2025 Franchising Code changes

Guidance on the 1 November changes to the Code

13 October 2025

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Australian Competition and Consumer Commission
Land of the Ngunnawal people
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Background

The Competition and Consumer (Industry Codes—Franchising) Regulations 2024 (New Code) started on 1 April 2025. The code contained in Competition and Consumer (Industry Codes—Franchising) Regulation 2014 (Old Code) continues to apply to agreements entered into before 1 April 2025, and the conduct of parties to those agreements, until those agreements are renewed, extended or transferred following which the New Code will apply.

Some of the rules in the New Code only apply from 1 November 2025. These rules only apply to franchise agreements that are entered into, transferred, renewed or extended, on or after 1 November 2025.

Scope of guidance

This guide gives an overview of some of the main changes to the code, which include additional protections for franchisees, starting on 1 November 2025 such as:

- in certain cases, franchise agreements must include clauses that provide compensation for early termination
- franchisors must give franchisees a reasonable opportunity to earn a return on their investment
- additional obligations and disclosure of information are required when franchisees must contribute to a specific purpose fund
- franchisors must disclose any significant capital expenditure that the franchisee may be required to incur in their disclosure documents and discuss that expenditure with prospective franchisees
- there are new limits on restraint of trade clauses that apply after the franchise agreement ends
- in limited circumstances, franchisees entering into a franchise agreement can opt out of the cooling-off period.

We do have a 'guidance to the code changes' webpage that has been updated to include the 1 November changes.

This guide is general information. It is not legal advice. If you're unsure about your obligations, we strongly recommend you seek advice from a legal and franchising expert.

When the transition period ends on 1 November 2025

Franchisors should prepare to apply the requirements under the New Code. They must update their franchise agreement templates and disclosure documents in time for the 1 November 2025 start date even if their financial year didn't end on 30 June 2025.

New disclosure requirements

From 1 November 2025, all franchisors must follow new disclosure rules when they enter into, transfer, renew or extend a franchise agreement. This includes providing additional information about significant capital expenses and specific purpose funds.

Disclosure of significant capital expenditure

From 1 November 2025, disclosure documents must include additional information about when a franchisee will be required to undertake significant capital expenditure during the term of the franchise agreement. This is to allow for greater transparency between franchisors and franchisees.

Where a franchisee is required to incur significant capital expenditure, the disclosure document must include as much information as practicable, including the following:

- why the expenditure is needed
- the amount, timing and nature of the expenditure
- the anticipated outcomes and benefits
- the expected risks.

Expenditure that is likely to be significant

There is no defined minimum threshold outlined in the New Code but expenses may be considered significant if they:

- are large compared to the franchisee's initial investment, profits or turnover. For example, if you paid $500,000 for the franchise and every 5 years you are required to refurbish the premises for a cost of $100,000, the refurbishment is likely to be significant
- go beyond normal repairs, maintenance, end of usable life replacement or normal inventory requirements
- would make it difficult for the franchisee to remain solvent or profitable. For example, a franchisor requires a franchisee to purchase $200,000 of specialised equipment. This represents 60% of the example business' annual turnover. With loan repayments, rent, wages and royalties, the example business is unlikely to generate enough to cover expenses.

Major store refurbishments and fit outs, relocations, rebranding, equipment, software or technology upgrades are all likely to be significant capital expenditure. Some expenditure may be required by a landlord under a lease.

If you are uncertain about whether an expenditure might be significant, you should seek independent advice to make sure that you satisfy your obligations.

How to identify and disclose significant capital expenditure

Identify required or likely significant capital expenditure across the system or to a specific subset of franchisees including those that:

- apply system-wide such as rebranding, IT and system upgrades
- apply on a regular schedule, for example store refurbishment every 5 years
- are triggered by events such as lease renewal, performance reviews, damage, destruction, relocation.

Assess whether the expenditure is significant. This will differ depending on the franchisee and other factors such as size, timing and impact.

Disclose the required additional information about the expenditure including:

- why the expenditure is needed
- the amount, timing and nature of the expenditure
- the anticipated outcomes and benefits
- the expected risks.

Good record-keeping will make it easier to provide this information.

Update the disclosure document each year and when major changes happen.

Update the Franchise Disclosure Register.

If precise expenditure details aren't known, it is still important to disclose:

- that the expenditure is possible but not certain
- what events could trigger the expenditure
- examples of similar expenditure
- a reasonable high or low range for the expenditure.

Transparency and clarity are essential. Failure to disclose information, or making false representations or claims about future matters can be misleading under the Australian Consumer Law.

All significant capital expenditure must be included in the disclosure document and discussed with prospective franchisees before entering an agreement. Franchisors must not enter an agreement unless they discuss all significant capital expenditure with the prospective franchisee and explain how the prospective franchisee is likely to recoup that expenditure. If an expenditure is required but not disclosed in the disclosure document, the franchisor risks breaching the New Code.

Case study: rebranding

A gym franchisor plans a rebrand across the network within 12 months. This would mean franchisees have to change corporate branding such as its website, point-of-sale materials, signage, uniforms and its online, TV and print marketing materials. Site sizes and remaining length of term vary. The franchise agreement requires the franchisee incur these costs.

This rebrand is likely to be significant capital expenditure.

When the franchisee must undertake this expenditure during the term of the franchise agreement, the expenditure must be disclosed to prospective franchisees in the disclosure document.

The franchisor should state whether any part of the rebranding will be funded by a specific purpose fund. Reasonable written notice of the rebrand must be provided by the franchisor in addition to consultation with franchisees about the rebrand. This notice should include the timing and proposed cost.

For further details see the ACCC's guidance on franchising model disclosure document.

Penalties apply: non-compliant franchisors may face a fine of 600 penalty units.

Specific purpose fund

A specific purpose fund is a fund that:

- a franchisee is required to pay money to
- must be used for a specific purpose for the operation of the franchised business under the franchise agreement
- is controlled or administered by the franchisor, master franchisor, or an associate of either.

The specific purpose fund includes what was formerly known as the marketing fund.

The provisions in the Old Code that applied only to marketing or cooperative funds have been extended to now apply to any specific purpose fund. This includes funds relating to:

- technology
- refurbishment
- training
- marketing funds
- environmental or sustainability
- group project.

Rules for a specific purpose fund

On or before 1 November 2025 and moving forward for each specific purpose fund to which franchisees must contribute to, a franchisor should:

- establish a separate account for franchisees to pay their contributions into the fund
- transfer any existing specific purpose balance you hold to that separate account
- contribute to the fund from 1 November 2025 for all corporate units you operate on the same basis as franchisees. Franchisors must contribute to specific purpose funds on the same basis as other franchisees for any corporate units.
- maintain appropriate records to facilitate preparation of the financial statement for the end of your financial year.

A franchisor should:

- create a financial statement of that fund within 4 months of the end of the financial year
- have the financial statement audited within 4 months of the end of the financial year, unless 75% of the franchisees contributing to the fund vote for the statement not to be audited
- make sure the financial statement provides meaningful information to franchisees about the receipts and expenses of the fund
- give the financial statement to franchisees within 30 days of it being prepared
- give the audit report to franchisees within 30 days of it being received.

If you create or update your disclosure document on or after 1 November 2025, and your franchise agreement requires your franchisee to contribute to a specific purpose fund, your disclosure document must:

- clearly state the fund's purpose
- state who pays into it
- state how much the franchisee contributes and whether other franchisees contribute at a different rate
- name who manages or administers the fund
- list the types of expenses it covers, reflecting the franchise agreement. Avoid using vague categories, provide clear and meaningful information about what money is spent on
- state if the fund pays for goods or services provided by the franchisor, or an associate. If so, give details.
- attach a copy of the fund statement to the disclosure document.

For further details see the ACCC's guidance on franchising model disclosure document.

Reasonable costs to run the specific purpose fund

Reasonable costs are costs that are necessary, proportionate and consistent with the specific purpose of the fund.

The fund administrator may use funds to pay the reasonable costs of administering and auditing the fund.

Expenses that are likely to be considered reasonable include:

- external accountant fees for annual fund audit
- dedicated administrative staff wages (pro-rata) for managing fund disbursement
- software subscription to manage the funds or analytics (pro-rata)
- bank fees or fund transaction costs.

Expenses likely to be considered unreasonable include:

- using the fund to pay for financial audits or professional advice not related to the fund's specified purpose
- charging inflated internal overheads or paying executive salaries
- licencing costs for whole of business systems not related to the fund's specified purpose
- legal costs not related to the administration of the fund.

The more transparent, proportionate and directly attributable to the purpose of the fund the charge is, the more likely it is to be considered reasonable.

Franchisors should retain records demonstrating the costs are reasonable and proportionate such as invoices, cost estimates and contracts.

Case study: specific purpose funds – marketing fund and IT fund

A franchisor's financial year ended on 30 June 2025. Their franchise agreements requires franchisees to contribute to 2 specific purpose funds – a marketing fund and an IT fund.

While most of the franchise agreements were entered prior to 1 April 2025, some were entered after 1 November 2025.

Marketing fund

The franchisor prepares their marketing fund specific purpose fund statement in late September 2026 and receives the auditor's report on 1 October 2026. It contains clear details of some, but not all, of the receipts and expenses. The franchisor provides the statement and the auditor's report to their franchisees on 15 October 2026 (that is, within 30 days). This complies with the New Code requirements.

Some of the items in the marketing fund specific purpose fund statement lack detail. For example, the statement lists 'social media' as a line item without any further breakdown or details. For this specific purpose fund allocated to marketing, social media accounts for 20% of the total spend that year. Given its significance, more detail should be provided in the statement to allow franchisees to understand how funds were spent, including detail of receipts and expenses.

The financial statement is unlikely to comply with the New Code as it doesn't give meaningful information about how the fund was being spent. Franchisors should include as much information as possible in their financial statements. This is so franchisees can understand where money is being spent.

IT fund

Before 1 November 2025 the franchisor opens a separate account for IT fund monies. On 1 November 2025 the franchisor transfers all remaining IT fund contributions to the separate account. The franchisor starts to contribute to the IT fund for its corporate units on the same basis as other franchisees.

This franchisor is likely to be compliant with their specific purpose fund obligations for this IT fund under the New Code.

Reasonable opportunity to make a return on investment

All franchise agreements, entered into, renewed or extended on or after 1 November 2025 must give franchisees a reasonable opportunity to make a return on investment, during the term of the agreement, on any investment required by the franchisor.

A return on investment (ROI) refers to the franchisee's ability to recover the up-front investment required by the franchisor and still make an ongoing profit from the business. Costs may include the franchise fee, fit out of the premises and lease costs and purchase or lease of equipment.

What counts as a reasonable opportunity

A reasonable opportunity means what a typical person would see as fair and reasonable, based on factors that might include:

- the duration of the agreement
- the terms and conditions of the agreement
- the underlying business model
- the amount of the investment
- business type
- location
- costs and fees
- economic conditions
- regulation
- competition
- franchisee's skills and resources
- level of franchisor support
- length of agreement.

Whether an opportunity is reasonable will depend on the terms of each agreement.

A reasonable opportunity doesn't mean that the franchisor guarantees the profitability or the success of a business. It also doesn't remove the inherent risks of running a business. However, franchisees must have a reasonable opportunity to recoup any required capital investment during the life of the agreement.

What a franchisor should do to provide a reasonable opportunity

The franchisor should make sure that the duration of the agreement is fair and reasonable. It should be long enough to allow franchisees to recoup their investment and make a return on their investment. This may involve:

- making sure the capital investment is appropriate given the business model and the ability to recoup any capital investment over the life of the agreement
- bringing to the attention of prospective franchisees any matters that depart from usual business practices within the sector.

The commercial terms of the agreement should be fair and reasonable. This may involve:

- ensure their business model is not flawed or misleading such that a profit is not possible or is highly unlikely.
- considering the costs and profits of franchisor owned outlets.
- avoiding excessive fees or tight margins
- providing realistic, evidence-based financial information to prospective franchisees
- avoiding saturating markets
- having carefully thought-out franchisee selection criteria
- avoiding granting a franchise to a prospective franchisee that doesn't have the skills and experience necessary to have a chance of success, or providing such a franchisee substantial, timely, proactive and ongoing training and support.

Examples of where it is more likely a reasonable opportunity has been provided

- The duration of the agreement is fair and reasonable.
- The commercial terms of the agreement are fair and reasonable by industry standards and the investments required over the term of the agreement are not significant.
- Any profit or earning projections provided are based upon historical data.
- Most franchisees become profitable within the period that is normal for the underlying business model.
- The business model allows long-term viability and fair margins.

Examples of where it is less likely a reasonable opportunity has been provided

- The duration of the agreement is too short to recoup the investment required. For example:
  - the duration of the agreement and the lease are not aligned so that the cost of the landlord refurbishment requirements late in the franchise agreement cannot be recouped
  - the franchise agreement duration falls short by both industry standards and the underlying business model.
- The commercial terms of the agreement or transaction are significant and there is a greater risk that the franchisee may not recoup their investment. For example:
  - the underlying business model requires high investment by industry standards but provides for below average turnover or profit
  - it is difficult to make a profit after franchise fees and other operating costs
  - the franchisor has provided misleading profit or earning projections
  - there are too many outlets or competitors competing in one area
  - the same location has previously been run at a loss.

All significant capital expenditure must be included in the disclosure document and discussed with prospective franchisees before entering an agreement. Franchisors must not enter an agreement unless they discuss all significant capital expenditure with the prospective franchisee and explain how the prospective franchisee is likely to recoup that expenditure. If an expenditure is required but not disclosed in the disclosure document, the franchisor risks breaching the New Code.

Case study: reasonable opportunity to make a return on the franchisee's investment

An undeveloped site

A fast-food restaurant franchisor Jay's Burgers requires a prospective franchisee to pay for a large store fit-out and to purchase costly equipment. The franchisor is aware from:

- industry data
- previous franchisees operating in similar circumstances
- its business model
- that a return on investment for an undeveloped site is likely to take 4 years.

It is unlikely that a franchise agreement term of 5 years would provide a reasonable opportunity for a return on investment given the return on investment timeline and high set-up costs. This will be especially true if the margins are also tight.

Based on the business model and up-front costs, the franchisor should offer an agreement with a longer duration to allow the franchisee a reasonable opportunity to recoup their costs, establish the store and become profitable. The franchisor must discuss the investments required with prospective franchisees and disclose them in their disclosure document.

Sale of a corporate store

Jay's Burgers also operates a corporate store that a prospective franchisee would like to acquire. Trading data held by the franchisor shows that the store is profitable. The store is operating within normal parameters for a Jay's Burgers franchise store. The landlord will grant the franchisee a new lease on the same commercial terms as the franchisor's lease for 7 years. The buyer meets the franchisor's published criteria for prospective franchisees. The franchisor imposes a charge for the acquisition of the business as a going concern, inclusive of goodwill.

Jay's Burgers must make sure that this price is reasonable given the trading data it holds for the store, comparable stores, and the duration of the agreement.

Sale of an existing franchise

One of Jay's Burgers franchisee-held stores is performing poorly. The franchisee wants to sell their store. The franchisor holds historic trading data for the store that shows it has been profitable but has made recent losses. The store is operating within normal business parameters but is under-performing because of health and personal difficulties of the current franchisee.

The franchisee's asking price for the business includes goodwill. The landlord will grant the buyer a new lease on similar commercial terms for 7 years but requires a substantial refurbishment.

The prospective buyer is an existing successful multi-unit franchisee familiar with the business model. They have enough finance, meet Jay's Burgers' recruitment criteria and have the skillset to improve the performance of the store.

This transaction is an exception to the usual scenarios and the franchisor should make sure that the prospective buyer:

- understands the costs and risks
- can improve the performance of the store
- has a reasonable opportunity to earn a return on their investment, including the cost of the landlord-required refurbishment.

The franchisor must act in good faith to both the existing and prospective franchisees and not unreasonably withhold consent to the sale. That said, the franchisor should consider whether to withhold consent if, in all the circumstances, it considers that the prospective franchisee is unlikely to have a reasonable opportunity to earn a return on investment.

Penalties apply: non-compliant franchisors may face a fine of 600 penalty units.

Compensation for early termination

Franchise agreements entered on or after 1 November 2025 must include terms requiring the franchisor to pay fair compensation to the franchisee for specific **early terminations** if:

- the franchisor withdraws from the Australian market
- the franchisor rationalises its network in Australia – for example, the franchisor reacquires certain franchised territories for the purposes of operating corporate owned stores
- the franchisor changes its distribution model in Australia – for example, switches from bricks and mortar stores to online-only sales.

Determining compensation

The franchise agreement must specify how the compensation is to be determined by considering these factors.

Lost profit from direct and indirect revenue

For example, money the franchisee would have earned from sales or other income streams during the term of the agreement had it not ended early.

Unamortised capital expenditure requested by the franchisor

For example, if a franchisor required the franchisee to buy a $20,000 coffee machine designed to last 10 years, but then ended the agreement in year 3.

Loss of opportunity in selling established goodwill

For example, the value of the business' established reputation or customer base that the franchisee cannot sell because the agreement ended.

Costs of winding up the franchised business

For example, paying off leases, reinstating and makegood of the premises, staff entitlements, and accounting fees.

Buy back provision

When an agreement is terminated for one of the specific early termination reasons, it must allow for the franchisee to return and the franchisor to accept or buy back or compensate the franchisee for the following:

- All outstanding stock purchased by the franchisee that was specified by the franchisor and required to operate the franchise under the franchise agreement or operations manual.
- All the essential specialty equipment, branded product or merchandise purchased by the franchisee, provided that:
  - it was specified by the franchisor and required to operate the franchise in accordance with the franchise agreement or operations manual, and
  - it cannot be repurposed for a similar business.

Case study: compensation for early termination

A florist franchise, Jay's Bouquets, enters several franchise agreements after 1 November 2025. Jay's Bouquets requires franchisees to buy a high volume of branded floral wraps and additional branded external signage. It subsequently ends all their franchise agreements early because it is changing its distribution model from franchised stores to direct to consumer online distribution.

As Jay's Bouquets entered all its franchise agreements after 1 November 2025 the agreements all contain compensation clauses that require Jay's Bouquets to buy back or compensate their franchisees for the floral wraps and branded external signage because they can't be used elsewhere.

A franchisee may wish to repurpose other assets such as fridges and its computer system in a similar business the franchisee is seeking to establish. As such, Jay's Bouquets is not required to compensate for or buy back these components.

Penalties apply: non-compliant franchisors may face a fine of 600 penalty units

Cooling off period – opt out

A franchisee may terminate a franchise agreement within 14 days of entering into the agreement (the cooling off period). Under the New Code this can be waived if:

- the franchisee has or had a similar agreement recently with the same franchisor that is substantially the same as the franchise agreement, and
- the business that is the subject of the franchise agreement is the same or substantially the same as the business that was the subject of the other agreement.

Restraint of trade clauses if franchise agreement expires and is not renewed or extended

Under the New Code, for agreements entered into, renewed, extended or transferred after 1 April, a franchisor must not include a restraint of trade clause (whether in the agreement itself or in a referenced or attached document) that would apply if the agreement ends, if all of the following conditions are met:

- an option to renew or extend existed in the agreement
- the franchisee gave written notice to renew or extend before expiry, requesting terms that are substantially the same as those in the franchisor's current standard agreement and terms that apply to other franchisees or prospective franchisees
- the franchisee met all the renewal or extension conditions
- the franchisee was not in serious breach of the agreement
- the franchisee didn't misuse IP or breach confidentiality
- the franchisor chose not to renew or extend the agreement despite the franchisee's valid request, and
- one of the following applies:
  - the franchisee claimed compensation for goodwill, but only received a nominal or inadequate amount
  - the agreement did not permit the franchisee to claim compensation for goodwill at all.

Restraints of trade clauses still apply if the agreement was ended early due to the franchisee being in breach the franchise agreement.

In addition to complying with the relevant New Code obligations, restraint of trade clauses must not be unfair and go beyond what is reasonably necessary to protect the franchisor's legitimate interests. See our Unfair contracts terms in franchise agreements report for further information.

Case study: non-renewal of a franchise agreement

A franchisee entered a dog grooming franchise agreement with franchisor Jay's Strays on 30 April 2025. The term of the agreement was 5 years and included a conditional right to renew or extend the agreement for a further 5 years if the franchisee enters a new agreement.

The agreement also included a post-term restraint of trade clause that prevented the franchisee from operating a dog grooming business anywhere within its exclusive territory for a period of 12 months. The agreement did not allow for the franchisee to claim or be paid genuine compensation for goodwill.

The franchisee tried to renew or extend their 5 year agreement in 2030 and met all of the relevant criteria. The franchisor refused to renew or extend the franchise agreement and, therefore, the agreement ended on 29 April 2030.

The franchisor cannot rely on or enforce the post-term restraint of trade clause unless it pays the franchisee genuine compensation for goodwill.

Penalties apply: non-compliant franchisors may face a fine of up to 600 penalty units.

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