

6 October 2026

Treasury

Submitted via Treasury portal

Dear Treasury,

Consultation - Compensation Scheme of Last Resort (CSLR): application of the waterfall framework for the 2026–27 special levy

The Financial Advice Association Australia¹ (FAAA) welcomes the opportunity to comment on the proposed application of the special levy waterfall framework for the 2026–27 levy period. The proposed framework better recognises the small business nature of financial advice, spreads the special levy across a wider range of entities, and brings responsible entities of managed investment schemes (MISs) into the framework in a meaningful way. We also welcome the acknowledgement of the limitations of using ASIC's industry funding model (IFM) metric to apportion special levies. Each of these matters were raised in our 22 May 2026 submission.

We recognise that difficult trade-offs have been made, anchored by the imperative to compensate victims without further delay. However, the proposed allocation still places a material cost on a small business sector that has already paid its \$20 million cap. We make four key recommendations for the 2026–27 levy period, and further recommendations for reform.

Key recommendations

- **Set the Tier 1 allocation to financial advice for 2026–27 at zero** and redistribute the \$10 million across the Tier 3 sub-sectors. The additional \$10 million equates to approximately \$660 per adviser, on top of the \$1,312 base CSLR levy already paid for 2026–27. The FAAA's April 2026 member survey of 878 respondents (Attachment A) provides further evidence of the substantial negative impact that additional CSLR costs are expected to have on advice businesses.
- **Publish both the rationale for Tier 1 and Tier 2 allocations and a short statement of facts for each material CSLR claims cohort.** The rationale should explain how allocations were determined, including consideration of sub-sector viability and financial system impacts, while the statement of facts, developed with ASIC, AFCA and the CSLR operator, would improve transparency, and make the connection methodology more consistent and repeatable.
- **Reassess the finding for connected sub-sectors for Shield and First Guardian and Brite for 2026–27.** For Shield and First Guardian, superannuation trustees should be assessed as connected in relation to and allocated through Tier 2. The classification of UGC (GCPF) and Brite as "financial advice only" should be reviewed and the reasoning published. "Other personal financial advice" should be excluded from the mapping base, if a connected sector cannot be identified, rather than allocated to financial advice by default.
- **Strengthen the waterfall framework for the future.** The waterfall model should be further refined to ensure that all sectors that contribute to firm collapses and associated consumer losses are appropriately captured within the funding framework. This should include consideration of the role of social media platforms, research houses, and auditors, where their actions have materially contributed to the relevant collapse.

¹The Financial Advice Association Australia (FAAA) is the largest association representing the financial advice profession in Australia, with approximately 10,000 members. It was formed in 2023 following the merger of the Financial Planning Association (FPA) and the Association of Financial Advisers (AFA).

Responses to consultation questions

1. Approach to identifying connection

The definition at paragraph 11 is workable, and the clarification at paragraph 12, that connection is not a finding of misconduct or legal liability, should be retained, as live litigation should not be a reason to defer a connection finding. Our concern is with application and transparency. The information provided places reliance on publicly available information (paragraph 14) and does not reflect the full picture, including confidential information known to regulators and administrators. A methodology drawing heavily on public information, including complaints and determinations records, will continue to point back to financial advice, which is clearly inappropriate in these matters, as AFCA is unable to apportion blame across multiple sectors. This is exacerbated by AFCA Rule C1.5 which prevents complaints about the management of a fund or scheme as a whole, so the absence of AFCA determinations against a sub-sector is not evidence of the absence of connection.

Paragraph 14.1 excludes financial advice from assessment because it is levied under Tier 1. This produces a circular result: the sub-sector carrying the largest burden relative to its size is the only one whose connection is assumed and never tested.

Recommendation 1: Connection should be assessed and published for every relevant sub-sector, including financial advice, and Treasury should set out how the contribution of parties outside the levy base is to be recognised. The evidence base should be drawn from regulator, AFCA and CSLR operator information rather than predominantly from public sources and the complaints/determinations record.

2. Whether the methodology identifies the correct sub-sectors

The exclusion of superannuation trustees in relation to Shield and First Guardian is difficult to reconcile with the paper's own test. ASIC has commenced proceedings against every superannuation trustee that made these funds available on its platform. Macquarie and Netwealth have conceded shortcomings and have remediated affected members, and in March 2026 the Federal Court declared that Macquarie breached the *Corporations Act* by failing to escalate Shield for closer scrutiny. Proceedings against Diversa Trustees and Equity Trustees Superannuation Limited remain ongoing. Trustees' decisions to include these funds on their investment menus, and the lack of adequate monitoring thereafter, formed a large part of the pathway to loss.

No reasoning is published for classifying UGC (GCPF), the second largest cohort, or Brite as advice-only. ASIC has taken action against Brite Advisors over an apparent US\$69 million shortfall in pension funds and accepted a court enforceable undertaking from the fund's auditor. This strongly suggests that this matter is more than just a financial advice issue.

Footnote 3 under Table 1 on page 5 of the consultation paper treats "Other personal financial advice" as advice-only by default, which is not a neutral treatment of uncertainty. The CSLR operator's revised estimate report notes around 30 in-scope open complaints relating to Australian Fiduciaries Limited, whose schemes ASIC has placed into administration and whose auditor's registration has been suspended by the Companies Auditors Disciplinary Board. Once again, this clearly indicates that this is much more than just a financial advice matter.

With respect to UGC and GCPF (which was a company), the fact that this was not a registered scheme operated by a licensed responsible entity, raises a serious question in its own right about how a large amount of retail client money was directed into such a structure, and it should not have the effect of attributing the entire cost to financial advice.

The table below summarises our assessment.

Cohort	FY27 cost	Treasury assessment	FAAA view
Dixon Advisory	\$83.497m	Responsible entities connected	Agree.

Cohort	FY27 cost	Treasury assessment	FAAA view
Shield/First Guardian	\$30.151m	Responsible entities connected	Agree, but incomplete. Superannuation trustees should also be assessed as connected.
UGC (GCPF)	\$33.345m	No, financial advice only	No published reasoning. Second largest cohort, at 20 per cent of mapped costs. There should be a mechanism to capture non-MIS investment vehicles, as was the case with GCPF.
Brite	\$3.951m	No, financial advice only	No published reasoning. ASIC action and the auditor undertaking indicate wider involvement (this appears to be some form of collective investment vehicle).
Other personal financial advice	\$17.980m	No, financial advice only	Default classification. Should be excluded from the mapping base if a connected subsector cannot be identified.
Total	\$168.924m	\$113.648m connected; \$55.276m advice only	Two thirds of mapped costs are assessed as connected; one third is attributed to advice only without a published basis.

Cohort figures are from Table 1 of the consultation paper.

Recommendation 2: Superannuation trustees should be assessed as connected in relation to Shield and First Guardian and allocated through Tier 2. The reasoning for classifying UGC (GCPF) and Brite as "financial advice only" should be reviewed and then published. "Other personal financial advice" should be excluded from the mapping base rather than allocated to advice by default. **We recommend that a short, agreed statement of facts be developed for each material matter giving rise to CSLR claims, in consultation with ASIC, AFCA and the CSLR operator, and published as part of the determination.**

3. Application of the prescribed entity metrics

We welcome the interim adjustment for the large securities and futures exchange participant sub-sectors. However, the IFM was designed to recover ASIC's regulatory effort, not to measure contribution to consumer loss or capacity to pay, and this approach excludes the cost of APRA regulatory effort.

In addition, the mismatch between the levy period and the data used to calculate it can leave advisers in shrinking licensees paying more than those in growing ones. As paragraph 25 confirms, since there is no mechanism to redistribute liabilities within a sub-sector, the appropriate response is to lower or eliminate the sub-sector's allocation.

Recommendation 3: A review of the appropriateness of the IFM-based apportionment should be conducted and should extend to all relevant sub-sectors, including financial advice. From a CSLR levy perspective, it is important to address the mismatch between the levy period and the data used to calculate it.

4. Viability and sustainability

Adviser numbers have almost halved since 2019. Advisers have already paid \$1,312 as the base CSLR levy for 2026–27 and also pay the ASIC funding levy each year. In our April 2026 member survey (Attachment A), 93 per cent of respondents believed advice will cost more as a result of the CSLR, 44

per cent were aware of colleagues intending to leave the profession as a result, and 32 per cent expected profits to fall by more than 10 per cent.

As paragraph 28 acknowledges, levies imposed on licensees are passed on to authorised representatives. In financial advice, 64 per cent of licensees have fewer than five advisers, and even where an adviser is authorised by a larger licensee (only 1.6% of licensees have 100 or more advisers), the levy is generally passed on to small self-employed practices. Licensee-level averages will substantially understate the impact on the businesses that actually pay. Many practices will also be levied again through other sub-sectors, including securities dealers, managed discretionary account providers and insurance product distributors.

The FAAA has previously highlighted the deep flaws in the financial advice business data included in Treasury's August 2025 CSLR special levy consultation paper. This document suggested that the average revenue for financial advice licensees was \$89.2m and the average profit was \$19.9m. This is substantially incorrect, even at the licensee level, and as pointed out above, financial advice is in fact almost entirely small businesses when considering the entity that actually pays the levy.

The paragraph 29 threshold, requiring evidence of significant viability risk, is hardest to satisfy for a fragmented small business sector, where harm presents as gradual attrition, higher costs to consumers and fewer new entrants rather than identifiable failures. Consistent with section 1069H(5)(b), viability should be assessed by reference to the cumulative burden of levies and the sector's trajectory. Spread across 21 sub-sectors, \$10 million is marginal; however for financial advice it is material.

Recommendation 4: The financial adviser Tier 1 allocation for 2026–27 should be set at zero and the \$10 million redistributed across the Tier 3 sub-sectors, in recognition of the unsustainable impact on small businesses. Viability should be assessed at the level of the practices that bear the cost, rather than by licensee-level averages, and the paragraph 29 threshold should be applied, consistent with section 1069H(5)(b), by having regard to the cumulative burden of levies and the sector's trajectory. How the Minister has had regard to these matters should be published with each tier allocation.

Further reform

We also repeat a point from our 22 May 2026 submission. Parties that sit outside AFCA membership and the levy base, including research houses, social media companies and auditors, can contribute substantially to consumer loss. Consideration should be given to how their contribution can be recognised in the future, whether through the connection assessment or through direct recovery action. On this point, we highlight that ASIC has taken action against the auditors of First Guardian and Brite Advisors, and the Companies Auditors Disciplinary Board has suspended the registration of the auditor responsible for schemes run by Australian Fiduciaries Limited.

While we appreciate the effort made through these proposals to reduce the allocation borne by financial advisers, levy allocation changes should be viewed as only one part of a broader response. Changes to the allocation methodology alone will not resolve the sustainability challenges facing the CSLR. Lasting relief will require action to address the underlying drivers of CSLR claims and prevent costs entering the scheme in the first place.

We recommend temporary levy relief for small financial advice businesses, broader reforms to address the drivers of CSLR costs, and that victims be compensated as soon as possible, noting there are no legislative barriers to payments being made by the Government before the determination is tabled in Parliament.

Recommendation 5: Strengthen the CSLR funding model by enabling the allocation of cost to other industries that have contributed to client loss, including social media, research houses and auditors. In addition, we encourage the Government to take broad action to reduce the prospect of future claims on the CSLR.

Conclusion

The FAAA accepts that the 2026–27 shortfall needs to be funded. The proposed allocation reflects progress on concerns we have raised. However, the connection mapping and tier allocations require

clearer justification, superannuation trustees should be reassessed, and the financial advice allocation should be zero. Lasting sustainability will depend on reforms that reduce the costs entering the scheme.

If you have any questions about our feedback, please do not hesitate to contact me on (02) 9220 4500 or sarah.abood@faaa.au.

Yours sincerely,



Sarah Abood

Chief Executive Officer
Financial Advice Association Australia (FAAA)

Attachment A – FAAA Member CSLR Survey

The FAAA surveyed members on the impact of the CSLR in March and April 2026, before Treasury's April 2026 options paper was released. The survey focused on the actions members expect to take in response to the CSLR levy. 878 members responded. These results were included in the FAAA's 22 May 2026 submission.

Summary of results

- 93% believe financial advice will cost more as a result of the CSLR
- 79% expect to increase fees to mitigate the increased costs
- 70% believe the CSLR levy will result in a reduction in adviser numbers
- 53% believe their recruitment and training plans will be adversely impacted
- 44% are aware of colleagues intending to leave the profession as a result
- 32% expect business profits to fall by more than 10%