FINANCIAL ADVICE ASSOCIATION AUSTRALIA

CSLR actuaries report reveals much more pain to come

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The CSLR Initial Estimate for 2025/26, as prepared by the CSLR Actuary, Finity Consulting, paints a picture of the size of the CSLR Levy for the financial advice profession in 2025/26, however it also provides enough information to project what 2026/27 might look like.

A $70m levy for the advice profession for 2025/26, as revealed in Table 1.1, is really bad news, however as hard as it might be to believe, 2026/27 is likely to be much worse. We estimate that the financial advice profession could be on the hook for $123m in the 2026/27 financial year.

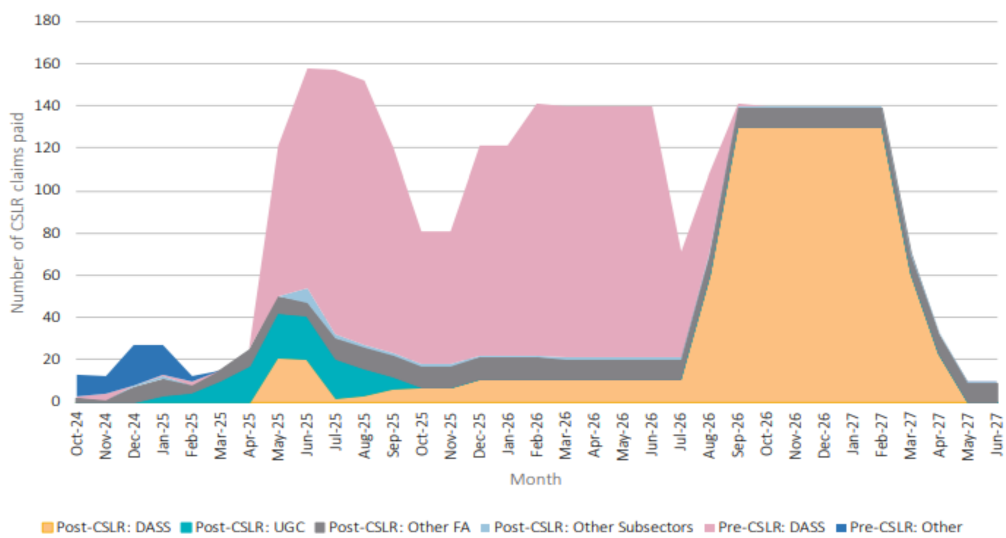
The first warning sign is revealed by the relatively low cost of Dixon Advisory claims in 2025/26. At just $12.2m, plus $3.2m of AFCA costs, this implies that there is so much more to come in later years.

Table 1.1 – Recommended Initial Estimate for the 3rd Levy Period

			3rd levy period estimate									
Type	No. AFCA complaints finalised	No. claims paid	Gross claim Payments ($000)	AFCA Fees ($000)	Recoveries ($000)	Capital Contribution ($000)	CSLR Operating Costs ($000)	ASIC Costs ($000)	Investment income ($000)	Expected payments by CSLR in 3rd Levy Period ($000)	Excess from FY24 (1st Levy Period) ($000)	CSLR Levy Estimate ($000)
Financial Advice - DASS	245	101	12,249	3,207	-							
Financial Advice - UGC	211	307	44,568	3,601	-							
Financial Advice - Other	48	28	2,773	1,193	(61)							
Financial Advice	504	437	59,590	8,001	(61)	417	2,936	625	(96)	71,412	(1,302)	70,110
Credit Provision	70	36	216	976	(1)	417	1,146	225	(53)	2,926	(127)	2,799
Credit Intermediation	19	10	1,030	210	(1)	417	1,117	225	(53)	2,945	(222)	2,723
Securities Dealing	18	9	762	222	(1)	417	1,115	225	(51)	2,688	(345)	2,343
Total	**610**	**491**	**61,597**	**9,409**	**(64)**	**1,667**	**6,314**	**1,300**	**(253)**	**79,971**	**(1,996)**	**77,975**

The most telling indicator is Figure 7.2, which shows a substantial ramp up in post CSLR Dixon Advisory claims (the yellow/mustard colour) from July 2026 to May 2027. The pink section is the pre-CSLR (pre 8 September 2022) Dixon Advisory cases, which are being paid for by the levy on the 10 largest financial institutions. Critically, it is the post CSLR cases that the advice profession will pay for.

Figure 7.2 – Number of CSLR claims eligible to be paid



The 2025/26 Initial Estimate has provided an update for the post CSLR Dixon Advisory cases, suggesting, in table 7.6, that there are now 1,092 claims, of which they expect 1,030 to be successful, with an average cost of $121,000. They are estimating a total cost for these cases of $124.8m. That is a very big number, one which we have feared for some time. Keep in mind that this is the cost before AFCA fees, which I will come back to later.

How bad does 2026/27 look?

The 2025/26 Initial Estimate reveals an expectation of 101 Dixon Advisory claims being paid out by the CSLR in the 2025/26 financial year at a cost of $12.2m. If we then take off the numbers of claims expected to be paid and the cost that were provided for in the 2024/25 estimate, of 86 cases and $9.4m, we can deduce that the cost for post CSLR Dixon Advisory cases in 2026/27 will be approximately $103m. To this number we need to add other cases, AFCA fees, CSLR operating costs and ASIC costs, which we can estimate based upon the 2025/26 Initial Estimate report. This enables us to predict a total cost in 2026/27 of $123.3m for financial advice as follows:

CSLR Financial Advice Levy Costs				
	2024/25	2025/26	2026/27	**Total**
DASS Cases				
AFCA Assessed	116	245	669	**1,030**
CSLR Processed	86	101	843	**1,030**
Cost per case	109,665	121,280	122,377	
Total DASS Cost	9,431,190	12,249,280	103,163,811	**124,844,281**
UGC Cases		44,568,000		**44,568,000**
Other Advice Cases	2,109,000	2,773,000	2,773,000	**7,655,000**
Total Case Costs	11,540,190	59,590,280	105,936,811	**177,067,281**
AFCA Fees				
DASS	1,447,000	3,207,000	10,002,000	**14,656,000**
UGC		3,601,000	2,280,000	**5,881,000**
Other	531,000	1,193,000	1,707,000	**3,431,000**
Total	1,978,000	8,001,000	13,989,000	**23,968,000**
Other Costs				
Recoveries	-162,000	-61,000	-61,000	**-284,000**
Capital Contribution	417,000	417,000		**834,000**
CSLR Operating Costs	4,717,000	2,936,000	2,936,000	**10,589,000**
ASIC Costs	361,000	625,000	625,000	**1,611,000**
Investment Income	-289,000	-96,000	-96,000	**-481,000**
Excess from prior period		-1,302,000	0	**-1,302,000**
Total Other	5,044,000	2,519,000	3,404,000	**10,967,000**
Total CSLR Costs	18,562,190	70,110,280	123,329,811	**212,002,281**

AFCA fees jump substantially

The 2025/26 Initial Estimate includes further bad news. The report estimates that the cost of AFCA processing each claim will increase substantially from an estimate of around $12,450 in the 2024/25 estimate to $21,334 per claim in the 2025/26 year. This is a huge increase and one that AFCA is yet to publicly respond to. This is really bad news for financial advice if it turns out to be correct. Not only will the advice profession need to pay for the AFCA fees for all the post-CSLR Dixon Advisory cases, all the UGC cases and any other financial advice cases; if this significant jump in AFCA fees occurs, then it puts the pre-CSLR total cost at risk.

The CSLR Levy legislation was amended by the Government in March 2023 to clarify that if the cost of processing the pre-CSLR claims is exceeded, then it is the advice profession that will pay for the cost in excess of what was raised from the 10 largest financial institutions. This recovery can happen in any period up to the 2026/27 year. This is clearly set out in the December 2023 FOI papers on page 17 in the "One-off Levy – Expand the ability to collect any backlog shortfall from the annual levy" row, where it is explicitly stated that it would be the financial advice sector that the shortfall would be collected from.

There are 1,654 pre-CSLR Dixon Advisory cases (Table 5.1). If the cost of AFCA processing these cases goes up by roughly $8,900 each, then we are talking about an extra $14.7m. At this stage it seems it is still too early to know if the pre-CSLR claims can all be covered by the $241m that was raised from the 10 largest financial institutions, however we will need to watch this closely.

United Global Capital and the Global Capital Property Fund

The most significant cost in the 2025/26 Initial Estimate for the financial advice sector is United Global Capital (UGC), which accounts for $44.6m in claims and $3.6m in AFCA fees. I think we were all taken by surprise by how big this scandal had become.

UGC has become the little sibling of Dixon Advisory. There are some similarities, however also some important differences. Firstly, there is no equivalent E&P Financial Group that walked away from this scandal, largely unscathed. The similarities are with respect to the exposure to SMSFs and the use of inhouse/related party products.

In many cases, the clients of UGC were recommended to establish an SMSF, rollover their super from APRA funds into the SMSF and then invest almost all their money into the related Global Capital Property Fund (GCPF). The GCPF lent money or invested money into 14 property development projects. The story gets worse when you learn that the directors of GCPF were also directly involved in five of these 14 projects.

It is bad enough that all the client's money was put into one investment, but then to discover that it was a property development fund, is ultra disturbing. The GCPF is not actually a fund. It is an unlisted company, that had previously run into a lot of trouble in 2022 due to the fact that it did not have a TMD. Evidently it has never paid a distribution and there was little means for clients to sell their GCFP investment. This all looks absolutely terrible, however once again, given that it is a deeply flawed inhouse product issue, it is baffling that financial advice has to pay the full cost of compensating clients.

The actuaries have estimated that there would be 346 UGC complaints, of which 334 would be successful (Table 7.8), with an average cost of $145,000 each.

To this point there are five complaints that have been published by AFCA. All five relate to SMSFs. One was awarded in the favour of the firm, with the other four in favour of the client. Two of the five relate to GCPF, where one client ended up investing nearly $300k in GCPF, and the other $446k. The determinations refer to a 2024 court case that ASIC took against UGC, which makes the point that "The AFSL did not authorise UGC to issue financial products". This is a point that warrants careful investigation, given that this product had been in the market for a couple of years before ASIC intervened in 2022. Surely this must be a very serious matter, warranting criminal action. The AFCA determinations make an interesting conclusion that "it is fair in all the circumstances to attribute a nil real value to the SMSF's investment in Company G" (which is GCPF). Thus, the award is for the full amount of the investment, plus 'but for' earnings, although this is less relevant in these cases, as the CSLR claim will be capped at the $150k CSLR maximum.

A liquidator has been appointed to UGC, and another one has been appointed to GCPF. The GCPF liquidator report, prepared in December 2024 (issued after the AFCA determinations were made), is quite guarded about the prospects for the full recovery of these funds, however discloses that there was a total of 539 investors in the GCPF. The company had $15.8m in cash and creditors of $490k, which would surely mean a non-zero recovery outcome. The liquidator report includes some commentary that suggests the recovery exercise promises to be an interesting one, where we can only hope that someone will be held responsible. They do make a statement that clearly conflicts with AFCA's assumption about a nil real value for GCPF.

> *The Liquidators are unable to provide an estimated dividend to investors (as shareholders) with any certainty at this time. However, the Liquidators anticipate that a **material dividend** will be payable to investors in due course.*

Is there any good news in the 2025/26 Initial Estimate?

We were desperately trying to find something positive in this report. The closest we came was the news in Figure 4.1 that, of the $4.8m that was estimated with respect to the first period (April – June 2024), which the Government was responsible for paying, only $2.8m was incurred. There is a credit of $2m that was put against the estimates for 2025/26, with the financial advice profession benefited with a credit of $1.3m.

Figure 4.1 also reveals that there were no CSLR claims paid in the year that the Government was responsible. Isn't it remarkable that the Government committed to pay for the first 12 months of claims and operating costs, however modified the law in a way that led to them only being responsible for three months - and then, in that period, there was not even one claim paid!

The $4.8m that the Government paid for the three month period in the 2023/24 financial year is paltry in comparison to the $70m that the advice profession is facing for the 2025/26 year, and the potential $123m that it is facing for the 2026/27 financial year. I wonder if the architects of this outcome feel pleased with what they achieved, or embarrassed. One can only hope that they have a conscience.