# Initial Estimate for 2025/26 (3rd Levy Period)

## Compensation Scheme of Last Resort Limited

December 2024

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9 December 2024

The Directors
Compensation Scheme of Last Resort Limited
GPO Box 556
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Dear Directors

# Initial Estimate for 2025/26 (3rd Levy Period)

We are pleased to enclose our report that outlines the work carried out, our methodology and results of our estimation of CSLR outgoings for the 2025/26 financial year in respect of claims expected to be paid by CSLR during that year (the '3rd Levy Period').

We look forward to discussing its contents with you.

Yours sincerely

Stephen Lee
Fellow of the Institute of Actuaries of Australia

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Fellow of the Institute of Actuaries of Australia

## Appendices

# 1 Executive Summary

## 1.1 Background and scope to this Report

The Financial Services Compensation Scheme of Last Resort ("the Scheme" or "CSLR") was enacted in 2023 and commenced operations on 2 April 2024.

For claims that are within the scope of the legislation, CSLR is required to pay compensation to a complainant with an unpaid Australian Financial Complaints Authority (AFCA) Determination, along with unpaid AFCA fees and other associated costs.

Compensation Scheme of Last Resort Limited (CSLR Ltd), the Scheme operator, has engaged Finity Consulting Pty Limited (Finity) as its actuarial services provider to determine the Initial Estimate for 2025/26 (i.e. the 3rd Levy Period amount), which is intended to cover compensation payments for post-CSLR complaints, the sum of AFCA's unpaid fees expected in the period for post-CSLR complaints, CSLR's expected administrative costs, ASIC's expected administrative costs plus the capital reserve establishment contribution, from 1 July 2025 to 30 June 2026. Post-CSLR complaints refer to complaints lodged to AFCA on or after 8 September 2022.

Finity has previously provided estimates for the 1st and 2nd Levy Period Initial Estimates and our Initial Estimate for pre-CSLR complaints (complaints lodged to AFCA on or prior to 7 September 2022). Details of how the levy periods operate and our previous estimates can be found in Section 3.3.

The Scheme environment is complex and relevant aspects are outlined throughout the report as necessary. There are too many details and complexities to attempt to summarise fully in this section of the report. This summary only includes what we judge as the most important points and should be read in conjunction with the remainder of the report.

## 1.2 Recommended Initial Estimate for 3rd Levy Period amount

Finity estimates the total required amount for the 3rd Levy Period to be $78.0m. The component parts of the estimates, split by sub-sector, are set out in Table 1.1. It should be noted that per section 17(2)(a) of the *Financial Services Compensation Scheme of Last Resort Levy Act 2023,* ASIC will only be able to impose an Annual Levy up to the Initial Estimate, subject to a $20m cap for the relevant sub-sector. Any amount exceeding this cap may only be imposed by way of a determination under 1069H of the *Corporations Act 2001* and a Special Levy being imposed.

**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 amount for the 3rd Levy Period reflects our estimate of the payments to be made by CSLR from 1 July 2025 to 30 June 2026. The ASIC costs of $1.3m relate to their expected costs to administer CSLR related levies for the

3rd Levy Period. Our estimate includes the excess funds from the 1st Levy Period of $2.0m (see Section 4 for further details).

The 3rd Levy Period Initial Estimate exceeds the sub-sector cap for Financial Advice. The implications of this is discussed below.

## 1.3 Determinants of the 3rd Levy Period Initial Estimate

The components making up the recommended estimated amounts to meet the relevant costs for the levy period are set out below.

- The CSLR claims to be paid and the unpaid AFCA fees comprise:
  - Complaints against Financial Firms that are in-scope for CSLR and made against a firm that has failed. This includes both known complaints and future complaints against already failed firms.
  - Known and future complaints made against firms that are currently a going concern that would be in-scope for coverage, if the firm fails in the future.
  - Complaints that will turn out, after full investigation, to be in-scope for CSLR and for which the firm has failed.
  - AFCA unpaid fees, combining fees that have been invoiced but remain unpaid and estimated fees following resolution of open and future complaints that are within the scope of the CSLR.
  - CSLR operating costs, which are apportioned to each sub-sector as described later in the report.
- Estimated ASIC fees, which are apportioned to each sub-sector as described later in the report.
- The capital reserve contribution is apportioned to each sub-sector as described later in the report.
- An allowance made for Investment income expected to be earned between receipt of the levy and the relevant expenditure.

92% of the expected claims paid for 2025/26 in the Initial Estimate are from two failed firms – Dixon Advisory Superannuation Services Limited (DASS) and United Global Capital Pty Ltd (UGC). These two firms are discussed further in Section 5. The other main drivers of the Initial Estimate is the total claims cost arising from these failures and how much of this is expected to be paid during the levy period (which will depend on when the complaints are determined by AFCA and then subsequently paid by CSLR (the anticipated processing of complaints by AFCA is discussed further in Section 7.2).

We have referenced the Board policy that relates to the 3rd Levy Period, titled "Policy for Determination of Estimates for a Levy Period"; dated December 2024. The approach taken in this Report follows this Board Policy.

## 1.4 Relationship between this Initial Estimate and levies on industry

The CSLR operator determines an Initial Estimate of its claims, fees and costs for a levy period as set out in this report for 2025/26 for each sub-sector. ASIC imposes the Annual Levy on the industry following a legislative process that commences within the 12 months before the start of the levy period. The Annual Levy cannot exceed the Initial Estimate and the sub-sector levy cap of $20m per sub-sector.

This means that ASIC can only initially levy the Financial Advice sector for $20m[1]. The legislative and other processes needed to collect the Annual Levy means that funds are expected to arrive during 2025/26.

[1] The actual amount collected by ASIC is likely to be even less as some firms may no longer be trading or simply don't pay.

This means there is an expected shortfall in funding for the Financial Advice sector of $50.1m (based on the estimate of 2025/26 CSLR payments at the time of writing this report), which will mean that a Special Levy will be necessary to raise additional funds. The process for a Special Levy requires the CSLR operator to lodge a Revised Estimate within the levy period and a Ministerial Determination. The Revised Estimate can differ from the Initial Estimate, and in this instance allow for more up-to-date insight on UGC related claims. If a Special Levy is approved by Parliament, the process will mean funds will not be available to the Scheme until after the Annual Levy is received; in the case of the 2025/26 period, the earliest funds are anticipated to be received will be towards the end of the levy period. This process is discussed in Section 3.3.

Compensation payments can only be made if the levies collected for the sub-sector permit. This may mean delayed payments where additional levies are needed. Based on the expected timing of levies being collected by the Scheme and the volume of complaints to be processed, this is likely to occur for 2025/26.

There was no allowance for a failure like UGC in the levies for the 1st and 2nd Levy Periods (UGC had not failed at the time). This means that CSLR may be limited in its capacity to pay these claims if they are resolved in 2024/25, and therefore payments for UGC related claims are assumed to occur in 2025/26.

## 1.5 Implications of uncertainty

CSLR is a new arrangement and has only recently commenced operations. The experience received to date is immature for reliable metrics and there are no reasonably comparable alternative arrangements that could be investigated for significant, relevant learnings. The actuarial assumptions continue to be, for these reasons, more weighted to reasoned judgement than to analysis of relevant data.

Even if good experience and data were available, the eventual expenditure from CSLR cannot be estimated with certainty. It depends on future events such as Financial Firm failures that do not occur in a uniform fashion, and essentially give rise to 'randomness' in the outcomes.

At a total level, the key uncertainties affecting the 3rd Levy Period amount relate to the Financial Advice sub-sector, and specifically the following assumptions for UGC and DASS related claims:

- The ultimate number of UGC related complaints which emerge prior to their AFCA membership expiring, which is expected to be no earlier than 31 May 2025 [2].
- The speed with which UGC and DASS related complaints will be determined by AFCA, the delay until the complainant lodges a claim to CSLR, and when these claims will be assessed and paid by CSLR.
- The average CLSR claim payments made on both DASS and UGC related complaints.

In Section 11 we describe plausible (but unlikely) scenarios for the 3rd Levy Period that result in outgoings ranging from around $45.6m to $99.2m for the Financial Advice sub-sector, compared with the recommended estimate of $70.1m shown in Table 1.1.

For other sub-sectors, only a limited portion of the estimates relate to CSLR claim payments. Judgementally, a reasonable range of outcomes for the 3rd Levy Period would be in the order of 10% to 20% of the recommended amount if more or fewer claims arise.

The legislation for CSLR sets out a series of adjustment mechanisms to address shortfalls, if these were to occur. Further, desirable public policy principles would include not creating unnecessary financial burdens and, where possible, to provide stability and predictability. Considering the legislation and general principles, our approach where there is uncertainty is to make reasonable estimates of outcomes in a reasonably favourable future environment, noting that for the smaller sub-sectors we have selected above the historical experience. In

[2] This decision is made by AFCA's Board in accordance with AFCA's approach to expelling financial firms.

particular no allowance is included for the possibility of higher than normal failure rates or claim costs, even on an average basis. The Scheme design is for any unexpectedly large costs to be recovered from future levies once the relevant events are known.

Section 11 of the report describes the uncertainty in the levy estimates and provides a number of scenarios to assist readers in understanding these issues.

Please note the reliance and limitations set out in Section 12 of the report.

# 2 Background and scope

## 2.1 Background

The CSLR was launched in 2023 to compensate complainants who have received a determination in their favour from AFCA and the determination amount has not been fully paid by the relevant Financial Firm. This typically occurs because the relevant Financial Firm is insolvent or is likely to become insolvent.

The Scheme arose from recommendations of the Ramsay Review and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Hayne Royal Commission).

CSLR Ltd is authorised as the operator of the Scheme (i.e. the "CSLR operator"). CSLR Ltd is an independent not-for-profit company limited by guarantee.

The Scheme will provide compensation payments to people (including small businesses and superannuation funds) that have AFCA determinations that are unpaid by the Financial Firm against which the complaint was made (and where the financial service is within the scope of the Scheme). The Scheme commenced operations on 2 April 2024.

The Scheme is funded through levies, as outlined in the legislation listed in Section 3.1.

Additional details of the Scheme can be found in Section 3.

## 2.2 Scope of this Report

CSLR Ltd has engaged Finity as its principal actuarial service provider. This Report considers the Initial Estimate of CSLR outgoings for the 3rd Levy Period, being 1 July 2025 to 30 June 2026, which is used for setting levies for this period. Our recommended Initial Estimate provides for funding of claim payments to be made, unpaid AFCA fees, ASIC costs, CSLR's operating costs in the period, capital contribution, and shortfall or excess from the 1st levy period.

## 2.3 Structure of this Report

The remainder of this report is structured as follows:

Section 3 presents a summary of our understanding of the development and intended operation of the CSLR, including the legislative requirements, coverage, claim payments and funding of the Scheme.

Section 4 outlines the levy experience to-date across the cost components and Levy Periods, including the finalised position of the 1st Levy Period.

Section 5 considers complaints against significant financial failures that are likely to impact the estimate for the 3rd Levy Period, these being DASS and UGC.

Section 6 details our approach to modelling the 3rd Levy Period estimate and associated AFCA fees, including the consideration of the various sources of potential claims to be lodged with the CSLR.

Sections 7 and 8 summarise the parameterisation of the models and expected claim costs and AFCA fees respectively, for each of DASS, UGC and Other Financial Firms separately. Section 9 deals with the other components of the estimates for the 3rd Levy Period amounts.

Section 10 sets out our recommendation for the 3rd Levy Period estimate, followed by Section 11 that explores the uncertainty in the estimate and provides a number of alternate scenarios.

Our report concludes in Section 12 with a summary of the reliance and limitations of the advice provided in this report.

## 2.4 Board Policy

CSLR's Board Policy sets out the principles and procedures to be followed in determining the 3rd Levy Period initial estimate. The Board Policy is discussed in Section 6.11.

## 2.5 Glossary

Table 2.1 outlines the definition of some of the commonly used terms in this report.

**Table 2.1 – Glossary**

| Term | Definition |
|---|---|
| 'Active' Financial Firms | Financial Firms that are not currently insolvent, in administration or otherwise not trading. |
| AFCA | Australian Financial Complaints Authority |
| AFCA fees | The fees that AFCA charges to Financial Firms, including complaint fees, annual user charge, and annual registration fees. |
| AFCA extract date | The date of extract of AFCA complaint information used in this report (30$^{th}$ September 2024, unless otherwise stated). |
| Annual Levy | The levy determined based on the Initial Estimate for a Levy Period. |
| APRA | Australian Prudential Regulatory Authority |
| Appropriate Steps Notice (ASN) | Written notice provided by AFCA to the complainant that AFCA has finished taking reasonable steps to require a determination to be paid. It is a precursor to a claim being lodged with CSLR, as detailed in Section 1064(c) and 1064(2) of the Corporations Act 2001. |
| ASIC | Australian Securities and Investments Commission |
| Claim | A claim lodged with the CSLR. |
| Claimant | A person who has lodged a claim with CSLR. |
| Complaint | A complaint made to AFCA by a Complainant (who must be an Eligible Person in accordance with AFCA's Rules) about a Financial Firm that is an AFCA Member at the time that the complaint is submitted to AFCA. |
| Complainant | A person who has submitted a complaint to AFCA. |
| CSLR Ltd | Compensation Scheme of Last Resort Limited, the operator of the Scheme |
| DASS | Dixon Advisory and Superannuation Services Limited |
| DASS Deed of Company Arrangement (DOCA) | The Deed of Company Arrangement (DOCA) was passed by Dixon Advisory's creditors on 16 December 2022, which details the settlement that creditors will be able to receive as part of the insolvency proceedings. |
| Determination | A decision made by an AFCA Decision Maker about a complaint in accordance with rule A.14 of the AFCA Rules. |
| 'Failed' Financial Firm | A Financial Firm that is currently insolvent, in administration or otherwise not trading. |

| | |
|---|---|
| Finalised complaint | A complaint that AFCA has finished dealing with, whether by making a Determination (which in turn could be in favour of the Complainant or the Financial Firm) or in some earlier part of AFCA's processes. Finalisation triggers AFCA's right to invoice for its fees and hence CSLR's obligation to pay. |
| Financial Firm | An AFCA Member, being a person who is a Member of AFCA as defined in AFCA's Constitution. |
| Further Levy | An additional levy where the total amount levied in respect of the relevant sub-sector and the Levy Period is within the sub-sector cap of $20m. |
| 'In-scope' complaints | Complaints that fit the definition in the legislation as being in-scope for the CSLR. This status may change over time as additional information about a complaint emerges. |
| Initial Estimate | An estimate of the claims, fees and costs for a levy period in accordance with section 9 of the Levy Collection Act. |
| Large financial firm failure | A large financial firm failure is one that has, or can be reasonably expected to, generate a large number of AFCA complaints that would be in-scope for CSLR compensation. It is a failure that has the potential to lead to additional CSLR claims and other costs that cannot be reasonably met by the levy collected for the cost of new financial firm failures for that sub-sector and the accumulated capital reserves available to CSLR. CSLR's capital reserve is targeted at $5m in normal operating conditions. This, or a proportion of this if reserves have been previously depleted and not yet recapitalised, is available to meet unforeseen financial firm failures. |
| Levy Period | A 12 month period commencing from 1 July for which Initial Estimate, Revised Estimates, levies and levy caps are considered. |
| Other Financial Firms | Financial Firms apart from DASS and UGC. |
| Post-CSLR | Complaints lodged with AFCA on or after 8 September 2022. |
| Post-CSLR Levy | Refers to the levies related to the post-CSLR complaints, being the 1st, 2nd and all subsequent Levy Period amounts. The 1st Levy Period amount was governed under Section 1069M and 1069N of the Corporations Act 2001. The 2nd and subsequent Levy Periods are determined under Section 8 of the Levy Act and calculated in accordance with Section 9 of the Levy Collection Act. |
| Pre-CSLR | Refers to complaints lodged with AFCA between 1 November 2018 and 7 September 2022. |
| Pre-CSLR Levy | The Levy determined under Section 10 of the Levy Act and calculated in accordance with Section 11 of the Levy Collection Act. |
| Relevant Entity | A Relevant Entity provides financial products or services in the following 4 sub-sectors as defined in the Corporations Act – personal financial advice, credit intermediation, securities dealing, and credit provision. |
| Relevant Service | A financial product or service in one of the four relevant sub-sectors, specifically personal financial advice, credit intermediation, securities dealing or credit provision. |
| Revised Estimate | An estimate of the CSLR outgoings made within the Levy Period that is required to be lodged by the Scheme as a precursor to a Further Levy or Special Levy. |
| Special Levy | An additional levy where the total levied for a sub-sector exceeds the sub-sector cap of $20m for the Levy Period. |
| Sub-sector | The sub-sector to which a complaint relates. The CSLR covers complaints in the following sub-sectors: personal financial advice, credit intermediation, securities dealing and credit provision. |
| The Scheme | The Financial Services Compensation Scheme of Last Resort |

| | |
|---|---|
| UGC | United Global Capital Pty Ltd |
| 1st Levy Period | Levy Period from 2 April 2024 to 30 June 2024 (FY24). |
| 2nd Levy Period | Levy Period from 1 July 2024 to 30 June 2025 (FY25). |
| 3rd Levy Period | Levy Period from 1 July 2025 to 30 June 2026 (FY26). |

# 3 About the Financial Services Compensation Scheme of Last Resort

## 3.1 Establishment of the Scheme

The Scheme was established by the Treasury Laws Amendment (Financial Services Compensation Scheme of Last Resort) Act 2023, assented to 3 July 2023, which amends the Corporations Act 2001, Australian Securities and Investments Commission Act 2001, and the National Consumer Credit Protection Act 2009.

The following legislation and regulations are specific to the operation of the Scheme and the CSLR operator:

- Financial Services Compensation Scheme of Last Resort Levy Act 2023 ("Levy Act"), and corresponding Financial Services Compensation Scheme of Last Resort Levy Regulations 2023 ("Levy Regulations")
- Financial Services Compensation Scheme of Last Resort Levy (Collection) Act 2023 ("Levy Collection Act")
- Corporations Amendment (Financial Services Compensation Scheme of Last Resort) Regulations 2023, which amends the Corporations Regulations 2001 ("Corporations Regulations").

This body of legislation and regulations will be referred to as "the legislation" in this report, unless otherwise specified.

## 3.2 Payments by the Scheme

The Scheme pays compensation in the following circumstances:

- Where an in scope relevant AFCA determination requires an amount to be paid by a Relevant Entity to a complainant, and
- The Relevant Entity has not paid the amount to the complainant, and the complainant has notified AFCA that the determination is unpaid, and
- The complainant will not be fully compensated for the amount of the determination by any other statutory compensation scheme or other source, and
- The complainant applies to the Scheme for compensation for the unpaid determination amount.

The complaint against the Relevant Entity must relate to a financial product or service ("Relevant Service") in one of the following 4 sub-sectors: personal financial advice, credit intermediation, credit provision or securities dealing.

The Scheme provides for the following payments:

- Compensation payments for claims lodged for unpaid AFCA determinations against a Relevant Entity. CSLR claim payments are limited to $150,000 per claimant. A single AFCA determination can result in multiple eligible CSLR claims.[3]
- Unpaid AFCA fees, where AFCA has charged the AFCA Member that is a Relevant Entity (or was an AFCA Member at the time the complaint was lodged) and this amount is unpaid after taking steps to recover the fees (or AFCA is entitled to charge the AFCA Member but decides to not pursue the entity having considered the prospects of payment).
- CSLR operating costs

[3] The CSLR compensation amount associated with a single AFCA complaint can exceed $150,000 if AFCA awards separate amounts to individual claimants within its final determination .

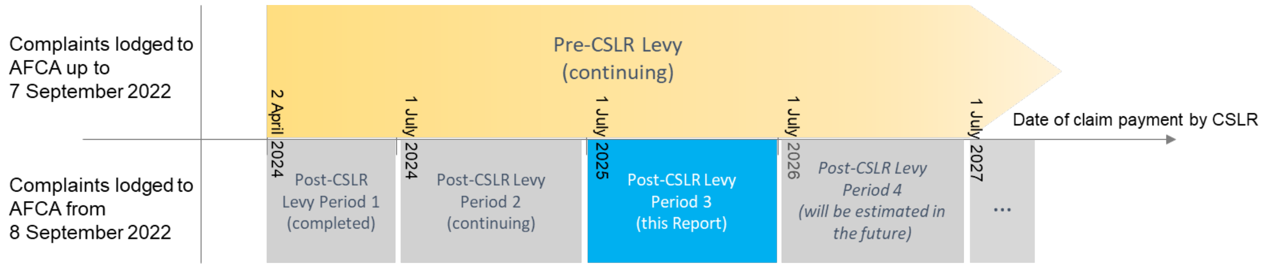
- ASIC costs for administering the Scheme Levies.

The Scheme will only make compensation payments if the CSLR operator reasonably believes that the person is unlikely to be paid by the Relevant Entity the full amount of the AFCA determination.

## 3.3 Levies to be determined

The Scheme is funded by levies. Figure 3.1 outlines the key dates that relate to the various levy periods.

**Figure 3.1 – Levy periods**




The legislation differentiates between a levy to fund compensation claims arising from AFCA complaints lodged up to and including 7 September 2022 (referred to as “pre-CSLR”) and compensation claims arising from complaints lodged from 8 September 2022 onwards (referred to as “post-CSLR”).

Finity has previously provided the following Initial Estimate reports:

- “Pre-CSLR Complaints Initial Estimate” (dated 7 December 2023), for AFCA complaints lodged on or prior to 7 September 2022. This Initial Estimate was used to determine the pre-CSLR levy, which was paid by the ten largest APRA-regulated financial institutions[4]. This was a one-off levy to pay pre-CSLR claims until they are all resolved by AFCA and CSLR, regardless of when the claim payment occurs
- “1st & 2nd Levy Period Initial Estimates” (dated 8 March 2024), covered estimated the relevant outgoings from the Scheme’s inception on 2 April 2024 to 30 June 2025, in respect of post-CSLR complaints. The Initial Estimates for these first two levy periods are used to determine the Annual Levy[5] for each of these periods respectively. The 1st levy period is complete, and CSLR is progressing through the 2nd levy period at the time of writing this Report.

The subject of this Report, the 3rd Levy Period for post-CSLR complaints, is highlighted in blue in the above figure. Section 3.4 below details the cost components included in the 3rd Levy Period Initial Estimate. Section 4 details the experience to date for the pre-CSLR, 1st Levy Period and 2nd Levy Period levies.

CSLR’s Initial Estimate is an input to the Annual Levy paid by industry. The process for setting the ***Annual Levy*** is as follows:

1. The CSLR operator determines an ***Initial Estimate*** of its claims, fees and costs for a levy period (Section 9 of the Levy Collection Act).

[4] Based on income for 2021/22, and excluding private health insurers and superannuation funds
[5] The 1st Levy Period only ran from 2 April 2024 to 30 June 2024. The Annual Levy for the 1st Levy Period payment was made by the Commonwealth (i.e. it was not levied on industry). The Annual Levies from the 2nd Levy Period onwards are determined for each of the 4 sub-sectors, and then paid by Relevant Entities within each sub-sector.

2 The CSLR operator's Initial Estimate would be submitted by legislative instrument within 12 months of the start of the levy period. The legislative instrument is subject to a disallowance period in both Houses of Parliament.

3 ASIC is responsible for imposing the Annual Levy and allocation of the Levy to each entity in accordance with the ASIC Supervisory Cost Recovery Levy Regulations 2017. The amounts of the Annual Levy cannot exceed the Initial Estimate (Section 12 of the Levy Act) and the sub-sector levy cap of $20m.

If the Initial Estimate exceeds $20m for any sub-sector, only $20m can be levied in the Annual Levy in respect of that sub-sector. The legislation has provisions for ***Further Levies*** or ***Special Levies***, which are determined as follows:

1 The CSLR operator may determine a ***Revised Estimate*** of its claims, fees and costs for a levy period (Section 10 of the Levy Collection Act).

2 A ***Further Levy*** can be applied to the industry if the Revised Estimate does not lead to the sub-sector levy cap being exceeded in the relevant levy period. In this instance, the CSLR operator's Revised Estimate would be submitted by legislative instrument after the start of the levy period, with ASIC responsible for allocating the additional levy amounts for each entity according to the ASIC Supervisory Cost Recovery Levy Regulations 2017.

3 If a Revised Estimate, as submitted by a notifiable instrument, exceeds the sub-sector levy cap in respect of one or more relevant sub-sectors, the Minister may, by legislative instrument make a determination regarding the following matters:

  a That the CSLR operator make compensation payments in specified instalments for a specified period of time.

  b Apply a ***Special Levy*** to the sub-sector(s) where the sub-sector cap is exceeded.

  c Apply a ***Special Levy*** to several sub-sectors, not just the sub-sector(s) where the cap is exceeded.

In all cases, the $250m scheme cap for the levy period will apply.

Due to the combination of the legislative instrument process, invoicing of levies to financial firms by ASIC, and delay in payments of levies, it may be impractical for Further Levies and Special Levies to be applied, as such levies may not be received within the relevant levy period. Revised Estimates generally would need to occur at the beginning of the levy period for funds to be available within that levy period. As a result, depending on the quantum of the shortfall, it may be more practical for shortfalls to be included in the levy for subsequent levy period(s).

## 3.4 Components of the Estimate

The Levy Collection Act requires the CSLR operator to estimate its claims, fees and costs for a levy period. The following components of the calculation are required for the levy estimate, as set out in Section 9 of the Levy Collection Act:

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | | (2) | | (3) | | (4) | | (5) | | (6) |
| Estimate = | Compensation payments to consumers | + | Unpaid fee payments to AFCA | + | ASIC levy administration | + | CSLR operating costs | + | Capital reserve contribution | + | Adjustment for prior year shortfall or excess |

The Levy Collection Act specifically identifies the components to be included in each levy period, which is summarised in the table below. The 3rd Levy Period components have been highlighted in blue.

**Table 3.1 – Components of each Levy**

| Levy | Compensation payments (1) | AFCA fees (2) | ASIC levy administration (3) | CSLR operating costs (4) | Capital reserve (5) | Adjustment for prior year shortfall or excess[1] (6) |
|---|---|---|---|---|---|---|
| Pre-CSLR Levy | For pre-CSLR complaints only | For pre-CSLR complaints only | No | No | No | No |
| 1st Levy Period (FY24) | Yes | Yes | No | Yes | $1.67m capital contribution | No |
| 2nd Levy Period (FY25) | Yes | Yes | Yes | Yes | $1.67m capital contribution | Not applied |
| 3rd Levy Period (FY26) | Yes | Yes | Yes | Yes | $1.67m capital contribution | Adjustment, from the 1st Levy Period |
| 4th Levy Period and thereafter (FY27+) | Yes | Yes | Yes | Yes | Capital recovery, if required | Yes[1] |

[1]Including adjustments relating to the pre-CSLR balance

Deductions are applied in respect of investment income and recoveries received within the levy period.

# 4 Levy experience to date

There are three levies that pre-date the 3rd Levy Period, being:

- Pre-CSLR levy
- 1st Levy Period
- 2nd Levy Period.

Figure 4.1 summarises the experience to 30 September 2024 of each Levy Period that pre-dates the 3rd Levy Period.

**Figure 4.1 – Summary of levy experience to 30 September 2024**

| | | Actual to 30 September 2024 ($000) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Levy | Number of claims paid | Amount of claims paid | AFCA Fees[1] | Capital Contribution | CSLR operating costs | ASIC costs | Investment income[2] | Actual to date | Levy estimate | Levy collected[3] | Reconciled excess/ (shortfall)[4] |
| Pre-CSLR | 82 | 8,888 | 1,767 | - | - | - | (2,640) | 8,014 | 240,858 | 232,530 | n/a |
| 1st Levy Period | 0 | - | 169 | 1,667 | 1,062 | - | (47) | 2,850 | 4,846 | 4,846 | 1,996 |
| 2nd Levy Period | 9 | 202 | 90 | 1,667 | 1,049 | 328 | (123) | 3,213 | 24,148 | 23,284 | n/a |
| Total | 91 | 9,090 | 2,025 | 3,333 | 2,111 | 328 | (2,810) | 14,078 | 269,852 | 260,660 | 1,996 |

[1] AFCA Fees includes the amounts notified by AFCA to CSLR for unpaid complaint fees to 31 August 2024 and 2 months of the annual user charge for complaints resolved in FY24. For Pre-CSLR this is the total unpaid complaint fees notified by AFCA to CSLR with the user charge accrued to 30 September 2024

[2] Investment income accrued to date for pre-CSLR. For the 1st and 2nd Levy Period, this is amount of investment income earned on post-CSLR complaints in that levy period.

[3] The Pre-CSLR levy estimate is expected to be collected in full. A further $4.2M was received in October 2024.

[4] Reconciliation has only been conducted on the 1st Levy Period as of 30 September 2024.

For the pre-CSLR period, $240.9m was levied and $232.5m collected to 30 September 2024. $8.9m of claims has been paid in respect of 82 claims, $1.8m of AFCA complaint fees and user charge fees received for unpaid fees, and $2.6m of interest income earned from the invested cash. The pre-CSLR levy is intended to meet the ultimate cost of all pre-CSLR complaints, the bulk of which have not yet been determined by AFCA. Noting the limited claims experience to date, it is too early to opine on the adequacy of the levy collected for the pre-CSLR to meet its ultimate costs.

The 1st Levy Period has been finalised. The Initial Estimate of $4.9m was collected in full from the Commonwealth Government. CSLR paid AFCA $0.2m in unpaid fees, incurred $1.1m of operating expenses, and built $1.7m of capital reserves from the 1st Levy Period collection. $47,000 of investment income was earned during the 1st Levy Period. No compensation for post-CSLR complaints were made during this 1st Levy Period noting that there were a lower volume of relevant complaints determined by AFCA during the 1st Levy Period and the time needed by CSLR to process a claim to payment after it has been lodged. This compares to an expected 11 claims paid in the period.

The excess of levy funds for the 1st Levy Period is applied as an offset against the 3rd Levy Period estimate as set out in the s9(2)(b) of the Levy Collection Act. Note the adjustments are at the sub-sector level. This is outlined further in Section 10.1.

$23.3m in levies has been collected as at 30 September 2024 in respect of the 2nd Levy Period, compared with the Initial Estimate amount of $24.1m. The shortfall in collection occurs because some Financial Firms have not yet paid levies and/or they may ultimately be unrecoverable. Shortfalls in the levy collected compared to the actual claims cost will ultimately be adjusted for in a subsequent levy period.

9 claims were paid a total of $0.2m in the first 3 months of the 2nd Levy Period, along with $0.1m of unpaid AFCA fees, $1.0m incurred by CSLR in operating costs, and $0.3m incurred in ASIC costs. $0.1m of investment income has been earned in the 3 months to 30 September 2024 in respect of funds invested and available to meet post-CSLR outgoings.

Our Initial Estimate for the 2nd Levy Period assumed 129 claims would be paid by the end of the levy period (compared to the 9 in the first 3 months of the levy period). It is anticipated that AFCA determinations will scale up during this period and consequently the number of claims paid by CSLR will be higher towards the end of the levy period.

# 5 Large Financial Failures

In this section we consider two large financial failures that are expected to dominate the compensation payments to be made by CSLR during the 3rd Levy Period.

The following two large known financial firm failures are expected to lead to material compensation payments in the 3rd Levy Period:

- Dixon Advisory and Superannuation Services Limited (DASS)
- United Global Capital Proprietary Limited (UGC).

DASS's failure was known at the time of setting the pre-CSLR estimate as well as the initial estimates for the 1st and 2nd Levy Periods. Further complaints against DASS continued to be lodged with AFCA up until its AFCA membership ceased on 30 June 2024. Much of the background information for DASS has been included in our previous reports and has been updated in this report for completeness.

UGC is a new failure and there is less known about possible CSLR claims arising from its failure.

Given the materiality of the failures of these two firms to our estimates, this section expands on what is known about the DASS and UGC failures and the implications for the 3rd Levy Period.

## 5.1 Dixon Advisory and Superannuation Services Limited

### 5.1.1 About DASS[6]

DASS held an AFSL and operated a financial advice business focused on providing financial advice, investment advice, portfolio management and superannuation services to retail clients. A substantial amount of the business of DASS was in relation to Self-Managed Superannuation Funds (SMSF).

DASS is a wholly owned subsidiary of E&P Financial Group (formerly Evans Dixon).

DASS has faced legal actions arising from the provision of financial services to clients, in particular people who were advised to invest in the US Masters Residential Property Fund (URF) and URF-related products, which were issued and operated by related companies to DASS. These included a proceeding issued by ASIC in the Federal Court which resulted in orders for DASS to pay a $7.2 million penalty and $1 million towards ASIC's costs.

On 19 January 2022, DASS was placed into voluntary administration, with the appointment of the Administrators – Stephen Longley and Craig Crosbie from PwC.

DASS operated under an AFSL until 8 April 2022 when it was suspended by ASIC. In May 2022, the Administrators requested that ASIC cancel the AFSL. ASIC cancelled DASS' AFSL, effective 5 April 2023.

Subsequently on 30 June 2024, DASS's AFCA membership expired and, consequently, no further AFCA complaints could be lodged in respect of DASS from that date.

[6] See ASIC Media Release of 4 August 2023, 'ASIC sues Dixon Advisory & Superannuation Services Pty Limited Director'

### 5.1.2 Losses on URF Equities for DASS clients

DASS and/or related companies established several investment products that clients invested in, most notably the US Masters Residential Property Fund (URF) that was established in 2011[7], with the URF Equities (ASX:URF)[8] and URF CPUs (ASX:URFPA)[9] being listed on the ASX in July 2012 and December 2017, respectively. The stated purpose of the URF was to provide investors with exposure to a diversified portfolio of US-based residential property assets, with the potential for long-term returns through a combination of capital growth and net rental income.

The Administrators understood that following the establishment of the URF, DASS advised clients to invest in the fund. At the same time, other related entities were paid significant fees from the URF. This included, for example, amounts paid for managing the URF's assets and for renovating the properties owned by URF. This created a perceived conflict of interest for DASS.

As the value of the URF Equities declined from a peak of $2.33 per share in September 2015 to $0.185 in March 2021, the URF's performance, combined with concerns about the potential conflict of interest issues, resulted in various complaints being made to AFCA against DASS.

### 5.1.3 AFCA complaints relating to DASS

The following summarises the history of AFCA complaints, relating predominantly to the URF securities bought by DASS clients[10]:

- The first complaints made to AFCA in relation to the URF occurred in 2018.
- In the period from June 2018 to the Appointment Date of the Administrators, 11 complaints lodged by DASS clients with AFCA were settled and paid by DASS, and a further five complaints were settled in principle, but not paid. In all of these cases, an agreed outcome between DASS and the relevant client was negotiated.
- At the Appointment Date of the Administrators, there were 76 open complaints against DASS. DASS estimated its liability in respect of those 76 complaints to be up to $18.5m (under the AFCA "whole of portfolio loss" methodology) in a board memorandum prepared by DASS director, Mr Ryan, on 18 January 2022 for consideration in advance of placing DASS into administration.
- At a meeting held between the Administrators and AFCA representatives on 25 January 2022, AFCA informed the Administrators that it had paused the processing of complaints against DASS, in line with AFCA's policy of pausing complaints against an insolvent company.
- On 3 August 2022, ASIC issued a media release and correspondence to former clients of DASS recommending they lodge a complaint with AFCA if they believed they had suffered a loss as a result of the misconduct of DASS and/or their former DASS financial adviser in providing financial services.
- By 7 September 2022 (the end date of the pre-CSLR period), complaints lodged with AFCA numbered 1,638 and further complaints have been lodged after that date.
- By 30 June 2024, when DASS's AFCA membership was cancelled, there were a total of 2,798 complaints. No further complaints can be made once a financial firm's AFCA membership has ceased. There was a merging exercise undertaken by AFCA in October 2024 which has identified some duplicate complaints

[7] US Masters Residential Property Fund includes the URF Equities, URF CPUs and URF Notes. The URF is one of the Related Party Investment Products.
[8] The equity securities in the ASX listed URF entity (ASX:URF) that listed on the ASX on 23 July 2012.
[9] The URF Convertible Step-Up Preference Units (ASX:URFPA) that listed on the ASX in December 2017. The URF CPUs are an equitable interest in the URF, but on which unit holders may receive a priority distribution at a set rate.
[10] In some instances, this includes other Related Party Investment Products.

which led to a corrected total number of unique complaints of 2,746, which we have used to set our estimate for the 3rd Levy Period.

Table 5.1 details the number of unique DASS complaints received by AFCA to 30 September 2024 and compares this to the number of DASS complaints received by AFCA in our previous estimates.

**Table 5.1 – Number of DASS complaints received by AFCA**

| | | Complaints at September 2024 | |
|---|---|---|---|
| Financial Firm | Complaints as at previous report[1] | Pre-merge exercise | Post-merge exercise |
| Pre-CSLR | 1,657 | 1,657 | 1,654 |
| Post-CSLR | 265 | 1,141 | 1,092 |
| Total | 1,922 | 2,798 | 2,746 |

[1] 1st & 2nd Levy Period Initial Estimates, March 2024

### 5.1.4 Investor creditors in the DASS administration

The Administrators determined that AFCA complaints were made in respect of four of the Related Party Investment Products, with the vast majority in respect of the US Masters Residential Property Fund (URF), specifically the Australian Securities Exchange (ASX) listed URF equities (the URF Equities). Of the four Related Party Investment Products, only the URF Equities significantly underperformed against relevant benchmarks.

The Administrators therefore consider that only the 4,606 investors in the URF Equities should be treated as creditors of the Company. These investors make up almost all the creditors in the administration proceedings, by number of creditors (4,606 of 4,620) and the quantum (estimated by the Administrators to be $367.9m out of $368.6m owed) based on estimates[11] shown in the Administrators' Report.

### 5.1.5 Class actions against DASS and the Deed of Company Arrangement (DOCA)

Class action proceedings were filed in respect of URF claims. The Class Actions include claims against the Company for financial advisor contraventions (such as conflict of interest and advisor conduct), breaches of fiduciary obligations, misleading and deceptive conduct and negligence.

In December 2022, DASS creditors approved the Deed of Company Arrangement (DOCA) proposed by E&P Financial Group. The DOCA required E&P Operations to pay an amount of $17.7m to DASS, less a settlement adjustment for expenses incurred by E&P Operations during the administration period ('tranche A'). The DOCA provided a mechanism to accommodate the settlement of the outstanding class action. On 14 November 2023 the Administrators announced that a settlement agreement had been made by the parties.

We interpret the information in the Administrators' notification to be that the settlement is for $12m, with Shine Lawyers' fees to come from that and the remainder paid to the DASS Administrators. The settlement also triggered a 'tranche B' payment of $4m to DASS from the parent company. Thus, the DASS creditors have received $4m and will receive the balance of $12m after Shine Lawyers' fees.

[11] But note these estimates are only of the investment loss without interest or the other elements that would be included in an AFCA determination.

Our understanding is that this outcome was as envisaged by the DOCA and in the Administrators' report. If this understanding is correct then it would confirm the indication from the Administrators that the return to creditors after the DOCA would be about 4 cents in the dollar. This is about $15m out of claims of $369m.

On 26 August 2024 the Administrators issued their Notice of Intention to Declare a Dividend for Former Client Creditors and other non-client creditors. Creditors had until 25 October 2024 to formally prove their debt, with a final dividend to be declared on or before 24 April 2025.

### 5.1.6 Implications for the 3rd Levy Period Initial Estimate

DASS complaints represent more than 50% of the currently open, in-scope, post-CSLR complaints. As such, the estimation of an appropriate 3rd Levy Period estimate depends significantly on our understanding of the particulars of the situation surrounding DASS.

It appears to us that most, if not all, of the post-CSLR complainants in relation to DASS will have their complaint determined and, if a non-zero determination is made, to then lodge a claim with the CSLR. The decision of the Federal Court in ASIC's action against DASS strongly supports the assumption that these complainants will largely be successful. To-date only one post-CSLR DASS complaint has closed without a non-zero determination being made in the complainant's favour.

We have assumed no recoveries will be received by CSLR in the 3rd Levy Period. This is because any money received from the DOCA will offset AFCA determinations prior to CSLR payment. There are limitations in CSLR's ability to recover distributions from the DOCA in respect of claims already paid, notwithstanding that this is expected to be immaterial in any case.

## 5.2 United Global Capital Proprietary Limited (UGC)

UGC operated with an AFSL from August 2017, providing financial services (including financial advice) to clients in Australia. UGC's activities included financial advice in establishing self-managed superannuation funds and investments within the SMSFs. UGC's authorised representatives contacted prospective clients and recommended they establish a self-managed superannuation fund (SMSF), rollover their existing superannuation into the SMSF and invest in related-party companies and funds.

A timeline of significant events for UGC includes:

- **November 2011**: Company registered.
- **August 2017**: UGC obtains Australian Financial Services Licence (496179). It provided financial services including financial advice to clients across Australia. The sole director of UGC is Joel James Hewish. Mr Hewish was also UGC's responsible manager and key person on the licence.
- **August 2019**: The Global Capital Property Fund Limited (GCPF) is established and UGC advises its clients to invest in GCPF through the purchase of its shares. Joel Hewish is a director of GCPF, along with Brett Aaron Dickinson and Chris Pappas. GCPF is discussed in more detail below.
- **July 2022**: ASIC made interim stop orders on 5 and 21 July 2022 preventing the offer of shares to retail investors under GCPF's prospectus as well as further interim stop orders on 29 August and 13 September 2022 preventing the issue of shares due to a deficient target market determination.
- **3 June 2024**: ASIC cancelled UGC's AFS licence and banned Mr Hewish from providing financial services for 10 years. The cancellation was based on ASIC findings that UGC lured people into investing their retirement savings in UGC-related products, recommended high speculative investments in GCPF in which Mr Hewish had an interest, attempted to contract out of its personal advice obligations, failing to

act in clients' best interests, and contravened obligations to ensure efficient, fair, and honest provision of financial services.[12]

- **June 2024**: ASIC obtained interim orders from the Federal Court freezing the assets of UGC and related property investment company GCPF.
- **5 July 2024:** UGC entered voluntary administration.
- **9 August 2024:** UGC's creditors resolve to liquidate the company and appointed SV Partners as liquidator (no DOCA was proposed).

Clients of UGC are not creditors in the liquidation, and therefore there are no recoveries for investment losses arising from the liquidation.

ASIC requires UGC to remain a member of the AFCA scheme until at least 31 May 2025, noting the requirement for a decision to be made by AFCA's Board to expel UGC in accordance with AFCA's approach to expelling financial firms. Provided AFCA has jurisdiction to consider a complaint, AFCA can accept complaints about UGC while the firm remains a current member.

### 5.2.1 Global Capital Property Fund (GCPF)

GCPF is an unlisted public company incorporated in August 2019. GCPF raised around $85m from 538 shareholders between 2019 and 2022. GCPF's accounts as at 30 June 2023 showed it had 82m shares on issue and net assets of $94m.

The vast majority of GCPF's shareholders came to acquire their shares in GCPF via the UGC Advice Model and, consequently, the money invested in GCPF primarily comprises investors' retirement savings rolled over from their regular superannuation accounts into SMSFs and thereafter invested in GCPF shares.

GCPF used the proceeds of money raised to invest in a range of property developments. At the time of being placed into liquidation GCPF's portfolio consisted of 15 individual investments, of which 1 has been completed. The investments have been made by loaning and/or advancing funds to, or taking an equity interest in, special purpose vehicles (SPVs) which own the land on which the projects are being undertaken, or which at the time of the investment proposed, to acquire the land. Five of the 14 ongoing projects are being undertaken by SPVs related to GCPF.

The ability of each of the SPVs to repay GCPF's investments is contingent on the relevant projects turning a profit as well as the level of liabilities in the SPV. Most of the projects have been delayed. Some of the projects are likely to realise a loss to GCPF.

Investors in GCPF have not received any returns or distributions from the fund since it was established. Since June 2021, GCPF has incurred monthly "management fees" owed to a related entity, GCPF Management Pty Ltd, to manage its portfolio of assets.

In June 2024, ASIC obtained interim orders from the Federal Court to freeze the assets of GCPF to protect investor funds while an investigation was ongoing. On 3 October 2024 the Federal Court made orders for GCPF to be wound up and appointed FTI Consulting as liquidators[13].

The liquidation process is in its infancy. We are not aware of estimates of the disposal values of GCPF's assets.

[12] https://asic.gov.au/about-asic/news-centre/find-a-media-release/2024-releases/24-170mr-asic-bans-united-global-capital-in-administration-director-for-10-years-and-cancels-licence/
[13] Australian Securities and Investments Commission v United Global Capital Pty Ltd [2024] FCA 1215

### 5.2.2 Implications for the 3rd Levy Period Estimate

UGC complaints represent around 70% of the total expected compensation payments to be made during the 3rd Levy Period.

There are several substantial uncertainties relating to the impact that UGC may have on CSLR. These include:

1. The ultimate number of complaints that emerge prior to UGC's AFCA membership being cancelled. This is primarily the number of affected investors who will ultimately lodge an AFCA complaint. There may be other financial advice instances provided by UGC (or related to it), beyond those highlighted in this section, that lead to AFCA complaints and eligible CSLR claims.
2. AFCA determination on the investment loss suffered and therefore the amounts of compensation that successful UGC claimants receive. AFCA's assessment of loss will consider the loss arising from inappropriate financial advice given by UGC and its Corporate Authorised Representatives (CAR).
3. The amount GCPF investors may receive from the liquidation process and how this is considered in AFCA's outcome assessment and consequently for CSLR's claim amount.

The ultimate number of complaints that result from UGC is highly uncertain. There are 101 open complaints at the AFCA extract date (30 September 2024). There is potential for significantly more to be reported prior to UGC's AFCA membership being cancelled. The experience from DASS was that increasing awareness and the approaching AFCA membership cancellation influenced the making of complaints to AFCA.

Based on the information available at this stage, we know that UGC's SMSF clients will likely have suffered financial loss arising from their investment in GCPF. Not all GCPF investors were advised by UGC or its CARs, and some complaints arising from GCPF investments may relate to other Financial Firms which would only lead to a CSLR claim if that Financial Firm fails. Furthermore, some investors with a potentially valid claim may ultimately not lodge a complaint to AFCA within time. We have assumed that the majority of GCPF's, but not all, investors will lodge a complaint against a failed Financial Firm (see Section 7.4).

Further, not all UGC's financial advice clients were invested in GCPF. It is not clear the extent that this cohort of clients will lodge a complaint against UGC for the financial advice received nor the extent of financial loss suffered because of that advice. Complaints from this cohort are possible and would at a minimum lead to unpaid AFCA complaint fees. We have not included an allowance for this cohort of complainants in our 3rd Levy Period estimate for the following reasons:

- There is limited information about this cohort at this stage to understand the likelihood of a complaint being lodged and ultimately a successful compensation payment.
- Based on AFCA's current anticipated processing volumes, additional complaints will unlikely be determined for payment within the 3rd Levy Period.

In estimating the financial loss, AFCA considers the position the complainant would likely be in were it not for the inappropriate advice. This includes an assessment of where the complainant's funds would have likely been invested were it not for the advice. This assessment depends on the individual circumstances of the complainant and we do not have details as to the makeup of their superannuation investments prior to the setting up of an individual's SMSF. We have used the Vanguard Balanced Index Fund returns, and the average timing of investments made in GCPF, to approximate the likely change in superannuation balances were it not for the inappropriate advice.

We anticipate AFCA's estimate of financial loss will consider the potential outcome of GCPF's liquidation. Given the recency of GCPF's liquidation and the nature of its investments, in our view it is unlikely that the outcome of the liquidation will be known before the end of the 3rd Levy Period, i.e. by 30 June 2026, potentially slowing down when claims may be paid. Nonetheless, we assume that CSLR will be able to make timely payment of GCPF related claims in the 3rd Levy Period after receipt of levy funds and that CSLR will be able to recover funds from the liquidation proceedings. We assume that these recoveries will occur in a subsequent levy period.

# 6 Methodology

This section outlines our approach to estimating the 3rd Levy Period amount, including the structure of the modelling and the approach to parameterisation.

## 6.1 Data and information sources

We relied on a range of data and information sources in estimating the claim costs relating to the 3rd Levy Period amount as well as unpaid AFCA fees. This section outlines these sources.

We have conducted some reasonableness checks on the data provided.

### 6.1.1 Complaints

Our primary data reference was an extract supplied by AFCA of all complaints received by AFCA since 2018. For the purposes of estimating the 3rd Levy Period amount, we received an extract as at 30 September 2024[14].

The dataset includes complaints that have been finalised, that are in progress and those that have been paused for various reasons. Some of the key fields included in this extract are:

- The amount claimed, as entered by the complainant.
- The outcome amount where the complaint has been completed (by determination or earlier in the AFCA complaints process).
- The status of the Financial Firm (i.e. insolvent, in administration etc).
- The sales or service channel to which the complaint relates (which indicates the type of financial product or service).

### 6.1.2 Claim Information

We have been provided with an extract from CSLR of all reported claims received since the beginning of CSLR's operations. For the purposes of estimating the 3rd Levy Period amount, we received an extract as at 30 September 2024.

The dataset includes claims that have been paid, are in progress (i.e. verifying identification) and those that have been assessed as ineligible due to being outside of CSLR's scope. Some of the key fields included in this extract which we have relied on include:

- The AFCA complaint number for which the CSLR claim was lodged.
- The CSLR estimate amount which CSLR place on file for when they have a better understanding of the likely CSLR compensation amount.
- The CSLR payment amount which is the amount of compensation actually paid.
- The relevant subsector for which the compensation relates (e.g. Financial Advice, Credit Provision).

The 6 currently open CSLR claims as at 30 September 2024 are expected to be paid in the 2nd Levy Period. The CSLR claim experience is used primarily to assist in the development of assumptions for claims expected to be paid in the 3rd Levy Period.

[14] Note that complaints relevant to the 3rd Levy period will be reported after the AFCA extract date. Our methodology considers and makes allowances for these complaints.

### 6.1.3 DASS and UGC

Where large numbers of complaints that may lead to CSLR claims arise from known financial firm failures, we have used information in the public domain as well as that made available by ASIC to CSLR as permitted under legislation.

### 6.1.4 Other information sources

We referenced a number of additional sources of information in our investigation, including:

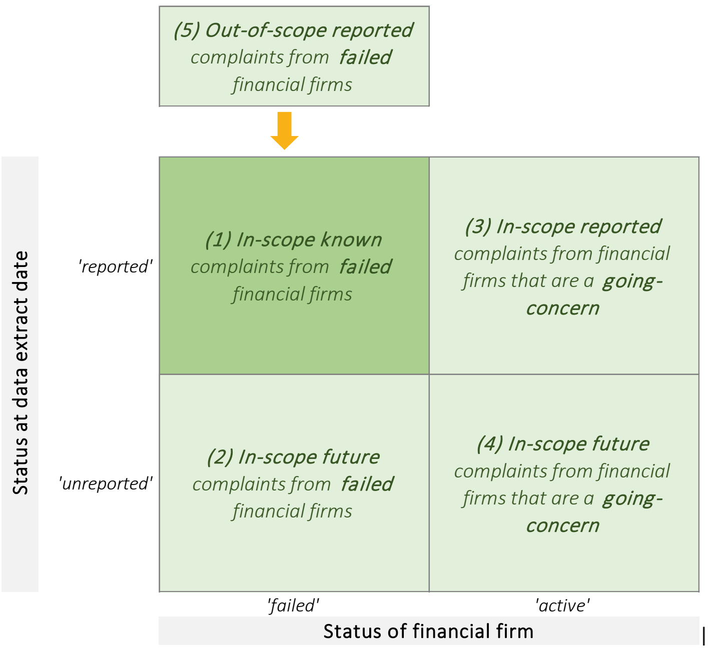
- CSLR operating budgets for FY25 & FY26
- Estimates of ASIC levy administration costs (for administering CSLR levies)
- AFCA unpaid fee details on closed complaints
- AFCA forecasts of complaint processing timeframes
- Searches on ASIC's website on Financial Firms and their trading status
- Publicly available information relating to Other Financial Firms to assist with understanding their current trading status and additional information as to the nature, or likely result, of complaints made against the Financial Firm.

## 6.2 General Methodology

### 6.2.1 Sources of potential claims

There are several cohorts of complaints that could ultimately lead to successful claims against the CSLR. Figure 6.1 outlines the structure by which we have classified and considered the complaints.

**Figure 6.1 – Sources of potential CSLR claims**




We have considered the following cohorts of in-scope complaints that could ultimately lead to successful claims against the CSLR:

- The cohort of reported complaints which relate to already failed Financial Firms, i.e. Group (1) in Figure 6.1. This cohort is expected to make up a significant majority of the successful claims against the CSLR in the 3rd Levy Period.
- The potential for complaints relating to already failed Financial Firms to emerge after the date of extract of AFCA complaint information (30 September 2024) and become CSLR claims, i.e. Group (2).
- The potential for complaints related to currently active firms to become successful CSLR claims following the failure of the firm after the AFCA extract date. Group (3) is the cohort of complaints that have been reported to AFCA, and Group (4) is the cohort that will emerge after the date which data was extracted (i.e. the "AFCA extract date") for this Report.
- The potential for reported complaints relating to already failed firms, which are currently out-of-scope, however will transition to becoming in-scope during the process of AFCA determination i.e. Group (5).

Table 6.1 summarises the modelling approach for each cohort of potential CSLR claims.

**Table 6.1 – Modelling approach**

| Complaint cohort | Description | Approach |
|---|---|---|
| Group (1) | In-scope known complaints from already failed firms | We have relied on individual AFCA complaint information as a starting point of our estimate. |
| Group (2) | In-scope future complaints from already failed firms | We have considered how complaints emerge relative to the failure date of a firm, based on historical trends observed in AFCA's complaints database. We have made separate allowances by sub-sector for future unreported claims relating to already failed firms. |
| Group (3) | In-scope known complaints from Financial Firms that are currently a going concern | Groups (3) and (4), which combined form the cohort of in-scope complaints arising from future non-large failures, are modelled together.<br><br>We have estimated the expected number of non-large firm failures per year as well as the expected number of complaints per non-large firm failure, using the AFCA complaints data. This is separately estimated for each sub-sector. |
| Group (4) | In-scope future complaints from Financial Firms that are currently a going concern | |
| Group (5) | Out-of-scope known complaints from already failed firms | We examined each failed Financial Firm that had unresolved out-of-scope complaints. We applied a likelihood of that complaint becoming in-scope, based on publicly available information from ASIC and other external sources. |
| Other complaints | Out-of-scope complaints relating to future complaints and/or future failures to transition to becoming in-scope complaints | Not further considered. |

For the 3rd Levy Period, given the large number of outstanding complaints from already failed firms (dominated by DASS and UGC), as well as AFCA's and CSLR's expected complaint and claim processing volumes prior to 30 June 2026, it is expected that the vast majority of complaints relevant to the 3rd Levy Period will come from Groups (1) & (2).

At a high level, the methodology for estimating costs for the levy period amounts can be characterised as:

$$Total\ Cost = \sum^{\text{modelling segments}} [\{\#\textbf{Claims processed} \times \textbf{Average Claim Amount}\} + \textbf{AFCA fees} \ - \textbf{Recoveries}]$$

$$+ \textbf{Capital Contribution}$$

$$+ \textbf{CSLR Operating Costs}$$

$$+ \textbf{ASIC Costs}$$

### 6.2.2 Volume of CSLR claims processed

The number of claims that CSLR can process in 2025/26 (and how many of these relate to post-CSLR complaints as opposed to pre-CSLR complaints when considering the 3rd Levy Period) is a key determinant of the compensation that will be paid in the period. A precursor to CSLR processing a claim is AFCA determining the complaint in favour of the complainant and issuing an Appropriate Steps Notice (ASN). An ASN is a precursor to a complainant registering a claim with CSLR.

The amount of payments in the 3rd Levy Period is a function of two main drivers:

- The number of complaints lodged with AFCA that would be in-scope for CSLR.
- The processing of those complaints by AFCA and the subsequent payment by CSLR of claims lodged with CSLR.

For Groups 1 and 2, our approach is to consider the total number of complaints arising from known failed Financial Firms, with a focus on large failures like DASS and UGC. We then consider how many of these are expected to be paid by CSLR within the 3rd Levy Period (i.e. 2025/26) based on the capacity of AFCA and CSLR to do so.

For Groups 3, 4, and 5, the natures of the complaints and/or the Financial Firms are unknown. For these segments our method is to estimate a typical rate of Financial Firms failing, and of 'out-of-scope' claims transitioning to 'in-scope', in estimating the potential volume of CLSR claims that might emerge.

AFCA have advised CSLR of their expected monthly volume of ASNs, based on their planned workforce and considering the complexity of various types of complaint. They provided these expectations, broken down between DASS, UGC, other Financial Advice and then for all other sectors combined to 30 June 2025. These expected volumes have been used to forecast from 1 July 2025, anticipating the same monthly capacity.

We make two key assumptions when estimating the potential compensation paid in respect of the 3rd Levy Period during 2025/26:

- That AFCA can meet their expected issuance of ASNs; and
- That, once a claim is reported, CSLR has sufficient operational capacity to be able to process the claims within normal timeframes following the issuance of ASNs by AFCA.

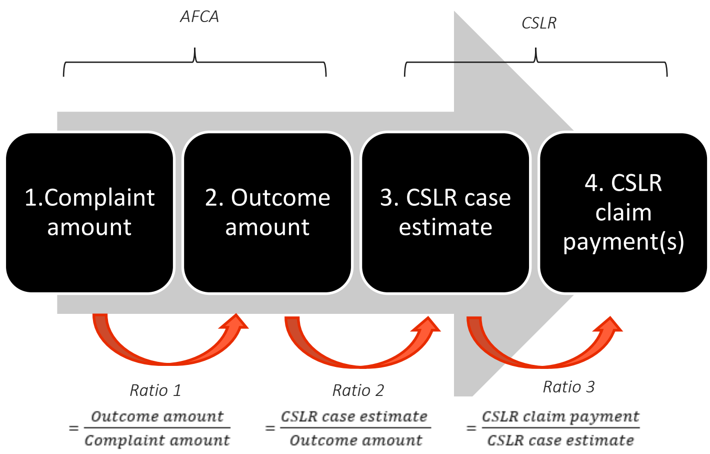
AFCA and CSLR estimated operational projections have been revised since the inception of the Scheme to reflect the experience of the processes to date.

We assume that most complainants with non-zero, ‘in-scope’ determinations in their favour will quickly proceed to lodge a claim with CSLR.

### 6.2.3 Average CSLR Claim Payment

There are four key points in the complaint/claim lifecycle at which the uncertainty in the ultimate amount of compensation paid reduces or is removed. These are outlined in Figure 6.2.

**Figure 6.2 – Claim estimate lifecycle**




1 **Complaint amount**: The amount entered by the complainant at the time of lodging the complaint. They are not obliged to enter an estimate and for many complaints it is ‘zero’ or blank. There is limited guidance given to the complainant on how to approach estimating the loss at this point in the complaint lifecycle and hence there can be a wide range of approaches to considering what the actual loss was.

2 **Outcome amount**: The amount of the determination made by AFCA. At this stage, the quantum of the likely compensation becomes significantly less uncertain and potential offsets to losses incurred by complainants may be identified during the AFCA complaint process. The change from complaint amount to outcome amount is the most uncertain, with changes from there on being, on average, more limited.

3 **CSLR case estimate**: The estimate of claim costs put on the claim by CSLR during the claim management process. The CSLR case estimate considers the outcome amount, additional interest components as outlined in the determination, and crystallising of contingencies included by AFCA in the determination.

4 **CSLR claim payment**: The actual compensation payment(s) made to eligible claimants. There may be multiple payments made per determination, which are capped at per-person awards.

#### Claim development ratios

In our modelling of the progression of likely claim amounts, we make separate selections for each of the three claim development ratios outlined in Figure 6.2 and for each of DASS, UGC as well as for each sub-sector. With that segmentation we can account for the individual circumstances of large failed financial firms that impact the estimation of each ratio.

In the following sections we set out the approach to estimating each of the components of the levy estimate across the sources of potential claims outlined in Section 6.2.1.

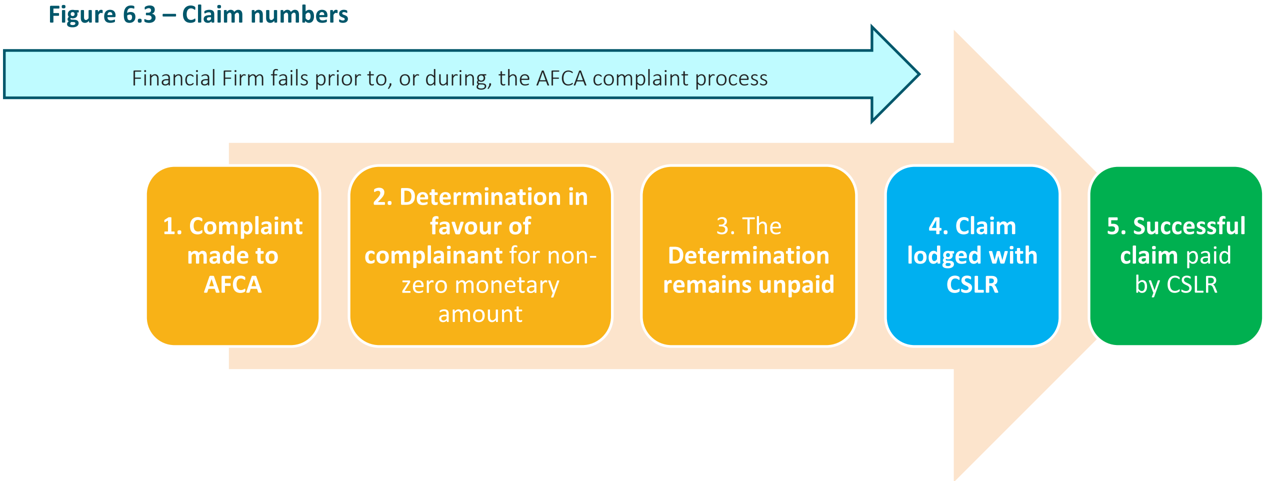
## 6.3 Group (1): In-scope reported complaints from already failed firms

Due to the expected dominance of DASS and UGC claim payments in the 3rd Levy Period, we have approached the parameterisation of the model separately compared with Other Financial Firms.

### 6.3.1 Probability of a successful CSLR claim

The approach to estimating the probability of a complaint becoming a successful claim with CSLR needs to consider the progress through various stages, as shown in Figure 6.3.

**Figure 6.3 – Claim numbers**




This cohort of complaints relates to Financial Firms that have already failed, and therefore will not pay the whole determination amount. For these open complaints, we are left to estimate:

- The likelihood of a determination being made by AFCA in favour of the complainant for a non-zero monetary amount.
- The likelihood that the complainant lodges a claim with the CSLR.
- The likelihood that CSLR accepts the claim.

### 6.3.2 Estimating the CSLR Claim Payment Amount

In estimating the CSLR claim payment amount for known complaints, we make assumptions on the average complaint size if the complaint amount (where left blank) based on analysis of similar complaints. From there we apply a combination of the three claim development ratios outlined in Section 6.2.3, depending on the progress of the complaint or claim in question.

## 6.4 Group (2): In-scope future complaints from already failed firms

For these unreported complaints, we have made monthly allowances for unreported complaints to emerge and become CSLR claims. These allowances run from October 2024 through to June 2026, the latest date that a complaint could theoretically be reported and be relevant for the 3rd Levy Period.

For failed Financial Firms, complaints that have resulted in unpaid determinations have been reported both before and after the Financial Firm failed[15]. There are often significant points in time at which general awareness is elevated for specific Financial Firm failures that result in an increase in the volume of complaints

[15] Noting that there is ambiguity in the definition of a 'failure date' and in practice there are multiple points at which a firm could be considered to have failed. For example, ASIC's insolvency statistics publication includes firms that have appointed external administrators or controllers, are undergoing restructuring plans, have voluntarily wound up, are in receivership, etc.

being received. Sometimes this may be related to actions or notifications made by administrators, regulators or the media.

To understand the likely unreported complaints that could emerge from already failed Financial Firms, we reviewed historical complaint lodgements in respect of previously failed Financial Firms. We investigated the distribution of complaint reports around the date of failure of the Financial Firm for each sub-sector.

For DASS, their AFCA membership has ceased and hence no future complaints can be reported.

For UGC, the number of AFCA complaints unreported at 30 September 2024 is a key driver of the 3rd Levy Period estimate. Under the expected AFCA and CSLR processing timeframes, the currently reported UGC complaints will likely be processed to be paid by CSLR at beginning of the 3rd Levy Period. We expect that claims in respect of unreported UGC complaints likely will be eligible to be processed to be paid by CSLR towards the end of the 3rd Levy Period. Note that CSLR's ability to make payments will depend on the Scheme having received the levy funds.

The outcome amounts assumed in respect of these Group (2) complaints are based on the average sizes of a CSLR claim from reported, in-scope complaints, as detailed in Section 6.3.2. This assumption is also separately considered in respect of the four industry sub-sectors for non-DASS/non-UGC complaints.

## 6.5 Groups (3) and (4): In-scope complaints from future firm failures

The other potential source of CSLR claims relevant for the 3rd Levy Period estimate is from complaints related to Financial Firms that fail after the date of AFCA data extraction (i.e. after 30 September 2024).

To project expected future Financial Firm failures, by sub-sector and month, we referenced historical AFCA complaints data to understand:

- The number of Financial Firms that have failed over AFCA's 5+ year history, and therefore the average number of Financial Firm insolvencies per year, by sub-sector.
- The average number of complaints that are open at failure date[16], and reported after the failure date, by sub-sector.
- And therefore, the expected total number of complaints, by sub-sector and by year, arising from future firm failures, for both reported complaints as well as complaints that emerge after the failure date.

We have referenced historical averages to estimate the costs that may arise from these cohorts, as well as applying judgement where the experience is volatile or sparse.

## 6.6 Group (5): Out-of-scope complaints from already failed firms

We have made an allowance for reported complaints on already failed firms which are currently considered out of scope, to transition to in-scope prior to determinations being issued (Group 5 in Figure 6.1). We have considered each failed Financial Firm with complaints identified as out-of-scope. We applied a likelihood of a complaint becoming in-scope, based on the nature of the complaint and our understanding of the activities of the Financial Firm in question.

[16] Failure date was sourced from ASIC's insolvency statistics publications for all Financial Firms that failed between 1 November 2018 and 30 September 2024.

## 6.7 Potential for recoveries

The nature of the CSLR means that it is intended to be accessed after all other avenues for recovery of lost monies have been exhausted (hence the 'last resort'). We have considered the potential for recoveries (subsequent recoveries that are recovered by CSLR or through subrogated recovery rights) to materialise for CSLR. We note that any recoveries against CSLR claims paid will likely not be received by CSLR for some time after the compensation payments have been made (and likely in a subsequent levy period).

In previous estimates we considered offsets and recoveries together. Offsets are funds that reduce the final claim payment by CSLR, whereas recoveries are amounts recovered by CSLR after it has paid a claim.

Offsets are allowed for in our assumed CSLR claim size in the selected development ratios outlined in Section 6.2.3. We have not separately allowed for offsets in addition to recoveries for the 3rd Levy Period.

Recoveries may be available to the CSLR through subrogation (Section 1069A of the Corporations Act). The ability to recover through subrogation has been explored by CSLR in a considered manner but no recoveries have been received to date under this power.

In terms of other Australian statutory compensation arrangements, we are only aware of one such arrangement – the National Guarantee Fund applying to certain stock exchange transactions. The NGF could apply to securities dealing, but it would not cover all situations in that sub-sector.

Regarding estimates for the 3rd Levy Period, we are interested in recoveries that would be realised, and received, by CSLR between 1 July 2025 and 30 June 2026. We have separately considered what recoveries expected during the 2025/26 financial year from:

- DASS
- UGC
- Other Financial Firms.

Our assumptions for each of these potential sources of recoveries during the 3rd Levy Period are detailed in Section 7.

## 6.8 Estimating AFCA's Unpaid Fees

AFCA charges fees for its services in relation to its administration of the authority and the determination of complaints. These fees provide the core funding for AFCA under its funding model that came into effect from 1 July 2022[17].

There are three types of fees charged to Financial Firms:

1. An annual membership/registration fee.
2. A case fee associated with each complaint, varying by the stage at which the complaint is completed.
3. A 'user charge' fee[18] , based on the number of closed complaints against a Financial Firm in the previous year and the stage at which the complaints were closed.

[17] https://www.afca.org.au/members/news/new-funding-model-comes-effect-on-1-july-2022
[18] As detailed at https://www.afca.org.au/members/funding-model/user-charge

AFCA fees for eligible complaints are recoverable from CSLR, irrespective of the outcome or whether the complainant makes a CSLR claim. This means that AFCA fees will arise from a larger number of complaints than the number of claims received by CSLR.

We have assumed that, for the purposes of the estimate for the 3rd Levy Period, only items 2 and 3. above would remain unpaid. Membership fees (item 1) are relatively small and the amount would not be material, noting that AFCA has agreed to waive any membership fees outstanding from insolvent firms.

Section 8 outlines our estimate of unpaid AFCA fees relating to the 3rd Levy Period.

## 6.9 Investment income

We have assumed that the 3rd Levy Period monies (including any monies remaining from 1st and 2nd Levy Periods) will be invested in a similar manner to CSLR's current investment profile (primarily cash and Term Deposits). We further discuss our estimate of investment income in Section 9.1.

## 6.10 Other Levy components

The legislation prescribes a number of additional components to be included in levy estimates, which were outlined in Table 3.1. These additional components, including our approach to estimating and allocating by sub-sector, are outlined in Table 6.2.

**Table 6.2 – Additional levy components**

| Component | Description | Approach |
|---|---|---|
| Capital Contribution | The legislation prescribes for a capital contribution of $5,000,000 to be made evenly across the first three post-CSLR Levy Periods. | For the 3rd Levy Period, this amounts to $1,666,667.<br><br>We apportion this capital contribution equally across the four sub-sectors. |
| CSLR Operating Costs | The CSLR operating costs incurred in each levy period are included in the post-CSLR levy estimate. For the 3rd Levy Period, a material portion of these costs will relate to time spent on pre-CSLR claims.<br><br>The CSLR operator estimates it will process 600 claims in the 2nd Levy period, consisting of 480 pre-CSLR complaints and 120 post-CSLR complaints. This will increase in the 3rd Levy Period to an estimated 1,800 claims, consisting of 1,160 pre-CSLR and 640 post-CSLR complaints. | We were provided with expected CSLR operating costs for the 2025/26 financial year. These costs are required to be covered by the 3rd Levy Period amount, regardless of whether they relate to pre or post-CSLR complaints.<br><br>In CSLR's forecast operating expenses, items were separately identified as either 'fixed' or 'variable' (in an approximate 70%/30% fixed/variable split overall).<br><br>The fixed component was spread evenly across the 4 sub-sectors.<br><br>The variable component of the expenses was allocated to each sub-sector based on the number of CSLR claims (including pre-CSLR claims) expected to be processed during the levy period. |

| | | |
|---|---|---|
| **ASIC Costs** | ASIC's costs in levying Financial Firms on behalf of CSLR | We were provided with the expected ASIC costs in managing levies.<br><br>The ASIC costs for the personal financial advice sub-sector (as outlined in Table 9.2) are higher compared with other sub-sectors. This reflects circumstances where increased administrative expenses may arise due to the complexities of the sub-sector and compensation payments exceeding the sub-sector cap.<br><br>We apportioned the ASIC costs equally across the other three sub-sectors. |

The legislation requires that the apportionment of these levy components to sub-sectors to have regard to actuarial principles. Actuarial principles include considering financial soundness, sustainability, fairness, simplicity, and materiality of alternate apportionment approaches, though it does not lead to one 'optimal' solution. Finity, with CSLR's management and Board, have considered appropriate approaches to apportionment of the other levy components. The approach adopted reflects the outcomes of these considerations.

## 6.11 Board Policy

The estimates of the 3rd Levy Period amounts in this Report have been determined in accordance with the finalised Board Policy: "Policy for Determination of Estimates for a Levy Period"; approved by the Board on 3 December 2024, together with this report.

The Board Policy sets out the Board's principles in determining the 3rd Levy Period amounts consistent with the obligations and objectives of the legislation. Specifically, we note the following statements from the Board Policy:

- Make separate estimates for complaints finalised and claims arising from the failure of identified known large Financial Firms and other claims;
- Separately estimate the number of AFCA complaints expected to result in successful claims under the CSLR Scheme and the average compensation amount for those claims;
- Consider the need for an additional allowance for complaints that:
  - are not on the database because they have not been notified to AFCA;
  - are recorded as another type of financial service, but will be ultimately determined to be in a Sub-Sector covered by the Scheme; and
  - are against Financial Firms that are not known to have failed but will fail prior to the end of the Levy Period;
- Include a reasonable allowance for investment income that is expected to be earned on the balance of amounts received by the CSLR, from receipt until expenditure; and
- Utilise the quantitative and qualitative information that is available, and then make reasoned actuarial judgements about the parameters for the estimates.

The legislation sets out a series of adjustment mechanisms to address shortfalls and excesses from prior levy periods, if these were to occur. Further, it would be reasonable to conclude that desirable public policy principles include not creating unnecessary financial burden and, where possible, to provide stable and predictable levies to industry.

Considering the Board Policy, our approach where there is uncertainty is to make reasonable estimates of outcomes in a reasonably favourable future environment. In particular no allowance is included for the possibility of higher than normal failure rates or claim costs, even on an average basis. Under the Scheme design, any unexpectedly large claim amounts would be recovered from future levies once the relevant events are known.

Uncertainty and sensitivities in respect of the 3rd Levy Period amount are discussed further in Section 11 of this report.

# 7 Estimate of Claim Costs

In this section, we document the estimate of the claim costs expected to be paid by CSLR, arising from post-CSLR complaints, for the 3rd Levy Period. We separately consider the expected costs associated with DASS and UGC complaints, from the complaints relating to other Financial Firms.

## 7.1 AFCA complaint experience to date from failed Financial Firms

Table 7.1 shows the number of reported in-scope, post-CSLR complaints relating to DASS, UGC and other Financial Firms, along with the total complaint amounts reported as 'lost' by the complainants[19].

These 1,359 complaints have been identified in the AFCA complaints data through their primary business activity and are post-CSLR. They are the complaints in Group (1) of Table 6.1.

**Table 7.1 – Reported post-CSLR in-scope complaints and complaint amounts – Group (1)**

| | Number of in-scope complaints | | | In-scope complaint amount ($000) | | |
|---|---|---|---|---|---|---|
| | Open | Closed | Total | Open | Closed[2] | Total |
| DASS personal financial advice[1] | 1,071 | 21 | 1,092 | 150,345 | 4,220 | 154,565 |
| UGC personal financial advice[1] | 101 | 5 | 106 | 6,195 | 15 | 6,210 |
| Other personal financial advice | 35 | 24 | 59 | 4,709 | 2,836 | 7,545 |
| Credit provision | 12 | 82 | 94 | 317 | 625 | 942 |
| Credit intermediation | - | - | - | - | - | - |
| Securities dealing | 1 | 7 | 8 | - | 144 | 144 |
| Total | 1,220 | 139 | 1,359 | 161,567 | 7,840 | 169,407 |

[1] All DASS and UGC complaints relate to personal financial advice

[2] Closed complaints that haven't been paid by the financial firm, but excluding complaints with nil outcome amounts

DASS dominates the cohort of reported in-scope open complaints, both in terms of the number of complaints and the total amount claimed by complainants in-scope for the CSLR. No further complaints can be lodged against DASS.

To 30 September 2024, 106 complaints had been lodged in respect of UGC. More complaints are expected to be lodged prior to their AFCA membership being cancelled (Section 7.4).

In the remainder of this section we detail the estimation of the cost to CSLR of these reported in-scope complaints that are expected to be paid during the 3rd Levy Period considering:

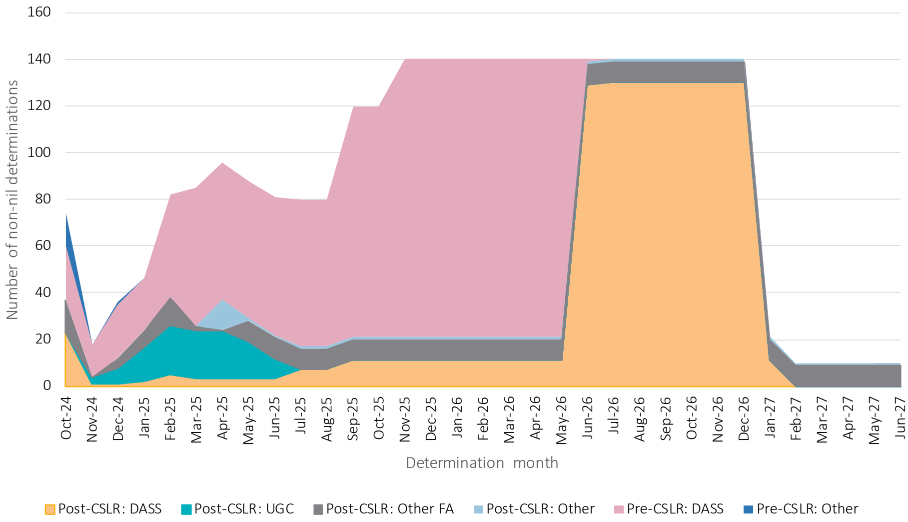
- Expected AFCA and CSLR processing volumes.
- Estimated number and cost of complaints/claims in each of the 5 cohorts set out in Section 6.2.1.

## 7.2 Assumed AFCA complaint and CSLR claim processing

As outlined in Section 6.2.2, the number of CSLR claims paid in the 3rd Levy Period is informed by AFCA's forecast issuance of ASNs for complains received to 30 September 2024. Figure 7.1 outlines these forecasts provided by AFCA on 22 October 2024.

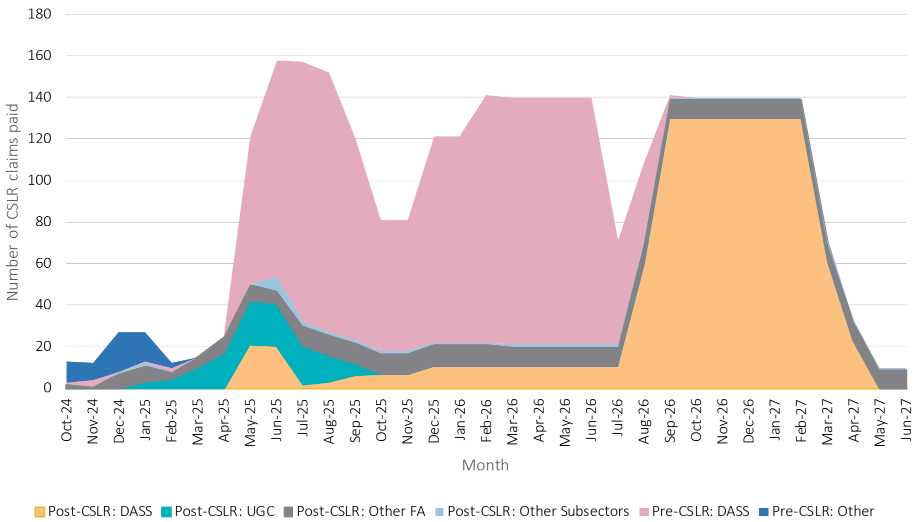
[19] Note that a significant proportion of complaints do not have a loss amount nominated by the complainant

**Figure 7.1 – AFCA's forecast of Appropriate Steps Notices (ASNs)**




Based on these expectations for ASNs, CSLR forecasts its expectations for the processing of claims that emerge from these AFCA ASNs. Figure 7.2 outlines these expectations for claim processing

**Figure 7.2 – Number of CSLR claims eligible to be paid**




CSLR anticipates a delay to the processing of DASS compensation payments until the distribution of the DASS DOCA dividend. This is expected to be in April 2025.

In our estimation of the levy outgoings, we have largely aligned to these claims processing expectations. There was no allowance for a failure like UGC in the levies for the 1st and 2nd Levy Periods (UGC had not failed at the time). This means that CSLR may be limited in its capacity to pay these claims if they are resolved in 2024/25, and therefore payments for UGC related claims are assumed to occur in 2025/26.

In addition, we have allowed for unreported UGC and other financial firm complaints which are not included in AFCA's projection of ASNs.

## 7.3 Groups (1) and (2): DASS Complaints

Substantial analysis was undertaken in understanding the particulars, specifically as they pertain to complaints against DASS, as set out below.

### 7.3.1 DASS: Claim probabilities – number of CSLR claims paid

This section estimates how many CSLR claims are expected to eventually be paid from the remaining 1,092 post-CSLR DASS complaints.

#### Probability of a CSLR claim

Table 7.2 outlines the AFCA determination experience relating to DASS complaints, for both pre and post-CSLR. The pre-CSLR experience is useful in understanding the potential outcomes for post-CSLR complaints. We note that most DASS complaints have not yet been determined by AFCA.

**Table 7.2 – DASS determination experience**

| DASS | Closed complaints | Discontinued complaints | Non-nil outcome | Nil outcome | Resolved by DASS or outside AFCA rules |
|---|---|---|---|---|---|
| Pre-CSLR | 87 | 14 | 66 | 1 | 6 |
| Post-CSLR | 21 | 6 | 13 | 1 | 1 |
| Total | 108 | 20 | 79 | 2 | 7 |

From our understanding of the nature of the losses incurred by clients of DASS, as set out in Section 5.1, it is reasonable to assume that the vast majority (particularly URF investors) will be successful in achieving a non-zero monetary determination in their favour.

We have assumed that 95% of open DASS complainants will be awarded a non-zero determination in their favour and make a claim to the CSLR (i.e. probability of a CSLR claim).

Discontinued complaints are complaints that were withdrawn by the complainant. We have been advised that complainants may reactivate their complaints at a later stage. We do not have data on why these complaints were discontinued, though it is possible that complainants discontinued their complaints because they were not ready to proceed when AFCA restarted the complaints process. We assume a proportion of these discontinued complaints to 'reactivate' at a later stage.

Given the recent establishment of CSLR, we don't yet have sufficient experience of the behaviour of complainants in pursuing AFCA determinations, and how often complaints become discontinued, as well as their behaviour in seeking compensation from the CSLR for unpaid determinations (i.e. their propensity to lodge a claim with CSLR).

We believe that, in the specific case of DASS, a very high proportion of these complaints will result in CSLR claims. This is based on consideration of:

- The scale of the losses from the URF that implies the losses incurred by complainants would generally be significant in the context of their original investment.
- The publicity surrounding DASS, its administration and legal actions being taken against it.
- Indications that the Administrators are in contact with each creditor and are including information about CSLR in their communication.

- ASIC having directly communicated with clients of DASS in August 2022 to increase the awareness of the situation surrounding DASS and encouraged them to submit a complaint if they hadn't already.

### Claim acceptance

Considering the very similar nature of all the outstanding post-CSLR complaints against DASS, as well as reflecting on discussions with AFCA and CSLR, we selected a 100% probability that CSLR will accept and pay a DASS claim following an application.

To-date, all DASS claims with a determination received by CSLR have been accepted by CSLR.

Table 7.3 summarises the assumptions for claim probabilities relating to post-CSLR DASS complaints that have the potential to be covered by the 3rd Levy Period.

**Table 7.3 – DASS claim probability selections**

| Financial Firm | Probability of CSLR claim | Claim acceptance | Probability of successful claims |
|---|---|---|---|
| DASS | 95% | 100% | **95%** |

Overall, we assume that 95% of the post-CSLR DASS complainants will have a successful claim with CSLR.

**Table 7.4 – DASS: Post-CSLR AFCA complaints and successful CSLR claims**

| | Number of complaints | Probability of successful claim[1] | Number of successful CSLR claims |
|---|---|---|---|
| Open or determined DASS complaints | 1,084 | 95% | 1,029 |
| Discontinued DASS complaints | 8 | 15% | 1 |
| Total DASS complaints | 1,092 | 94% | 1,030 |

We estimate that 1,030 post-CSLR complaints will have a successful claim in respect of DASS.

## 7.3.2 DASS: Average cost of claims

As outlined in Section 6.3.2, we apply development ratios to estimate the likely ultimate claim payment, based on the progression of the complaint or claim to-date.

Table 7.5 outlines the experience and selections of these ratios for DASS.

**Table 7.5 – Claim development ratios**

| Financial Firm: DASS | No. of complaints | Actual historical average | Assumed for levy estimate |
|---|---|---|---|
| Ratio of AFCA outcome amount to AFCA complaint amount | 72 | 110% | 120% |
| Ratio of CSLR estimate amount to AFCA outcome amount | 36 | 98% | 103% |
| Ratio of CSLR payment amount to capped CSLR estimate amount | 12 | 101% | 105% |

In the AFCA complaints data, we have observed DASS complainants growing by 110% on average from complaint to outcome amount. We have retained our 2nd Levy Period assumption of 120% given the relatively low proportion of known DASS complaint outcomes (less than 7% of all post-CSLR reported DASS complaints).

CSLR's data shows that its assessed estimate amount is similar to the AFCA determination amount for those who received a non-nil determination. We have assumed a ratio of 103% to allow for additional costs in CSLR's assessment above AFCA's determination, such as interest and other costs. The experience to-date for this ratio is limited (36 complaints/claims) and hence this relies on our understanding of the CSLR claim process.

There is potential for a single complaint to result in multiple CSLR claim payments, where each claimant can receive up to the $150,000 cap. This means that where the AFCA total determination is greater than $150,000, the total CSLR claim paid from a single complaint could also exceed $150,000. There is limited direct DASS experience of this so far. We have selected a ratio of 105% to allow for the possibility of multiple CSLR payments in respect of some complaints.

The application of these ratios to the entire cohort of DASS complaints relevant to the 3rd Levy Period estimate results in an average CSLR claim size of $121,000.

#### Recoveries

We have assumed that no recoveries will be received in respect of DASS as CSLR claims will be offset by dividends paid under the DASS DOCA.

### 7.3.3 DASS: Expected Claim Costs

Our assumptions for claim probabilities, outcome amounts, capped claim amounts and recoveries combine to lead to the estimated total compensation arising from post-CSLR complaints against DASS shown in Table 7.6.

**Table 7.6 – DASS: summary of expected net claim costs**

| Financial firm | Number of AFCA complaints | Number of successful CSLR claims | Average compensation ($000) | Expected total compensation ($000) | Expected 3rd Levy Period compensation ($000) |
|---|---|---|---|---|---|
| DASS | 1,092 | 1,030 | 121 | 124,844 | 12,249 |

We estimate that, after taking account of potential recoveries, the total CSLR compensation relating to post-CSLR complaints against DASS is likely to be approximately $124.8m.

## 7.4 Groups (1) and (2): UGC Complaints

Complaints against UGC are in early stages, and details of the merits of individual complaints, the losses incurred and the propensity for the complaints to result in successful CSLR claims will come to light in the coming months. None of the 101 UGC complaints reported to AFCA had been determined as at 30 September 2024.

It is expected that AFCA will have lead determinations in late 2024. It is not practicable for this determination to be considered for this report. The wording of this determination could affect assumptions in this report, primary in the estimate of financial loss, though we expect significant uncertainty will remain regardless. Substantially more should be known by early 2025, at which point CSLR may consider a Revised Estimate for a Special Levy.

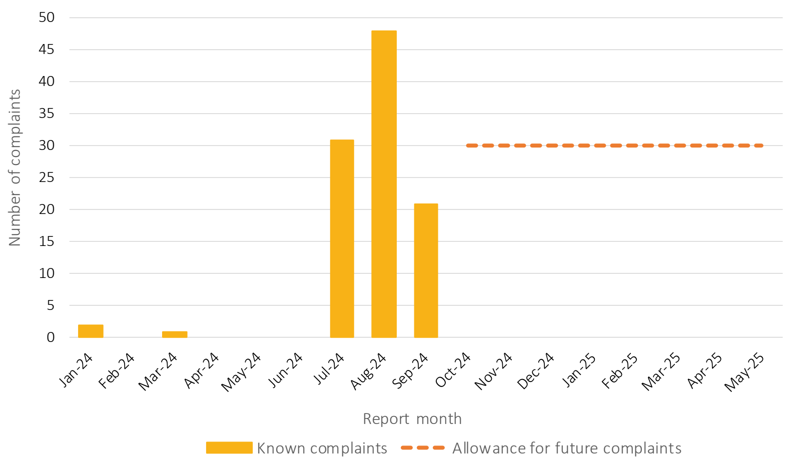
This section estimates how many CSLR claims are expected to eventually be paid from the 101 open UGC complaints, as well as from any future complaints reported prior to AFCA ceasing UGC's membership.

### Allowance for future UGC complaints

We expect that there will continue to be complaints made against UGC in the months after the 30 September 2024 AFCA extract date, with reasonable probability of payment of CSLR claims during the 3rd Levy Period. The experience from DASS is that increasing awareness and the approaching AFCA membership cancellation were key influences on driving 'late-reported' complaints to AFCA.

The number of UGC complaints made to AFCA by report month is shown in Figure 7.3, including our unreported UGC allowance.

**Figure 7.3 – UGC known complaints and future complaints by report month**




We have assumed an additional 240 complaints will be reported, which reflects the limited information we have on the potential number of similar UGC clients who may lodge AFCA complaints as well as on the likely merit that these complaints will have.

We note that this assumption is highly uncertain and the total number of UGC complaints could be materially higher or lower.

### Probability of a CSLR claim and claim acceptance

From our understanding of the nature of the losses incurred by clients of UGC, as set out in 5.2, it is reasonable to assume that the vast majority of complainants will be successful in achieving a non-zero monetary determination and will make a claim to the CSLR.

We have assumed that 98% of reported open UGC complainants will be awarded a non-zero determination in their favour and will make a claim to the CSLR. This is marginally higher than the assumption for DASS (95%), largely as a reflection of the more recent nature of the complaints made against it.

Considering the very similar nature of all the outstanding complaints against UGC, as well as reflecting on discussions with CSLR, we selected a 100% probability that CSLR will accept and pay a UGC claim following its submission to the CSLR.

Table 7.7 summarises the assumptions for claim probabilities relating to UGC complaints that have the potential to be covered by the 3rd Levy Period.

**Table 7.7 – UGC claim probability selections**

| Financial Firm | Probability of CSLR claim | Claim acceptance | Probability of successful claims |
|---|---|---|---|
| UGC | 98% | 100% | 98% |

In addition, we apply a 5% probability that discontinued complaints will 'reactivate' and become open complaints. Hence, we assume that 4.9% of the discontinued reported UGC complaints will be eligible for compensation. This is summarised in Table 7.8 below.

**Table 7.8 – UGC: AFCA complaints and successful CSLR claims**

| | Number of complaints | Probability of successful claim | Number of successful CSLR claims |
|---|---|---|---|
| Reported UGC complaints (discontinued) | 5 | 4.9% | 0.2 |
| Reported UGC complaints (open) | 101 | 98% | 99 |
| Future UGC complaints | 240 | 98% | 235 |
| Total UGC complaints | 346 | 97% | 334 |

Overall, we estimate there will be 334 successful CSLR claims in respect of UGC.

### 7.4.2 UGC: Average cost of claims

We have estimated the average claim cost for UGC complaints by considering the amounts invested in GCPF and how much these investors might have otherwise earned, as discussed in Section 5.2.2.

The majority of investors invested more than $150,000 in GCPF and almost all invested more than $100,000. Allowing for potential investment returns that this money may have otherwise earned, the average selected UGC outcome amount is $145,000 (after applying the $150,000 cap).

The loss to investors will be reduced by any amounts returned from GCPF's liquidation, which is not yet known and not likely to be available until after the 3rd Levy Period. To compensate GCPF investors in a timely manner, we have assumed that CSLR will be pay claimants the amount they invested in GCPF and the foregone investment returns, up to the $150,000 cap; and then recover from GCPF's liquidation. This means we have assumed an average claim size of $145,000 for the 3rd Levy Period in respect of GCPF investors. We have applied a further 5% loading for determinations of more than $150,000 to allow for the potential for a single determination to result in multiple claims, each with a $150,000 cap. Recoveries will be considered for later levy periods.

No recoveries are likely from UGC liquidation as GCPF investors are not creditors to this liquidation.

### 7.4.3 UGC: Expected Claim Costs

Our assumptions for claim probabilities, outcome amounts, capped claim amounts and recoveries combine to estimate the total compensation arising from post-CSLR complaints against UGC, as shown in Table 7.9. This includes known and future reported complaints.

**Table 7.9 – UGC: summary of expected compensation**

| Financial firm | Number of AFCA complaints | Number of successful CSLR claims | Average compensation ($000) | Expected total compensation ($000) | Expected 3rd Levy Period compensation ($000) |
|---|---|---|---|---|---|
| UGC | 346 | 334 | 145 | 48,583 | 44,568 |

We estimate that the total compensation amount relating to post-CSLR complaints against UGC is likely to be approximately $48.6m. As discussed in Section 5.2.2, we do not expect any recoveries from UGC complaints in the 3rd Levy Period and we have not attempted to make an estimate for any potential recoveries in subsequent levy periods.

## 7.5 Groups (1) and (2): In-scope known and unreported complaints for Other Financial Firms that have already failed

We consider the 77 post-CSLR complaints that are open or have a non-nil determination to estimate the number of CSLR claims that will arise from unreported complaints in respect of other Financial Firms that have already failed.

We have summarised these in-scope known complaints for Other Financial Firms in Table 7.10.

**Table 7.10 – In-scope known complaints for Other Financial Firms**

| Sub-sector | Open | Closed - non-nil | Closed - nil | Total |
|---|---|---|---|---|
| Financial Advice - ex DASS & UGC | 35 | 14 | 10 | 59 |
| Credit provider | 12 | 10 | 98 | 120 |
| Credit intermediary | 0 | 0 | 0 | 0 |
| Securities dealer | 1 | 5 | 2 | 8 |
| Total | 48 | 29 | 110 | 187 |

### 7.5.1 Other Financial Firms: Claim probabilities

#### Probability of a CSLR claim

The historical experience relating to other Financial Firms suggests that the probability of receiving a non-zero determination is approximately 40%[20].

This likely understates the probability of a non-zero determination for the open complaints as a failed Financial Firm is unable to participate in the resolution and negotiation of complaint outcomes through AFCA's complaint process. The open complaints are also likely to be later in time and more likely to be related to the difficulties that led to failure of the Financial Firm.

As the CSLR is new, there is not sufficient experience of complainants who had received a non-zero determination in their favour in terms of their propensity to lodge a CSLR claim. Actual experience on the ultimate propensity to claim will take time to emerge and be observed with some credibility.

We have assumed a 47.5% chance that an open in-scope complainant, will be awarded a non-zero determination in their favour and make a claim to the CSLR. For closed complaints, we have relied on the

[20] Based on analysis of AFCA's complaint history data, for closed complaints relating to in-scope failed Financial Firms other than DASS.

complaint outcome. That is, for complaints with a positive determination we have adopted a 95% probability that there will be a CSLR claim, and for complaints with a nil determination we have adopted a 0% probability.

### Claim acceptance

We expect that a complainant with a non-zero determination, who then goes on to lodge a claim with CSLR, has a very high chance that the claim will be accepted by CSLR. We have assumed 100% for the modelling, consistent with the corresponding assumption used for DASS and UGC.

Table 7.11 summarises the assumptions for claim probabilities relating to open post-CSLR complaints against other Financial Firms.

**Table 7.11 – Claim probabilities: Other Financial Firms**

| Type | Probability of CSLR claim | Claim acceptance | Probability of successful claims |
|---|---|---|---|
| Open | 48% | 100% | 48% |
| Closed | 95% | 100% | 95% |

Thus, we assume that approximately half of the open in-scope complaints and 95% of the closed in-scope complaints with a positive determination will result in a claim being paid by CSLR.

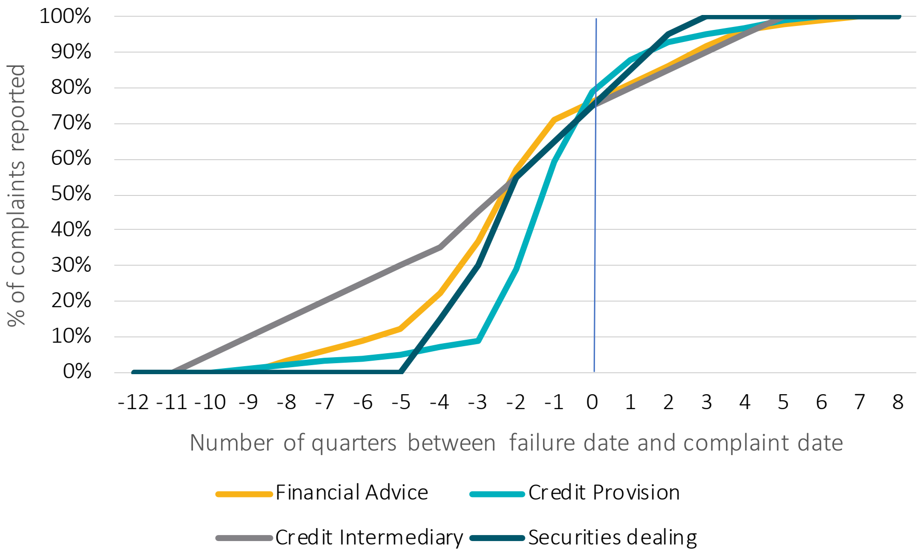
### Future complaints

Historical experience shows that complaints that ultimately remain unpaid and become subject to a potential CSLR claim often build up prior to the failure of the Financial Firm, and then continue to be lodged after the firm's failure. Therefore, for recently failed firms there is the potential for complaints to be lodged in the near future that could become the subject of a CSLR claim.

To understand the likely unreported complaints that could emerge from already failed Financial Firms, we referenced the historical complaint distributions from previously failed Financial Firms. Figure 7.4 shows how complaint report dates were distributed around the date of failure[21] of the Financial Firm for each sub-sector. Note that we have only considered complaints that were open at the point of failure, or were reported after failure; complaints finalised before the failure date have been excluded.

[21] Failure date was sourced from ASIC's insolvency statistics publications for all Financial Firms that failed between 1 November 2018 and 30 September 2024.

**Figure 7.4 – Time between firm failure date and complaint date for complaints open or reported after failure date**




We observe that many of the relevant complaints are reported well before the failure date of the firm. In the Financial Advice and Credit Intermediary sub-sectors, at the point of failure, some of the complaints had been open for up to 2 or 3 years respectively.

At the time of firm failure, around 75% of the relevant complaints had been reported for all sectors. Complaints that emerge after the failure date are typically reported within a year, for which AFCA membership must be retained.

We have applied this distribution of complaints timing to estimate the number of unreported claims that may arise from already failed Financial Firms. For each failed firm, we consider how much time had elapsed between the failure date and the data extraction date, and therefore how many unreported claims are expected to emerge after the data extraction date. Table 7.12 shows our estimate of the unreported complaints in respect of these failed firms.

**Table 7.12 – Number of future complaints, by sub-sector**

| | Financial Advice | | | Credit Provision | | | Credit Intermediation | | | Securities Dealing | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| September year of firm failure | No. complaints open at or reported after failure | Reported to date % | Unreported complaints | No. complaints open at or reported after failure | Reported to date % | Unreported complaints | No. complaints open at or reported after failure | Reported to date % | Unreported complaints | No. complaints open at or reported after failure | Reported to date % | Unreported complaints |
| Prior | 159 | 100% | - | 12 | 100% | - | 11 | 100% | - | 16 | 100% | - |
| 2023 | 0 | 100% | - | 34 | 100% | 0.1 | 1 | 100% | - | 2 | 100% | - |
| 2024 | 54 | 93% | 4.0 | 5 | 90% | 0.5 | 0 | n/a | - | 19 | 93% | - |
| Total | 213 | | 4.0 | 51 | | 0.6 | 12 | | - | 37 | | - |

We assume there are 5 unreported complaints from other Financial Firms that have already failed.

We have assumed the same claim propensities as shown in Table 7.11 apply to this claim cohort.

Table 7.13 shows the expected number of post-CSLR claims that will arise from known and future in-scope complaints related to other Financial Firms that have already failed.

**Table 7.13 – Other Financial Firms: AFCA complaints and successful CSLR claims**

| | Number of complaints | Probability of successful claim[2] | Number of successful CSLR claims |
|---|---|---|---|
| Open in-scope reported complaints from other Financial Firms | 48 | 48% | 23 |
| Closed in-scope reported complaints from other Financial Firms with positive outcome amounts | 29 | 84% | 25 |
| Discontinued in-scope reported complaints from other Financial Firms | 29 | 2% | 1 |
| In-scope future complaints from other Financial Firms[1] | 5 | 74% | 3 |
| Total in-scope complaints from other Financial Firms | 111 | 46% | 51 |

[1] For firm failures to September 2024

[2] Ultimate probability of a successful claim may differ to the selection due to the mix of discontinued complaints and complaints that have already presented to CSLR

We estimate that, in total, there will be 51 successful CSLR claims in the post-CSLR period in respect of other Financial Firms that have already failed.

### 7.5.2 Other Financial Firms: Average cost of claims

As outlined in Section 6.3.2, we apply claim development ratios to estimate the likely ultimate claim payment based on the progression of the complaint or claim to-date.

Table 7.14 thru Table 7.16 outline the experience, along with our selections, for the claim development ratios relating to Other Financial Firms.

Table 7.14 shows the ratio of AFCA outcome amounts to AFCA complaint amounts (self-reported by the complainant) for all complaints against known financial firm failures where there is both a complaint amount and an outcome amount.

**Table 7.14 – Ratio of AFCA outcome amount over AFCA complaint amount**

| Sub-sector | No. of complaints | Actual historical average | Assumed for levy estimate |
|---|---|---|---|
| Financial Advice - Non-Dass, Non-UGC | 169 | 71% | 75% |
| Credit Provision | 82 | 64% | 75% |
| Credit Intermediation | 5 | 44% | 75% |
| Securities Dealing | 25 | 47% | 75% |
| Total | 281 | 66% | n/a |

Table 7.15 shows the ratio of CSLR estimate amount to AFCA outcome amounts for all CSLR claims where there is a known AFCA determination amount and a CSLR estimate amount.

**Table 7.15 – Ratio of CSLR estimate amount over AFCA outcome amount**

| Sub-sector | No. of complaints | Actual historical average | Assumed for levy estimate |
|---|---|---|---|
| Financial Advice - Non-Dass, Non-UGC | 79 | 104% | 103% |
| Credit Provision | 5 | 100% | 103% |
| Credit Intermediation | 5 | 124% | 103% |
| Securities Dealing | 20 | 113% | 103% |
| Total | 109 | 107% | n/a |

Table 7.16 shows the selections for the third claim development ratio, as outlined in Section 6.2.3. This covers the potential for multiple claim payments to arise from a single AFCA determination where there are multiple

related parties to the complaint. Note that this only has an impact on complaints where the outcome amount exceeds $150,000.

**Table 7.16 – Ratio of CSLR payment amount over capped CSLR estimate amount**

| Sub-sector | No. of complaints | Actual historical average | Assumed for levy estimate |
|---|---|---|---|
| Financial Advice - Non-Dass, Non-UGC | 24 | 108% | 105% |
| Credit Provision | 1 | 100% | 100% |
| Credit Intermediation | 1 | 100% | 100% |
| Securities Dealing | 4 | 102% | 100% |
| Total | 30 | 106% | n/a |

Given the limited experience to date, a judgemental overlay was required based on our understanding of the AFCA and CSLR processes in selecting assumptions for these claim development ratios.

The average complaint amount for in-scope complaints relating to Financial Firms excluding DASS and UGC and across both pre-CSLR and post-CSLR, is shown in Table 7.17.

**Table 7.17 – Other Financial Firms: average AFCA determination and CSLR payment size**

| | AFCA complaint experience | | | AFCA determination experience | | | CSLR payment experience | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Sub-sector | Non nil complaints | Complaint amount[1] ($000) | Average complaint amount ($000) | Non-nil determinations | Determination amount [1] ($000) | Average determination amount ($000) | Claim payments | Payment amount ($000) | Average payment amount ($000) | Selected future claim sizes ($000) |
| Personal financial advice | 350 | 34,793 | 99 | 115 | 9,850 | 86 | 51 | 5,066 | 99 | 100 |
| Credit intermediation | 17 | 1,891 | 111 | 3 | 191 | 64 | 4 | 174 | 43 | 100 |
| Credit provision | 192 | 1,603 | 8 | 8 | 15 | 2 | 2 | 204 | 102 | 3 |
| Securities Dealing | 55 | 5,110 | 93 | 26 | 1,346 | 52 | 15 | 1,197 | 80 | 75 |
| Total | 614 | 43,396 | 71 | 152 | 11,403 | 75 | 72 | 6,641 | 92 | n/a |

[1] AFCA complaint and determination amounts have been capped at $150k

For this cohort, the average reported determination amount is $75,000, with higher average determination amounts for financial advice of $86,000, and much lower complaint amounts averaging less than $3,000 for credit provision.

For future in-scope complaints relating to Financial Firms that have already failed (ex DASS and UGC), we have assumed an average claim size of $100,000 for personal financial advice and credit intermediation. For securities dealing, we have selected $75,000.

For credit provision, for which complaints are often smaller in quantum (average complaint amount is about $8,000 and average determination amount is about $2,000), we have assumed an average claim size of $3,000. We note however that there have been two larger CSLR payments for this sub-sector which has made the observed CSLR payment experience larger than the AFCA complaint experience. Both of these related to pre-CSLR complaints and we don't consider them to be representative of the likely future experience. Our assumed average claim size is aligned with the estimates for currently open CSLR claims for the credit provision sub-sector.

## Recoveries

As noted in Section 6.7, for the 3rd Levy Period we are interested in the potential for any recoveries to be received by CSLR in the period 1 July 2025 to 30 June 2026.

For Other Financial Firms, we have assumed recoveries of 2.5% of the gross claims amount. The legislation envisages the potential for recoveries from subrogation rights, though no recoveries have been received so far.

### 7.5.3 Other Financial Firms: Expected Claim Costs

Table 7.18 summarises the expected claim costs for already failed Financial Firms, excluding DASS & UGC. This includes known[22] and future reported complaints.

**Table 7.18 – Other Financial Firms: summary of expected compensation, net of recoveries**

| Sub-sector | Expectted number of AFCA complaints | Expected number of successful CSLR claims | Expected average compensation ($000) | Expected total compensation ($000) | Expected recoveries ($000) | Expected total compensation, net of recoveries ($000) | Expected 3rd Levy Period compensation, net of recoveries ($000) |
|---|---|---|---|---|---|---|---|
| Financial Advice (non-DASS, non-UGC) | 58 | 32 | 82 | 2,657 | (66) | 2,591 | 178 |
| Credit Provision | 46 | 14 | 14 | 189 | (5) | 185 | 113 |
| Credit Intermediary | - | - | n/a | - | - | - | - |
| Securities Dealer | 7 | 5 | 8 | 42 | (1) | 41 | 4 |
| Total | 111 | 52 | 56 | 2,888 | (72) | 2,816 | 294 |

We estimate that expected CSLR compensation payments, after potential recoveries, relating to in-scope complaints against Other Financial Firms that have already failed would be approximately $2.8m, with $0.3m paid in the 3rd Levy period.

## 7.6 Groups (3) and (4): Future firm failures

This section estimates in-scope complaints from Financial Firms that fail after the data extraction date, 30 September 2024, including complaints that are unpaid at the point of failure as well as complaints that arise after failure.

### 7.6.1 Future firm failures: Expected Claim Costs

There have been 40 insolvencies within in-scope sub-sectors, or an average of around 7 per year. Financial Advice makes up over half of these insolvencies. Financial Advice also has the highest number of complaints per firm that are unpaid or unreported at failure date. For this sub-sector, we have assumed that 4.2 firms will fail on average every year with an average of 11.6 complaints per firm, consistent with the historical experience. This means we expect 48.7 in-scope complaints to arise from Financial Advice firms that will fail each year.

We note that over the last year, volumes of complaints from insolvencies in other sub-sectors have been low. We believe this is not reflective of the future environment and have assumed future insolvencies higher than the recent experience. These judgements have been made acknowledging the increasing awareness of AFCA and the CSLR.

For the other sub-sectors, we have assumed the following:

- Credit Providers: we have assumed 2 insolvencies per year, with 30 complaints per insolvency.
- Credit Intermediaries: we have assumed 1 insolvency per year, with 20 complaints per insolvency.
- Securities Dealer: we have assumed 1 insolvency per year, with 5 complaints per insolvency.

In total, we assume that around 134 in-scope complaints will arise each year from future firm failures, for both reported complaints as well as complaints that emerge after the failure date.

Consistent with complaints arising from other Financial Firms discussed above, we have assumed that:

- 71% of complaints arising from future firm failures will lead to a CSLR claim (see Section 7.5.1)
- Average claim sizes of $100,000 for Credit Intermediation and Financial Advice (see Section 7.5.2)

[22] Known complaints include open complaints and closed complaints that haven't been paid by the financial firm. Closed complaints exclude complaints with nil outcome amounts.

- Average claim size of $75,000 for Securities Dealing (see Section 7.5.2)
- Average claim size of $3,000 for Credit Provision (see Section 7.5.2).

For the purposes of determining the 3rd Levy Period estimate, we have projected the expected complaints relating to future firm failures through to June 2026 (complaints raised after this will have CSLR payments in subsequent levy periods). Table 7.19 summarises the modelled claim costs for future firm failures to June 2026 This includes known (i.e. reported but not yet identified as insolvent) and future reported complaints. Note that figures in this table have been rounded.

**Table 7.19 – Future firm failures: summary of expected compensation, net of recoveries**

| Sub-sector | Expected number of AFCA complaints[1] | Expected number of successful CSLR claims | Expected average compensation ($000) | Expected total compensation ($000) | Expected recoveries ($000) | Expected total compensation, net of recoveries ($000) | Expected 3rd Levy Period compensation, net of recoveries ($000) |
|---|---|---|---|---|---|---|---|
| Financial Advice (non-DASS, non-UGC) | 98 | 61 | 100 | 6,075 | (152) | 5,923 | 2,530 |
| Credit Provision | 112 | 75 | 3 | 224 | (6) | 219 | 93 |
| Credit Intermediary | 41 | 25 | 100 | 2,474 | (62) | 2,412 | 1,019 |
| Securities Dealer | 10 | 6 | 75 | 468 | (12) | 456 | 195 |
| Total | 260 | 167 | 55 | 9,241 | (231) | 9,010 | 3,837 |

[1] Reported complaints to June 2026 from failures after 30 September 2024 (includes 21 months of failures)

We estimate that, after potential recoveries and excluding unpaid AFCA fees, the net CSLR claim costs relating to future firm failures between October 2024 and June 2026 to be approximately $9.0m, with $3.8m paid in the 3rd levy period.

### 7.6.2 Future firm failures: Timing of determinations

For complaints on firms that have not yet failed, we consider the timing from failure date of the firm to determination. This applies to both reported complaints at the time of failure (as complaints, even if known, do not become eligible for the CSLR until the firm fails) as well as unreported complaints that emerge after the failure date.

Noting that around 50% of complaints that are determined after failure of a firm are reported by the time of failure (see Section 7.5.1), we have assumed the same delay as between complaint lodgement date and determination date for already failed Other Financial Firms, with 4 months delay to allow for reasonable steps to be taken for any realisable offsets or recoveries or other insolvency proceedings.

## 7.7 Group (5): Out-of-scope complaints relating to already failed firms

We were able to identify failed Financial Firms with open complaints that, while not flagged as in-scope, could be in-scope following investigation.

These complaints were typically related to investments and could possibly be related to financial advice. We have assumed that 25% of reported out-of-scope complaints relating to already failed firms subsequently be found to be in scope, of which 47.5% would have a positive AFCA determination and lodge a successful CSLR claim. This works out to an allowance of 16 claims.

Table 7.20 summarises the modelled claim costs for out-of-scope known complaints. Note that figures in this table have been rounded.

**Table 7.20 – Out-of-scope known complaints: summary of expected compensation, net of recoveries**

| Sub-sector | Expectted number of AFCA complaints | Expected number of successful CSLR claims | Expected average compensation ($000) | Expected total compensation ($000) | Expected recoveries ($000) | Expected total compensation, net of recoveries ($000) | Expected 3rd Levy Period compensation, net of recoveries ($000) |
|---|---|---|---|---|---|---|---|
| Financial Advice (non-DASS, non-UGC) | 76 | 8 | 95 | 741 | (19) | 723 | 5 |
| Credit Provision | 4 | 0 | 25 | 12 | (0) | 12 | 9 |
| Credit Intermediary | 1 | 0 | 125 | 15 | (0) | 15 | 11 |
| Securities Dealer | 64 | 8 | 101 | 764 | (19) | 745 | 562 |
| Youpla - out of scope | 69 | | | | | | |
| Total | 214 | 16 | 96 | 1,533 | (38) | 1,494 | 586 |

We estimate that, after potential recoveries and excluding AFCA fees, the net CSLR claim costs relating to out-of-scope reported complaints on already failed firms to be approximately $1.5m; with $0.6m paid in the 3rd levy period.

## 7.8 Expected Compensation amount for 3rd Levy Period

Table 7.21 and Table 7.22 show the total claims cost discussed in Sections 7.2 to 7.7 by claim cohort and by sub-sector respectively, net of recoveries. Note that the tables only show the expected compensation payments net of recoveries relating to firms that fail by 30 June 2026 (excluding unpaid AFCA fees, CSLR operating costs and ASIC costs), and do not consider any recoveries for subsequent levy periods for UGC.

**Table 7.21 – Total expected compensation, net of recoveries for 3rd Levy Period by claim cohort ($000)**

| Claim cohort | 3rd levy period | Contribution to subsequent levy periods | Total (after 2nd levy period) |
|---|---|---|---|
| Group (1) & (2): DASS | 12,249 | 106,568 | 118,817 |
| Group (1) & (2): UGC[1] | 44,568 | 4,016 | 48,583 |
| Group (1) & (2): Other FF | 294 | 20 | 314 |
| Groups (3) & (4): Future firm failure[2] | 3,837 | 8,209 | 12,045 |
| Group (5): Reported out-of-scope, failed firm | 586 | 179 | 765 |
| **Total** | **61,534** | **118,991** | **180,525** |

[1]Potential recoveries for UGC have not been considered in this table

[2]Firms that fail by 30 June 2026

**Table 7.22 – Total expected compensation, net of recoveries for 3rd Levy Period by sub-sector ($000)**

| Sub-sector | 3rd levy period | Contribution to subsequent levy periods | Total (after 2nd levy period) |
|---|---|---|---|
| Financial Advice - DASS | 12,249 | 106,568 | 118,817 |
| Financial Advice - UGC[1] | 44,568 | 4,016 | 48,583 |
| Financial Advice - non-DASS | 2,712 | 5,361 | 8,073 |
| Credit Provision | 215 | 237 | 452 |
| Credit Intermediary | 1,030 | 2,215 | 3,244 |
| Securities Dealer | 760 | 594 | 1,355 |
| **Total** | **61,534** | **118,991** | **180,525** |

[1]Potential recoveries for UGC have not been considered for subsequent levy periods in this table

UGC and DASS complaints dominate the Levy Period estimate, comprising 92% of the expected compensation payments.

These results are combined with the other components of the levy estimate in Section 10.

# 8 Estimate of Unpaid AFCA Fees

## 8.1 AFCA's current fee structure

AFCA derives its revenue from membership fees, case fees and user charge fees. The case fees are based on the stage to which the complaint proceeded through the complaint process. The user charge fee is determined for each Financial Firm early in the financial year based on the number of complaints closed in the previous year and the stage at which those complaints were closed.

Table 8.1 outlines our understanding of the complaint fee[23] and user charge applying to determinations made in the 2nd Levy Period. This is based on the user charges for determinations made in the 1st Levy Period, adjusted for inflation, and the latest complaint fees from July and August 2024 determinations.

**Table 8.1 – AFCA assumed baseline fee structure for 2nd Levy Period**

| | Excluding GST | | | |
|---|---|---|---|---|
| Complaint Type | Complaint Fee | User Charge | Total | Total + GST |
| Determination | 9,304 | 9,525 | 18,830 | 20,713 |
| Discontinued | 2,238 | 2,196 | 4,434 | 4,877 |

In early discussions with AFCA to set the Initial Estimates in the previous reports, indications were that total AFCA fees would be around $12,100 (inclusive of GST) per complaint. The experience to date suggests an AFCA fee of around $20,713 per determination, significantly higher than initial indications.

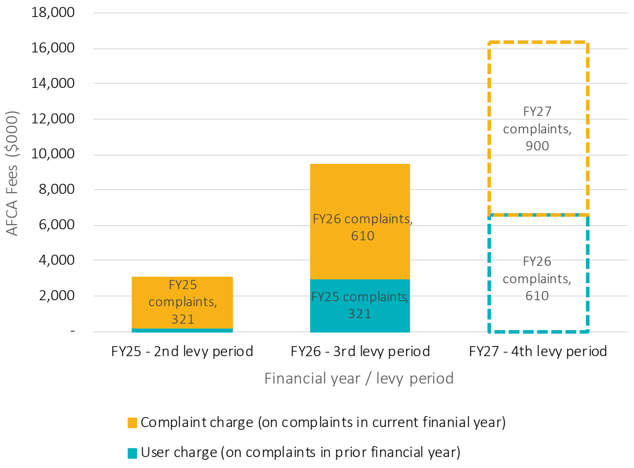
AFCA has indicated that the broad intention is that AFCA would be reimbursed for approximately the cost it incurs (mostly staff costs) in respect of CSLR matters. The average AFCA cost per complaint may be higher or lower than the recent experience, depending on the complexity of complaints and the effort needed by AFCA to make its determinations for those complaints.

### 8.1.1 Timing of payment to AFCA for unpaid fees

We understand that the user charge will normally be invoiced to CSLR soon after the financial year-end to which the underlying complaint finalisations relate. Thus, the user charge incurred in a Levy Period, which is to be included in that Levy Period's estimate, is determined based on the previous Levy Period's complaints. This is illustrated in Figure 8.1.

[23] https://www.afca.org.au/members/funding-model/fee-structure (accessed 25 November 2024)

**Figure 8.1 – Estimated AFCA fees by levy period ($000)**




*The figures in FY27 reflect our projection of the AFCA fees based on information received to date. These numbers do not reflect our estimate for the 4th Levy Period.

## 8.2 Estimate of Unpaid AFCA fees for the 3rd Levy Period

### 8.2.1 Indexation of fees

We understand that AFCA updates its fee structure annually on 1 July. We have indexed the AFCA fees shown in Table 8.1 by 3% to estimate the 2025/26 fees that would apply for determinations made in the 3rd Levy Period. The assumed increase in fees reflects consumer price inflation (CPI).

The following estimates for unpaid AFCA fees contained in Table 8.2 are assumed for determinations made in the 3rd Levy Period.

**Table 8.2 – Estimated AFCA fee structure for 3rd Levy Period**

| | Excluding GST | | | |
|---|---|---|---|---|
| Complaint Type | Complaint Fee | User Charge | Total | Total + GST |
| Determination | 9,584 | 9,811 | 19,395 | 21,334 |
| Discontinued | 2,305 | 2,262 | 4,567 | 5,023 |

The assumption has been applied for all complaints.

This results in an estimate of AFCA unpaid fees in respect of the 3rd Levy period of $9.4m. Table 8.3 shows these estimates across each of the sub-sectors.

**Table 8.3 – Estimated Unpaid AFCA fees for 3rd Levy Period[1]**

| Type | Number of Determinations in FY25 | User charge from Determinations in 2nd levy period ($000) | Number of discontinued complaints in FY25 | User charge from discontinued complaints in 2nd levy period ($000) | Number of non-nil Determinations in FY26 | Number of nil Determinations in FY26 | Complaint fees from Determinations in 3rd levy period ($000) | Total AFCA fees for 3rd Levy Period estimate ($000) | User charge from Determinations in 3rd levy period ($000) |
|---|---|---|---|---|---|---|---|---|---|
| DASS personal financial advice[2] | 58 | 608 | 6 | 17 | 245 | - | 2,582 | **3,207** | 2,643 |
| UGC personal financial advice[2] | 130 | 1,359 | 5 | 14 | 211 | - | 2,227 | **3,601** | 2,280 |
| Other personal financial advice | 65 | 677 | 5 | 14 | 37 | 10 | 502 | **1,193** | 514 |
| Credit provision | 13 | 140 | 34 | 98 | 51 | 19 | 739 | **976** | 756 |
| Credit Intermediation | 1 | 10 | - | - | 14 | 5 | 200 | **210** | 205 |
| Securities dealing | 3 | 34 | 1 | 3 | 16 | 2 | 185 | **222** | 189 |
| Total | 270 | 2,828 | 51 | 146 | 575 | 35 | 6,435 | 9,409 | 6,587 |

[1] Note that no currently discontinued complaints are expected to be paid in 3rd Levy Period. All AFCA fees on determinations in 3rd Levy Period are assumed to be paid at the full amount.

[2] All DASS and UGC complaints relate to personal financial advice

# 9 Other Considerations

## 9.1 Investment income

### 9.1.1 Timing of cash flows

CSLR earns investment income on funds it holds. This is the difference in the levies it has received less the amounts it has paid for compensation, unpaid AFCA fees, ASIC costs and CSLR's operating costs.

The estimated investment returns are determined considering when funds are expected to be received and invested by CSLR until they are paid out or spent.

### 9.1.2 Receipt of levies

We have made several assumptions about the receipt and expenditure of levy monies for the 3rd Levy Period, specifically:

- Annual Levy funds collected for the 3rd Year Levy (80% of initial annual levy estimate, up to the sub-sector caps) will be received during November 2025, with receipt of the remaining 20% in January 2026.[24]
- CSLR expenses are incurred uniformly through the levy period.
- ASIC costs are payable following invoice from ASIC.
- Capital contributions will remain in the fund throughout the levy period.

### 9.1.3 Investments

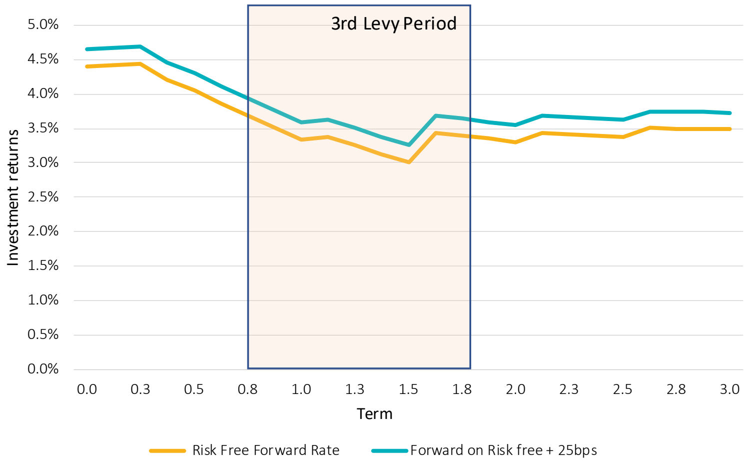
CSLR can earn an investment return on the levy monies it receives prior to paying successful claims. As is required under the Corporations Act, CSLR invests monies conservatively.

Beginning in July 2024, CSLR invested $200m in line with legislated requirements. Given the significant scale of the deposits, CSLR was able to negotiate relatively high interest rates for these term deposits, on average achieving rates around 100 basis points (bps) above Australian Government Securities of similar term.

Figure 9.1 shows the assumption for investment returns generated by the levy amounts to be invested.

[24] The actual amount collected by ASIC is likely to be less than the total invoiced amount as some firms may no longer be trading or will not have paid.

**Figure 9.1 – Assumed investment return (months from 1 Jan 2025 to 30 June 2026)**




Current forward rates imply an average risk-free return over the 3rd Levy Period of around 3.35%.

We have assumed that the levy funds are held in a cash management account at an 85 bps discount to the risk-free rate. We have therefore assumed a cash management investment return of 2.5% p.a. We have further assumed that the capital contributions are invested in term deposits at a 25 bps margin over the risk free rate. We have therefore assumed a term deposit investment return of 3.6% p.a.

Given the relatively short payment patterns assumed, the impact of investment income is limited. Investment income was estimated as $0.25m for the 3rd Levy period.

Interest is allocated based on the projection of accumulated funds from previous levy periods, receipt of levy funds to CSLR, payment of claims and other operating costs for each sub-sector.

Note that the Annual Levy for Financial Advice for the 3rd Levy Period is capped at $20m, and CSLR outgoings in respect of Financial Advice are expected to exceed the cap. This will mean that there is a limited amount of time that funds received for Financial Advice will be invested before they need to be paid out, which will reduce the investment income received in respect of the levies from this sub-sector. The investment income received on CSLR's capital reserves has been allocated equally to the 4 sub-sectors.

The allocation of investment income by sub-sector is shown in Table 9.1.

**Table 9.1 – Investment income by subsector ($000)**

| Type | Investment income ($000) |
|---|---|
| Financial Advice | (96) |
| Credit Provision | (53) |
| Credit Intermediation | (53) |
| Securities Dealing | (51) |
| Total | (253) |

## 9.2 Other levy components

The legislation prescribes several additional components to be provided for by individual levies. We outlined these in Table 3.1 and discussed the approach to allocation, by year and sub-sector, in Section 6.10.

Table 9.2 shows these additional levy components for the 3rd Levy Period, by sub-sector.

**Table 9.2 – Summary of additional levy components**

| | 3rd levy period ($000) | | | |
|---|---|---|---|---|
| Type | Capital contribution | CSLR operating costs | ASIC costs | Sum of other levy components |
| Personal financial advice | 417 | 2,936 | 625 | 3,978 |
| Credit provision | 417 | 1,146 | 225 | 1,788 |
| Credit intermediation | 417 | 1,117 | 225 | 1,758 |
| Securities dealing | 417 | 1,115 | 225 | 1,756 |
| Total | 1,667 | 6,314 | 1,300 | 9,281 |

The CSLR and ASIC costs for the personal financial advice sub-sector are higher compared to other sub-sectors. This reflects the increased administrative expenses arising due to the complexities of the sub-sector and compensation payments exceeding the sub-sector cap.

While the focus of this report is the 3rd Levy Period, CSLR will be processing both pre-CSLR and post-CSLR claims at the same time. All CSLR operating costs incurred in each levy period are to be included in the relevant levy estimate for that period. This means that, for the 3rd Levy Period, a significant portion of the CSLR operating costs will relate to time spent on pre-CSLR claims. The CSLR operator estimates it will process 600 claims in the 2nd Levy period, consisting of an estimated 480 pre-CSLR complaints and 120 post-CSLR complaints. This will approximately triple in the 3rd Levy Period to an estimated 1,800 claims, consisting of an estimated 1,160 pre-CSLR and 640 post-CSLR complaints.

## 9.3 GST and other tax considerations

The services rendered by AFCA in considering complaints against Financial Firms attract GST. For the estimates of unpaid AFCA fees in this report we have added GST, unless explicitly stated otherwise; which is consistent with previous levy estimates.

No other allowances have been made for GST within the 3rd Levy Period estimate.

CSLR is income tax exempt and is not required to make an allowance for income tax.

# 10 Recommended Initial Estimate for 3rd Levy Period

## 10.1 Summary of our Initial Estimate

We have combined the estimates of gross claim payments, AFCA fees, recoveries, and investment income with the capital contribution, CSLR operating costs and ASIC costs to arrive at an estimate of the 3rd Levy Period amount.

Table 10.1 shows this estimate, summarised by sub-sector.

**Table 10.1 – 3rd Levy Period estimate**

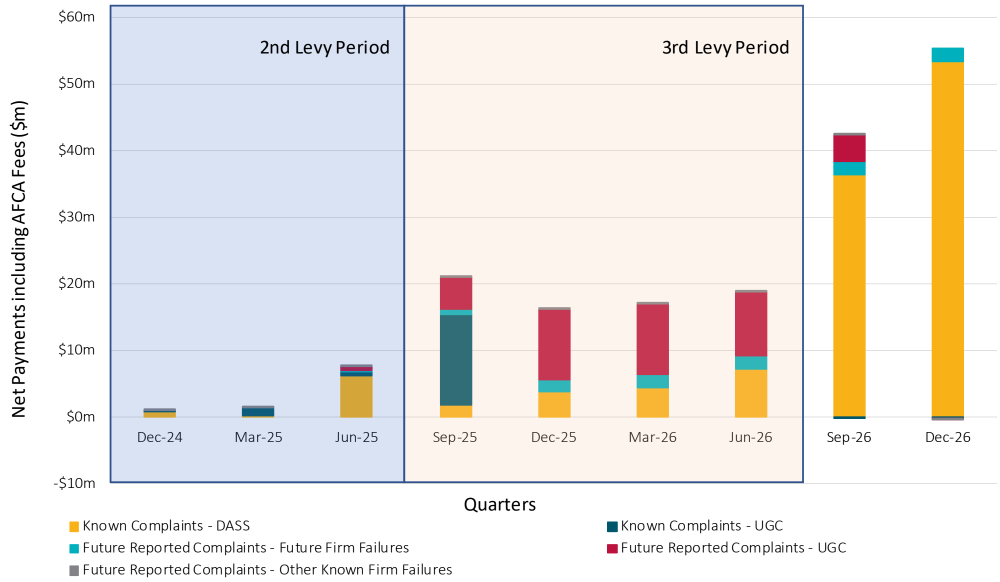
| | 3rd levy period estimate | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Type | No. AFCA complaints finalised | No. claims paid | Gross claim Payments ($000) | AFCA Fees ($000) | Recoveries ($000) | Capital Contribution ($000) | CSLR Operating Costs ($000) | ASIC Costs ($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 result of our estimation is that the recommended 3rd Levy Period amount is $78.0m, in order to fund an estimated 491 claims, AFCA complaint fees on 610 complaints, the AFCA user charge relating to complaints finalised in the 2nd Levy Period, a capital contribution amount, CSLR operating costs and ASIC costs, offset with investment income. Our estimate also includes an allowance for the use of the excess funds of $2.0m from the 1st Levy Period.

Around 90% of the estimated levy amounts relate to the Financial Advice sub-sector. This is heavily influenced by UGC & DASS.

Figure 10.1 shows the expected timing of future payments for claims that are able to be paid, but noting that the actual payment will depend on when levy funds are available. This is shown by the source of CSLR claim.

**Figure 10.1 – Expected timing for future claim payments, net of recoveries**[25]




## 10.2 Uncertainty of estimates

There are many sources of uncertainty in the estimates of the required levies. In Section 11 we include specific discussion of the main uncertainties and show several sensitivity tests.

[25] Figure 10.1 shows future firm failures up to June 2026 only.

# 11 Implications of uncertainty

This section of the report explains key elements of the uncertainty in estimating the 3rd Levy Period amount and discusses the implications of uncertainty on the recommended result.

## 11.1 Context

CSLR is a new arrangement and has only recently commenced operations. The experience received to-date remains premature for most metrics and there are no reasonably comparable alternative arrangements that could be investigated for significant, relevant learnings. The actuarial assumptions continue to be, for these reasons, more weighted to reasoned judgement than to analysis of relevant data.

AFCA has a specific role which is largely unrelated to CSLR. The structure, approach and data held by AFCA are not designed with CSLR needs in mind, although further progress in this direction has been made in recent months and can be anticipated for the future.

We are also conscious that the legislation is complex and untested. We have attempted to analyse it for various interpretations, and have discussed the interpretations with AFCA and CSLR. There is a risk, however, that these interpretations may turn out to be incorrect, leading to the costs being materially different.

## 11.2 Reasonable estimate

In this report we have presented our assessment of a reasonable estimate for the 3rd Levy Period outcomes. However, throughout our assessment we could have made alternate assumptions that would have resulted in a different estimate which an actuary could consider to also be a reasonable estimate. As a result, there is a range of what could be considered reasonable estimates.

As noted above, estimating the 3rd Levy Period cost outcome requires a significant degree of reasoned judgement. One key aspect is that CSLR is new, and there is only a small amount of experience to analyse to inform the assumption setting process. As CSLR experience emerges, setting future assumptions will rely more on historical data, and consequently the range of reasonable estimates will likely narrow.

At the time of writing this report, it is difficult to limit the range of reasonable estimates. Significant information that could impact the assumptions we have made, will likely emerge prior to the start of the 3rd Levy Period in July 2025.

A distinction needs to be made between a range of reasonable estimates and plausible scenarios where outcomes would be higher or lower than our estimate. Take for example flipping an unbiased coin 10 times; a reasonable estimate would be 5 heads, while a plausible outcome includes 10 heads. However, the uncertainty in setting the estimates in this report arises because the distribution of future outcomes is unknown, unlike in the unbiased coin analogy. The levy estimate in this Report does not include an explicit margin to cover random variability of outcomes.

## 11.3 Range of outcomes

Informed by our consideration of the Board Policy for the 3rd Levy Period (see Section 6.11), our assessment of a reasonable estimate is based on expected amounts in a reasonably favourable environment, with no allowance for the chance of a poor outcome, even on an average basis. In this section we consider some alternative plausible scenarios that may result in outcomes amounts that are greater or less than the estimate we have adopted.

### 11.3.1 Financial Advice

The 3rd Levy Period estimate for Financial Advice, prior to reduction for the 1st Levy Period excess, is $71.4m. UGC and DASS related claims dominate this estimate, and therefore the uncertainty in this sub-sector largely arises because of uncertainty in the ultimate claim outcomes in respect of UGC and DASS. The key areas of uncertainty affecting the 3rd Levy Period estimate include:

- The total number of currently unreported UGC complaints that emerge prior to cancellation of UGC's AFCA membership
- The ability of AFCA and CSLR to process UGC complaints and claims as forecast
- The total cost of post-CSLR DASS related complaints, which is highly dependent on the forecast complaint processing volumes provided by AFCA being met.

For reasons set out below, we would consider plausible outgoing scenarios for the 3rd Levy Period to range from $45.6m to $99.2m for the Financial Advice sub-sector.

The table below shows the range of plausible estimates if we varied assumptions for the above components.

**Table 11.1 – Scenarios for Financial Advice sub-sector (estimate for 3rd Levy Period)**

| Scenario | Base scenario (assumption) | Low scenario (assumption) | High scenario (assumption) |
|---|---|---|---|
| Number of unreported UGC complaints that emerge prior to AFCA membership cancellation and paid in LP3 | $71.4m (240) | $45.6m (50) | $85.2m (340) |
| Average claim size for UGC related claims | $71.4m (145k) | $55.0m (90k) | $73.0m (150k) |
| Processing speed of post-CSLR DASS complaints prior | $71.4m (planned processing volumes) | $65.9m (planned processing volumes 3 months slower) | $99.2m (planned processing volumes 3 months quicker) |
| Average claim size for DASS related claims | $71.4m ($121,000) | $68.3m ($90,000) | $73.8m ($145,000) |

### 11.3.2 Other sub-sectors

The 3rd Levy Period amounts estimated for the Credit Provision, Credit Intermediation and Securities Dealing sub-sectors are small compared with Financial Advice. Only a small portion of the estimates in respect of these sub-sectors relate to CSLR claim payments. The majority of the levy for each of these sub-sectors is to cover unpaid AFCA fees, the allocations of the capital contribution and CSLR operating costs.

Thus, the major driver of uncertainty for these sub-sectors is actually the allocation of the non-claim costs. This is discussed in Section 6.10.

Given that claim payments comprise a minor component of the 3rd Levy Period amount for these sub-sectors, the risk of over-collection (through the cost of claims being less than expected) is low.

The risk of under-collection would mostly arise if more complaints than expected are lodged, determined and paid in the 3rd Levy period (because more firms fail, the number of complaints per firm is higher or the average size of claim is higher).

Table 11.2 shows possible outcomes for each sub-sector if we assumed that about twice as many complaints arise from future insolvencies as we have assumed.

**Table 11.2 – Scenarios for Other sub-sectors (estimate for 3rd Levy Period)**

| Subsector | Base scenario (assumed number of claims paid) | High scenario (assumption) |
|---|---|---|
| Credit provision | \$2.9m (36) | \$3.7m (67) |
| Credit intermediation | \$2.9m (10) | \$4.2m (21) |
| Securities dealing | \$2.7m (8) | \$3.7m (19) |

### 11.3.3 Unpaid AFCA Fees

The 3rd Levy Period estimate, prior to reduction for the 1st Levy Period excess, of \$80.0m, includes an allowance for average unpaid AFCA fees on determinations of \$21,334, as detailed in Section 8.2.

Given the uncertainty in future complaint fee and user charge arrangements for unpaid AFCA fees, we have assessed the impact on the 3rd Levy Period estimate of an average unpaid AFCA fee of \$26,334 (i.e. \$5,000 higher). Under this scenario, the 3rd Levy Period estimate, prior to reduction for the 1st Levy Period surplus, would be \$82.2m (i.e. an increase of \$2.2m).

## 11.4 Implications of uncertainty around liquidity and timing of levy funding

The timing of receipt of levy monies is complicated by numerous factors, including the application of caps, the use of various mechanisms for collecting underfunding or using excesses, as well as the parliamentary processes that are required to be adhered to in order to obtain approval for proposed levy amounts.

Whilst CSLR is in ongoing discussions with stakeholders at the time of preparing this report, the expectations for the receipt of future levy monies is:

- 3rd Levy Period amounts up to the \$20m sub-sector cap in November 2025.
- A Special Levy, if one is sought, would be received no earlier than the last quarter of the 3rd Levy Period (i.e. April to June 2026), with the potential for its receipt in FY27.

Based on these forecast timeframes for receipt of levy monies, and the expectations of 3rd Levy Period costs outlined in Section 10, we expect that CSLR would have liquidity constraints for the Financial Advice sub-sector from around mid-August 2025 and may need to delay claim payments. This assumes that pre-CSLR monies are 'ringfenced' and not available to be used for other Levy Periods. We note, that pre-CSLR funds are anticipated to be substantially exhausted by the end of FY26.

In our estimates for the 3rd Levy Period, we estimate the claims and outgoings that CSLR are not affected by any liquidity constraints from the levies not being available to CSLR and a Special Levy not being raised. To do so would not suit the purpose of the Initial Estimate in informing the Annual Levy.

## 11.5 Severe events

The occurrence of severe events, such as the failure of a large Financial Firm or a severe economic downturn, could increase CSLR payments beyond our estimates in this Report. No allowance is made for future severe events (see Section 6.11), noting the high level of uncertainty around the occurrence of such events in any one Levy Period, and the Scheme being designed to post-fund severe events.

# 12 Reliance and limitations

## 12.1 Use of this Report

This report will be made publicly available on CSLR's website. We have prepared this report for CSLR for the purposes outlined in Section 2.2 of this report. It is not necessarily suitable for any other purpose. Third parties should recognise that the furnishing of this report is not a substitute for their own due diligence and should place no reliance on this report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

## 12.2 Reliance and limitations

We have relied on the information provided to us as detailed in Section 6.1 and Appendix A of this report. We have checked this information for reasonableness only and consider it to be appropriate for the scope of this review.

There are many limitations on the quality, completeness and relevance of the underlying data sources. The results, however, should be reasonable in order to inform decisions.

## 12.3 Uncertainties

We have formed our views based on the current environment and what we know today. If future circumstances change, it is possible that our findings may not prove to be correct.

It is not possible to predict the financial impacts on the CSLR with certainty. We have adopted assumptions that we believe are reasonable considering the scope and nature of the assignment.

It would be reasonable to expect that the eventual outcomes, after a few years have elapsed and the outcome of the complaints become known, to be materially higher or lower than our estimates. This level of uncertainty is unavoidable for any estimates of this nature.

# Appendices

## A Key assumptions

**DASS complaints received by AFCA (Section 5.1.3)**

| | | Complaints at September 2024 | |
|---|---|---|---|
| Financial Firm | Complaints as at previous report[1] | Pre-merge exercise | Post-merge exercise |
| Pre-CSLR | 1,657 | 1,657 | 1,654 |
| Post-CSLR | 265 | 1,141 | 1,092 |
| Total | 1,922 | 2,798 | 2,746 |

[1] 1st & 2nd Levy Period Initial Estimates, March 2024

**Processing volumes (Section 7.2)**

| | Non-Nil AFCA determinations | | CSLR Payments | |
|---|---|---|---|---|
| Segment | 2024/25 | 2025/26 | 2024/25 | 2025/26 |
| Post-CSLR: DASS | 57 | 245 | 48 | 101 |
| Post-CSLR: UGC Known | 101 | 0 | 0 | 99 |
| Post-CSLR: UGC Future | 29 | 211 | 0 | 208 |
| Post-CSLR: Other FA | 44 | 37 | 37 | 28 |
| Post-CSLR: Other | 12 | 82 | 13 | 55 |
| Post-CSLR Total | 243 | 575 | 98 | 491 |

**UGC - Future reports (Section 7.4)**

| UGC - Number of future reported complaints (Section 7.4.1) | |
|---|---|
| Selected | 240 |

| UGC Average size of future reported complaints (Section 7.4.2) | |
|---|---|
| Selected | 145,000 |

**Average claim size assumptions (Section 7.3, 7.4 and 7.5)**

Ratio of AFCA outcome amount on AFCA complaint amount

| Type | Selected |
|---|---|
| Financial Advice - UGC | 75% |
| Financial Advice - DASS | 120% |
| Financial Advice - Other | 75% |
| Credit Provision | 75% |
| Credit Intermediation | 75% |
| Securities Dealing | 75% |
| Total | n/a |

Ratio of CSLR estimate amount on AFCA determination amount

| Type | Selected |
|---|---|
| Financial Advice - UGC | 103% |
| Financial Advice - DASS | 103% |
| Financial Advice - Other | 103% |
| Credit Provision | 103% |
| Credit Intermediation | 103% |
| Securities Dealing | 103% |
| Total | n/a |

Ratio of CSLR payment amount to capped CSLR estimate amount

| Type | Selected |
|---|---|
| Financial Advice - UGC | 105% |
| Financial Advice - DASS | 105% |
| Financial Advice - Other | 105% |
| Credit Provision | 100% |
| Credit Intermediation | 100% |
| Securities Dealing | 100% |
| Total | n/a |

## AFCA Fees (Section 8.2.1)

| Type | Assumed complaint fees on 2025/26 complaints | Assumed user charge on 2024/25 complaints |
|---|---|---|
| Discontinued complaints | $ 2,536 | $ 2,415 |
| All other complaints | $ 10,542 | $ 10,478 |

## Recoveries (Section 7.3, 7.4 and 7.5)

| Type | Expected 2025/26 recoveries (% of gross compensation payments) |
|---|---|
| UGC (Section 5.2.2) | 0% |
| DASS (Section 5.1.6) | 0% |
| Other (Section 7.5.2) | 1% |

## Other Assumptions

### Prob. of CSLR claim

| Type | Selected |
|---|---|
| UGC (Section 7.4.1) | 98% |
| DASS (Section 7.3.1) | 95% |
| Other (Section 7.5.1) | 95% |

### Investment income & assumed CPI on AFCA Fees

| Type | Selected |
|---|---|
| Investment income on term deposits | 3.60% |
| Investment income on cash management account | 2.50% |
| CPI % | 3.00% |

# B Data provided for our review

We received the following information to assist with our review:

- A database of all complaints received by AFCA (and its predecessors) since 2013
- CSLR claim and payment data since the beginning of operation
- Discussions and various documents explaining current AFCA processes and evolving plans for processing the post-CSLR complaints
- CSLR operating budgets for FY25 and FY26
- Estimated ASIC costs to manage industry levies for the 3rd Levy Period and a potential Special Levy
- AFCA unpaid fees on complaints determined in FY24, with user charge and complaint fees split out
- FY25 AFCA unpaid fee amounts for determinations and discontinued complaints notified to date by AFCA
- Responses to several legal questions about interpretation of CSLR legislation
- Regular discussions with CSLR management
- DASS information sourced from the Administrators' website and discussions with CSLR
- Publicly available information related to UGC
- Searches on ASIC's website on Financial Firms and their trading status
- Publicly available information relating to Other Financial Firms to assist with understanding their current trading status and additional information as to the nature, or likely result, of complaints made against the Financial Firms.

## B.1 Validation of data

There are no independent sources to validate or reconcile the AFCA complaints data. The data maintained and reporting prepared by AFCA is designed to meet AFCA's role and needs in resolving disputes.

AFCA's database contains only the current version of the relevant information on the complaint. AFCA was unable to provide us with a dataset showing the past changes in details of each complaint. AFCA's validation of coding of individual fields is fit-for-purpose but does not require specific validation of some of the fields relevant to CSLR, such as nature of financial service, outcome amount or claimed loss. Several items (especially for paused complaints) are limited to what has been self-reported by the complainant when the complaint was made with AFCA.

We have checked the CSLR claims and payment data against internal CSLR monitoring reports to ensure we have interpreted the data in a consistent manner.

## B.2 Reasonableness checks

Where possible we applied reasonableness checks to various summaries and data items, based on consistency of different sources, general knowledge of the firms and their businesses, and web searches.

Possible discrepancies were discussed with CSLR management and AFCA. In most cases the data appears to be valid, while in a few cases an error in the data extraction was identified and a correct extract provided to us.

The reasonableness checks focussed on:

- Counts of complaints and Financial Firms meeting different criteria of complaint status, cause of complaint and financial status of the firm (as known to AFCA)
- The average amount of loss reported by the complainant
- The completeness of the outcome amounts and the average financial outcome amount by sector and advice type, including comparison with the loss reported by the complainant.
- Cross checking the claims reported to CSLR with the information provided in the AFCA complaints data, to ensure consistency across the two data sources
- Comparing AFCA fee extracts against the AFCA complaint file.

# C Estimate of 3rd Levy Period cost by sub-sector

The estimates in this report are the result of actuarial projections using the methodology discussed throughout the report. We have not rounded the outcomes of our analysis. Amounts shown in the body of the report have been shown as rounded figures for simplicity.

Table B.1 outlines the component parts of the levy estimates for the 3rd Levy Period, split by sub-sector and to the nearest cent. The amounts below are shown split according to parliamentary instrument specifications.

**Table C.1 – Recommended 3rd Levy Period amount**

| Act references | Description | Sub-sectors | | | | Total |
|---|---|---|---|---|---|---|
| | | Credit intermediaries | Credit providers | Licensed personal advice | Securities dealers | |
| Paragraph 9(1)(a) | Gross claim Payments | $1,030,218.43 | $215,763.45 | $59,589,677.10 | $761,609.98 | $61,597,268.96 |
| | Recoveries | -$567.92 | -$950.91 | -$60,855.43 | -$1,367.94 | -$63,742.20 |
| | Compensation claims | $1,029,650.51 | $214,812.54 | $59,528,821.67 | $760,242.04 | $61,533,526.76 |
| Paragraph 9(1)(b)(i) | AFCA unpaid fees | $210,145.75 | $976,059.21 | $8,001,097.57 | $222,146.81 | $9,409,449.34 |
| Paragraph 9(1)(b)(ii) | CSLR’s administrative costs | $1,116,793.36 | $1,146,339.36 | $2,936,286.40 | $1,114,793.16 | $6,314,212.28 |
| | Investment income | -$52,819.16 | -$53,292.01 | -$95,955.43 | -$51,143.82 | -$253,210.42 |
| | CSLR’s administrative costs | $1,063,974.20 | $1,093,047.35 | $2,840,330.97 | $1,063,649.34 | $6,061,001.86 |
| Paragraph 9(1)(b)(iii) | ASIC’s administrative costs | $225,000.00 | $225,000.00 | $625,000.00 | $225,000.00 | $1,300,000.00 |
| Paragraph 9(1)(b)(iv) | Capital reserve establishment | $416,666.67 | $416,666.67 | $416,666.67 | $416,666.67 | $1,666,666.68 |
| Paragraph 9(2)(b) | Excess from FY24 (1st Levy Period) | -$222,122.00 | -$127,055.00 | -$1,302,250.00 | -$344,678.00 | -$1,996,105.00 |
| Total | | $2,723,315.13 | $2,798,530.77 | $70,109,666.88 | $2,343,026.86 | $77,974,539.64 |

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