
2018			
Furniture & equipment	-	-	71,672
Leasehold improvements	-	-	30,105
Total assets at fair value			**101,777**

Plant and equipment is held at carrying value (depreciated cost). When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method. Unless there is market evidence that the current replacement costs are significantly different from the original acquisition cost, it is considered unlikely that depreciated replacement cost will be materially different from the carrying value.

There are no changes in valuation techniques throughout the period to 30 June 2019. For all assets measured at fair value, the current use is considered the highest and best use.

Fair Value measurement hierarchy

2019 and 2018	**Valuation Technique**	**Significant unobservable**
Plant and equipment	Depreciated replacement cost	Useful life of plant and equipment

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

Reconciliation of Level 3 fair value movements

	Furniture & Equipment	Leasehold improvements
2019		
Opening balance	71,672	30,105
Purchases (sales)	20,685	90,770
Depreciation	(37,104)	(19,339)
Revaluation	-	-
Closing Balance	**55,253**	**101,536**

There have been no transfers between levels during the period.

	Furniture & Equipment	Leasehold improvements
2018		
Opening balance	73,216	17,386
Purchases (sales)	28,076	19,410
Depreciation	(29,620)	(6,691)
Revaluation	-	-
Closing Balance	**71,672**	**30,105**

Notes to the Financial Statements

for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.4 Insurance contracts - risk management and procedures

The financial condition and operation of the fund are affected by a number of key risks including insurance risk, interest rate risk and credit risk.

Notes on the fund's policies and procedures in respect of managing these risks are set out in this note.

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The fund has an objective to control insurance risk thus reducing the volatility of operating profit. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profit from insurance business is affected by market factors, particularly the movement in asset values.

The Committee and senior management of the Fund have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS).

Key aspects of the processes established in the RMS to mitigate risk include:

- the maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time
- actuarial models, using information from the management information systems, are used to calculate premiums and monitor claim patterns. Past experience and statistical methods are used as part of the process
- reinsurance is used to limit the fund's exposure to catastrophes
- the mix of assets in which the fund invests is driven by the nature and term of its insurance liabilities.

(b) Terms and conditions of insurance

- the terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the fund. The majority of direct insurance contracts are entered into on a standard form basis.

(c) Concentration of risk insurance

- in the event of a catastrophe, the Legal Practitioners' Liability Fund carries a stop loss insurance policy to cover the payment of total claims made during the year ended 30 June 2019 in excess of $46.0m.

Notes to the Financial Statements

for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.4 Insurance contracts - risk management and procedures (continued)

(d) Development of claims

- there is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The table in note 5.5.4 shows the estimate of total claims outstanding for each underwriting year at successive year ends with the current year being an estimate provided by our external actuarial consultant.

(e) Interest rate risk

- none of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the fund are directly exposed to interest rate risk
- insurance and reinsurance contracts are entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

(f) Credit risk

- financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date.

There are no significant concentrations of credit risk.

7.5 Unexpired risk liability

When the amount of the premium pool to be collected for the next insurance year is set, it is 'subsidised' on the basis that a proportion of the accumulated funds are offset against the premium pool which would otherwise have been collected. As a result the unearned premium liability is deficient as at 30 June 2019.

At each reporting date the fund assessed whether the unearned premium liability is sufficient to cover all the expected future cash flows relating to the future claims against current insurance contracts. This assessment is referred to as the Liability Adequacy Test

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less any related intangible assets and deferred acquisition costs then the unearned premium liability is deemed to be deficient. The fund applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see note 5.5

The entire deficiency, gross and net of insurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

Notes to the Financial Statements
for the year ended 30 June 2019

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.5 Unexpired risk liability (continued)

7.5.1 Unexpired risk liability	2019 $	2018 $
Unexpired risk liability as at 1 July	**12,081,998**	**10,223,747**
Recognition of additional unexpired risk liability in the period	**664,497**	**1,858,251**
Unexpired risk liability as at 30 June	**12,746,495**	**12,081,998**
7.5.2 Calculation of deficiency		
Unearned premium liability relating to insurance contracts	**34,460,505**	**33,171,001**
Central estimate of present value of expected future cash flows arising from future claims	**41,229,000**	**39,523,000**
Risk margin of 14.5%	**5,978,000**	**5,730,000**
	47,207,000	**45,253,000**
Net deficiency	**12,746,495**	**12,081,998**

The process of determining the overall risk margin is discussed in Note 7.4. As with outstanding claims the overall risk margin is intended to achieve a 75% probability of adequacy.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES

Introduction

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of the financial report.

Structure

8.1 Reserves

	2019 $	2018 $
Accumulated funds at the beginning of the year	106,435,650	95,223,684
Operating profit/(loss) for the year	14,902,968	11,211,966
Accumulated funds at the end of the year	**121,338,618**	**106,435,650**

8.2 Remuneration of auditors

	2019 $	2018 $
VICTORIAN AUDITOR-GENERAL'S OFFICE		
- auditing or reviewing the financial report	47,200	46,300
- other services	-	-
Total remuneration of auditors	**47,200**	**46,300**

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.2 Remuneration of auditors (continued)

Audit fees paid or payable to the Victorian Auditor-General's Office for audit of the Fund's financial report:

	2019 $	2018 $
Paid as at 30 June	21,000	20,000
Payable as at 30 June	26,200	26,300
	47,200	46,300

8.3 Responsible persons

In accordance with the Ministerial Directions issued by the Assistant Treasurer under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.

Names

The persons who held the positions of Responsible Minister, Committee Member and Accountable Officer in the Fund are as follows:

Attorney General	The Hon. Martin Pakula, MP	1 July 2018 to 29 November 2018
Attorney General	The Hon. Jill Hennessy, MP	29 November 2018 to 30 June 2019
Accountable Officer	Mr Nicholas J Toohey	1 July 2018 to 30 June 2019
Committee Member	Ms Patricia Kelly	1 July 2018 to 30 June 2019
Committee Member	Ms Helen Thornton	1 July 2018 to 30 June 2019
Committee Member	Mr John Corcoran	1 July 2018 to 30 June 2019
Committee Member	Ms Catriona Lowe	1 July 2018 to 30 June 2019
Committee Member	Mr John Cain	1 July 2018 to 30 June 2019
Committee Member	Mr Adrian Finanzio	1 July 2018 to 30 June 2019
Committee Member	Mr Daniel Barlow	1 July 2018 to 30 June 2019

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.3 Responsible persons (continued)

Remuneration

Remuneration received or receivable by the Responsible Minister, Committee member and Accountable Officer in connection with the management of the Legal Practitioners' Liability Committee during the reporting period was in the range:

$	2019 No.	2018 No.
0 - 9,999 (a)	1	1
10,000 -19,999	-	-
20,000 - 29,999	-	-
30,000 - 39,999	5	4
40,000 - 49,999	-	-
50,000 - 59,999	1	1
360,000 - 369,999	-	1
370,000 - 379,999	1	-
400,000 - 410,000	-	1
Total numbers	**8**	**8**

(a) Remuneration received by John Cain for the year is $nil.

Amounts relating to Ministers are reported in the financial statements of the Department of Premier and Cabinet. For information regarding related party transactions of ministers, the register of members' interests is publicly available from: www.parliament.vic.gov.au/publications/register-of-interests.

Notes to the Financial Statements

for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.4 Remuneration of executives

The number of executive officers, other than ministers and accountable officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories:

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods and services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

Remuneration of executive officers (including Key Management Personnel disclosed in Note 8.5)	**Total Remuneration 2019 $**	**2018 $**
Short-term employee benefits	2,016,421	2,059,369
Post-employment benefits	170,377	165,182
Other long-term benefits	30,391	31,145
Termination benefits	-	-
Total remuneration	**2,217,189**	**2,255,696**
Total number of executives	**15**	**15**
Total annualised employee equivalents	**14.6**	**14.6**

Notes:

(a) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 Related Party Disclosures and are also reported within the related parties note disclosure (Note 8.5)

(b) Annualised employee equivalent is based on the time fraction worked over the reporting period.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.5 Related parties

The Legal Practitioners' Liability Committee (LPLC) is a statutory authority established under the Legal Profession Act 2004 (from 1 July 2015 The Legal Profession Uniform Law Application Act 2014).

Related parties of the Legal Practitioners' Liability Committee include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over); and
- all cabinet ministers and their close family members.

Significant transactions with government-related entities

During the year the LPLC had the following government-related entity transactions:

- there were no transactions with government related entities.

Key Management personnel of the Legal Practitioners' Liability Committee includes the Attorney General, the Hon. Jill Hennessy MP and members of the LPLC and senior executive team, which includes:

Chief Executive Officer	Mr Nicholas J Toohey
Committee Member	Ms Patricia Kelly
Committee Member	Ms Helen Thornton
Committee Member	Mr John Corcoran
Committee Member	Ms Catriona Lowe
Committee Member	Mr John Cain
Committee Member	Mr Daniel Barlow
Committee Member	Mr Adrian Finanzio

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.5 Related parties (continued)

The compensation detailed below excludes the salaries and benefits the Portfolio Minister receives. The Minister's remuneration and allowances is set by the Parliamentary Salaries and Superannuation Act 1968 and is reported within the Department of Parliamentary Services' financial report.

	Total Remuneration	
	2019	**2018**
Compensation of KMP's	**$**	**$**
Short-term employee benefits	555,246	615,849
Post-employment benefits	39,255	38,749
Other long-term benefits	5,978	6,582
Termination benefits		
Total compensation:	**600,479**	**661,180**

Notes: (a) Note that KMP's are also reported in the disclosure of remuneration of executive officers (note 8.4)

Transactions and balances with key management personnel and other related parties

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

Members of Key Management personnel and their related parties who are practising solicitors and barristers are required, pursuant to the Legal Profession Uniform Law Application Act 2014, to enter into a contract of insurance, on standard terms and conditions, with the Legal Practitioners' Liability Committee.

In the ordinary course of business LPLC provides Committee members with a Deed of Indemnity. The Deed indemnifies the Committee member against all liabilities, penalties, losses, damages, expenses and costs that the member may sustain or incur in the capacity of a member of the Committee.

8.6 Subsequent events

There were no material events after balance sheet date that require disclosure.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods

Under 17.6.1c of AASB 1023, the following describes the method and main assumptions that have the greatest effect on the calculated insurance liabilities provisions.

The Legal Practitioners' Liability Fund has provided professional indemnity insurance to solicitors since 1/1/86, and to barristers since 30/06/05. Incurred development and payment patterns derived from the average experience for solicitors over the last 5 complete policy years were assumed to apply to solicitor and barrister claims outstanding at 30/6/19.

Development Year	Ultimate claims incurred as % of current estimate	Payments to end of year, as % of ultimate claims
0	81.1%*	12.6%
1	83.6%	41.2%
2	89.9%	60.6%
3	100.0%**	73.6%
4	100.0%**	82.3%
5	100.0%	88.2%
6	100.0%	92.1%
7	100.0%	94.7%
8	100.0%	96.4%
9	100.0%	97.6%

* Ratio of ultimate incurreds for the 2018 policy year includes 25% weight given to average costs per practitioner equivalent.

** Ultimate incurreds for the 2015 and 2016 policy years have been set to 100% in light of the current low claims incurred in those years.

Other main assumptions used in calculating insurance provisions and their sources are:

- discount rates based explicitly on medium term Commonwealth bond yields
- claim administration expenses of 6.75% of net claim payments based on forecasted expenses of LPLC
- wage inflation based explicitly on Victorian AWE and state government forecasts.

Notes to the Financial Statements

for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods (continued)

Claims incurred estimates are made by applying the above claims incurred development ratios to current claims incurred data and applying wage inflation and payment patterns. Outstanding claims at 30 June 2019 are estimated by deducting payments to date.

Gross payments in 2018-19 for solicitors are estimated by determining an average, inflation adjusted claim incurred estimate per principal equivalent from the last 5 complete policy years and applying to expected incurred principals in 2018-19.

Gross payments in 2018-19 for barristers are estimated as a ratio of solicitor incurreds

Premium liabilities are determined by applying wage inflation and payment patterns and allowing for reinsurance and overhead claim administration expenses.

The calculations used to estimate outstanding claim and unexpired premium liabilities for solicitors were repeated as at each prior balance date back to 31 December 1987 and compared with the actual outcomes estimated at 30 June 2019. Log normal distributions were fitted to the resulting percentages, and used to estimate the risk margins needed to provide varying probabilities of adequacy.

The outstanding claims are assumed to have a standard deviation of 14% and the premium liabilities a standard deviation of 36%.

Sensitivity analysis as at 30/6/19

Risk Variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	2.00%	3.00%	-2.540	-1.191
	2.00%	1.00%	2.702	1.269
Claim administration expenses (% of claims)	6.75%	7.75%	0.933	
	6.75%	5.75%	-0.933	
Wage inflation (% pa)	3.00%	4.00%	2.709	1.252
	3.00%	2.00%	-2.621	-1.269
"Regular" solicitor claims per principal equivalent	3,480	3,828	0.635	2.411
	3,480	3,132	-0.635	-2.411
"Large" claims ($m)	$11.6m	$9.9m		-1.739

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods (continued)

Sensitivity analysis as at 30/6/18

Risk Variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	2.00%	3.00%	-2.461	-1.120
	2.00%	1.00%	2.611	1.191
Claim administration	6.75%	7.75%	0.945	
expenses (% of claims)	6.75%	5.75%	-0.945	
Wage inflation (% pa)	3.00%	4.00%	4.574	2.060
	3.00%	2.00%	-4.327	-1.846
“Regular” solicitor claims	3,710	3,640	0.645	2.426
per principal equivalent	3,710	3,010	-0.645	-2.426
“Large” claims ($m)	$10.4m	$9.0m		-1.412

Under AASB 1023 17.7.1(b)(i), the insurer has to disclose sensitivity to insurance risk.

The above table gives the changes in central estimates for changes in various risk variables.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.8 Change in Accounting Policies

The LPLC has elected to apply the limited exemption in AASB 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a result:

(a) any adjustments to carrying amounts of financial assets or liabilities are recognised at beginning of the current reporting period with difference recognised in opening retained earnings; and

(b) financial assets and provision for impairment have not been reclassified and/or restated in the comparative period.

AASB 9 introduces a major change to hedge accounting. However, it is the LPLC's policy not to apply hedge accounting.

This note explains the impact of the adoption of AASB 9 Financial Instruments on the LPLC's financial statements.

8.8.1 Changes to classification and measurement

On initial application of AASB 9 on 1 July 2018, the LPLC's management has assessed for all financial assets based on the LPLC's business models for managing the assets. The following are the changes in the classification of the LPLC's financial assets:

(a) managed investment schemes previously classified as available-for-sale under AASB 139 are now classified as fair value through net result under AASB 9 because their cash flows do not represent solely payments of principal and interest, thus not meeting the AASB 9 criteria for classification at amortised cost

(b) unlisted equity instruments previously classified as available-for-sale under AASB 139 are now classified as fair value through other comprehensive income under AASB 9 because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term

(c) term deposits and debt securities previously classified as held to maturity under AASB 139 are now reclassified as financial assts at amortised cost under AASB 9

(d) contractual receivables previously classified as other loans and receivables under AASB 139 are now reclassified as financial assets at amortised cost under AASB 9.

The accounting for financial liabilities remains largely the same as it was under AASB 139, except for the treatment of gains or losses arising from the Department's own credit risk relating to liabilities designated at fair value through net result. Such movements are presented in other comprehensive income with no subsequent recycle through profit or loss.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.8 Change in Accounting Policies (continued)

As the result of the above mentioned changes in classification, there were no changes to opening balances or retained earnings on 1 July 2018.

The LPLC's accounting policies for financial assets and liabilities are set out in note 8.1.1. The following table summarises the required and elected reclassification upon adoption of AASB 9. The main effects resulting from the reclassification are as follows:

			AASB 9 Measurement Categories			
As at 30 June 2018	**Notes**	**AASB 139 Measurement Categories**	**Fair value through net result (designated)**	**Fair value through net result (mandatory)**	**Amortised cost**	**Fair value through other comprehensive income**
AASB 139 MEASUREMENT CATEGORIES						
Loan and receivables						
Accrued investment income	8.8.1(c)	1,004,772			1,004,772	
Other receivables	8.8.1(c)	402,967			402,967	
Held to maturities						
Term deposits	8.8.1(b)	63,090,411			63,090,411	
Available for sale						
Managed investment schemes	8.8.1(a)	184,817,519	184,817,519			
As at 1 July 2018		**249,315,669**	**184,817,519**	-	**64,498,150**	-

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.8 Change in Accounting Policies (continued)

8.8.2 Changes to impairment of financial assets

Under AASB 9, all loans and receivables as well as other debt instruments not carried at fair value through net result are subject to AASB 9's new expected credit loss (ECL) impairment model, which replaces AASB 139's incurred loss approach.

For other loans and receivables, the LPLC applies the AASB 9 simplified approach to measure expected credit losses based on the change in the ECLs over the life of the asset.

8.8.3 Transition Impact

There was no transition impact of first-time adoption of AASB 9 on Comprehensive Operating Statement and Balance Sheet.

Impact on Balance Sheet comprises reclassification of loans and receivables and held to maturity assets to amortised cost and available for sale assets to fair value through net result. No amounts have been restated as a result of the reclassification.

8.9 Australian Accounting Standards issued that are not yet effective

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board.

The following AASs become effective for reporting periods commencing after 1 July 2019:

- AASB 16 Leases

- AASB 15 Revenue from Contract with Customers

Leases

AASB 16 *Leases* replaces AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on the balance sheet by recording a Right-Of-Use (RoU) asset and a lease liability except for leases that are shorter than 12 months and leases where the underlying asset is of low value (deemed to be below $10,000).

AASB 16 also requires the lessees to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, and remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability will generally be recognised as an adjustment to the RoU asset.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.9 Australian Accounting Standards issued that are not yet effective (continued)

Leases (continued)

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The effective date is for annual reporting periods beginning on or after 1 January 2019. The LPLC intends to adopt AASB 16 in 2019-20 financial year when it becomes effective.

The LPLC will apply the standard using a modified approach to the calculation of the outstanding liability for existing operating leases using the incremental borrowing rate at the date of transition to measure the RoU asset at an amount equal to the liability with no restatement of comparative information.

Various practical expedients are available on adoption to account for leases previously classified by a lessee as operating leases under AASB 117. The LPLC will elect to use the exemptions for all short-term leases (lease term less than 12 months) and low value leases (deemed to be below $10,000).

In addition, AASB 2018-8 – Amendments to Australian Accounting Standards – Right-of-Use Assets (RoU) of Not-for-Profit Entities allows a temporary option for not-for-profit entities to not measure RoU assets at initial recognition at fair value in respect of leases that have significantly below-market terms, since further guidance is expected to be developed to assist not-for-profit entities in measuring RoU assets at fair value. The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such RoU assets at cost rather than fair value) to include additional disclosures. The LPLC intends to choose the temporary relief to value the RoU asset at the present value of the payments required (at cost).

The LPLC has performed a detailed impact assessment of AASB 16 and the potential impact in the initial year of application has been estimated as follows:

Increase in RoU	$1,769,965.77
Increase in related depreciation,	$360,901.41
Increase in lease liability,	$1,769,965.77
Increase in related interest calculated using effective interest method, and	$59,570.18
Decrease in rental expense.	$420,471.59

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.9 Australian Accounting Standards issued that are not yet effective (continued)

Revenue and Income

AASB 15 supersedes AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

AASB 15 establishes a five-step model to account for revenue arising from an enforceable contract that imposes a sufficiently specific performance obligation on an entity to transfer goods or services. AASB 15 requires entities to only recognise revenue upon the fulfilment of the performance obligation. Therefore, entities need to allocate the transaction price to each performance obligation in a contract and recognise the revenue only when the related obligation is satisfied.

To address specific concerns from the 'not-for-profit' sector in Australia, the AASB also released the following standards and guidance:

- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian implementation guidance for NFP entities* (AASB 2016-8), to provide guidance on application of revenue recognition principles under AASB 15 in the not-for-profit sector
- AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public-Sector Licensors* (2018-4), to provide guidance on how to distinguish payments receive in connection with the access to an asset (or other resource) or to enable other parties to perform activities as tax and non-IP licence. It also provides guidance on timing of revenue recognition for non-IP licence payments
- AASB 1058 Income of *Not-for-Profit Entities*, to supplement AASB 15 and provide criteria to be applied by not-for-profit entities in establishing the timing of recognising income for government grants and other types of contributions previously contained within AASB 1004 Contributions.

AASB 15, AASB 1058 and the related guidance will come into effect for not-for-profit entities for annual reporting periods beginning on or after 1 January 2019. The LPLC intends to adopt these standards in 2019-20 financial year when it becomes effective.

The LPLC will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

The LPLC has performed a detailed impact assessment of AASB 15 and AASB 1058 and the potential impact for each major class of revenue and income in the initial year of application has been estimated as Nil.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.9 Australian Accounting Standards issued that are not yet effective (continued)

A number of Australian Accounting Standards, which have been issued or amended and are not yet effective have not been adopted for the annual reporting period ended 30 June 2019. Their details are disclosed below.

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 15 *Revenue from Contracts with Customers*	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 Jan 2019	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications.
AASB 16 *Leases*	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	1 Jan 2019	The assessment has indicated that as most operating leases will come on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase. Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus. The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement. No change for lessors.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.9 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	This Standard principally amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.	1 Jan 2020	The standard is not expected to have a significant impact on the public sector.
AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059*	This standard defers the mandatory effective date of AASB 1059 from 1 January 2019 to 1 January 2020.	1 Jan 2020 (The State is intending to early adopt AASB 1059 for annual reporting periods beginning on or after 1 January 2019)	This standard defers the mandatory effective date of AASB 1059 for periods beginning on or after 1 January 2019 to 1 January 2020. As the State has elected to early adopt AASB 1059, the financial impact will be reported in the financial year ending 30 June 2019, rather than the following year.

Notes to the Financial Statements

for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.9 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities Implementation Guidance for Not-for-Profit Entities	AASB 2016-8 inserts Australian requirements and authoritative implementation guidance for not-for-profit entities into AASB 9 and AASB 15. This Standard amends AASB 9 and AASB 15 to include requirements to assist not-for-profit entities in applying the respective standards to particular transactions and events.	1 Jan 2019	This standard clarifies the application of AASB 15 and AASB 9 in a not-for-profit context. The areas within these standards that are amended for not-for-profit application include: **AASB 9** Statutory receivables are recognised and measured similarly to financial assets. **AASB 15** The 'customer' does not need to be the recipient of goods and/or services; The "contract" could include an arrangement entered into under the direction of another party; Contracts are enforceable if they are enforceable by legal or 'equivalent means'; Contracts do not have to have commercial substance, only economic substance; and Performance obligations need to be 'sufficiently specific' to be able to apply AASB 15 to these transactions.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.9 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 1058 Income of Not-for-Profit Entities	AASB 1058 will replace the majority of income recognition in relation to government grants and other types of contributions requirements relating to public sector not-for-profit entities, previously in AASB 1004 *Contributions* The restructure of administrative arrangement will remain under AASB 1004 and will be restricted to government entities and contributions by owners in a public sector context, AASB 1058 establishes principles for transactions that are not within the scope of AASB 15, where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objective.	1 Jan 2019	Grant revenue is currently recognised up front upon receipt of the funds under AASB 1004 *Contributions*. The timing of revenue recognition for grant agreements that fall under the scope of AASB 1058 may be deferred. For example, revenue from capital grants for the construction of assets will need to be deferred and recognised progressively as the asset is being constructed. The impact on current revenue recognition of the changes is the potential phasing and deferral of revenue recorded in the operating statement.

Notes to the Financial Statements
for the year ended 30 June 2019

8. OTHER DISCLOSURES (CONTINUED)

8.9 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 17 *Insurance Contracts*	The new Australian standard eliminates inconsistencies and weaknesses in existing practices to provide a single principle-based framework to account for all types of insurance contracts, including reissuance contract that an insurer holds. It also provides for presentation and disclosure to enhance comparability between entities. This standard does not apply to not-for-profit public sector entities. The AASB is undertaking further outreach to consider the application of this standard to the not-for-profit public sector.	1 Jan 2021	The assessment has indicated that there will be no significant impact for the public sector. It is expected that the impact from the introduction of AASB17 will be minimal and primarily in the nature of additional disclosures. Further analysis of the impact of AASB 17 on LPLC will be undertaken as guidance and advice is received.

8. OTHER DISCLOSURES (CONTINUED)

8.10 Glossary

Amortisation is the expense that results from the consumption, extraction or use over time of a non-produced physical or intangible asset.

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset.

Effective interest method is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

Financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

- to receive cash or another financial asset from another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

- a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

8. OTHER DISCLOSURES (CONTINUED)

8.10 Glossary (continued)

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability is any liability that is:

(a) a contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

- a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial statements in the Model Report comprises:

(a) a balance sheet as at the end of the period;

(b) a comprehensive operating statement for the period;

(c) a statement of changes in equity for the period;

(d) a cash flow statement for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information;

(f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 Presentation of Financial Statements; and

(g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

8. OTHER DISCLOSURES (CONTINUED)

8.10 Glossary (continued)

Leases are rights to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those classified as 'other non-owner movements in equity'.

Payables includes short and long-term trade debt and accounts payable, grants, taxes and interest payable.

Receivables include amounts owing from government through appropriation receivable, short and long-term trade credit and accounts receivable, accrued investment income, grants, taxes and interest receivable.

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