



Stockbrokers and Investment
Advisers Association

Serving the interests of investors

Compensation Scheme of Last Resort (CSLR)

PRESENTED BY
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CSLR



What is the CSLR?

The Compensation Scheme of Last Resort (CSLR) exists to help victims of financial misconduct who would otherwise have struggled to receive any compensation.

We are an independent, not-for-profit organisation authorised by the Australian Government to perform our role.

Our role

- Increase trust and confidence in the financial system
- Pay compensation claims of up to \$150,000 to eligible people.
- Forecast estimated claims and costs to be levied on parts of the financial services industry.

Eligible financial services

Consumers with an unpaid determination from AFCA relating to:

- Personal financial advice
- Providing credit
- Dealing in securities for retail clients
- Arranging credit



How CSLR was established

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6 September 2017 Ramsay Review

The Supplementary Final Report of the Review of the financial system external dispute resolution and complaints framework (Ramsay Review) included a recommendation to establish a compensation scheme of last resort.

This was further supported in 2019 in the Hayne Royal Commission.

8 September 2022 Legislation introduced

The Liberal Government introduced legislation to establish the CSLR. These contained critical features of the compensation scheme.

Consultation on the scheme design included industry and consumer associations.

22 June 2023 Legislation passed

The Labour Government passed legislation establishing the CSLR.

2 April 2024 CSLR commenced

The CSLR commenced operation and started receiving claims from consumers.



The external dispute resolution framework

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Industry

The industry is expected to adhere to regulation and eliminate or limit financial misconduct.

In cases of misconduct, industry is expected to report the incident to ASIC.

AFCA

Determines complaints from consumers about a financial product and/or service where alleged misconduct has occurred causing a financial loss.

If the complaint cannot be resolved, a final determination may award compensation to the consumer. If the financial firm becomes insolvent before, during or after the AFCA process and the consumer falls within the scope of CSLR, they may be able to make a claim for a compensation payment

CSLR

Assesses and determines eligibility of claims according to legislation.

Where AFCA has awarded compensation and has not been paid CSLR can pay compensation to eligible claimants up to \$150,000.

Notify ASIC of nonpayment for removal of licence

Estimate total funding required for the scheme through levy process set out in the legislation

CSLR does not:

- Assess the merits of an AFCA determination
- Challenge the amount of the claim

ASIC

ASIC monitors behaviour within the financial services sector, intervening in cases of misconduct, which might involve revoking licences from financial institutions and banning directors.

ASIC oversees the CSLR. They are also responsible for collecting industry levies which fund CSLR and compensation claims to eligible consumers.



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Administering the scheme

CSLR Levy framework – at a glance

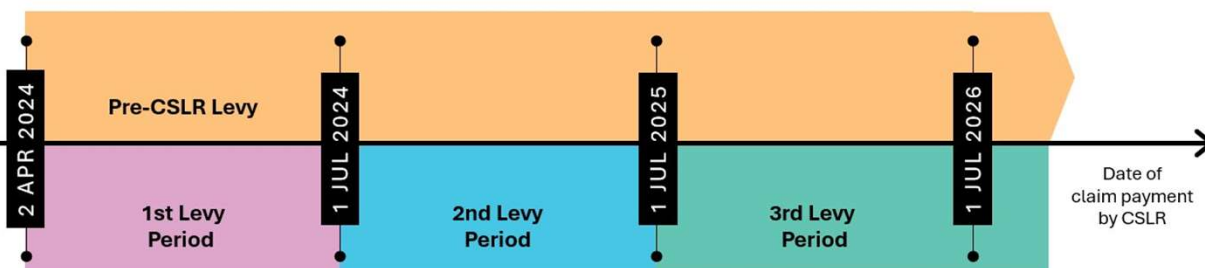
For each levy period the levy amount is based on the actuarial estimates of the number of claims expected to be paid during that period*. Pre-CSLR claims will be concurrently processed however are funded by the pre-CSLR levy.

Complaints lodged at AFCA...



... between 1 November 2018
to 7 September 2022

...on or after 8 September 2022



Pre-CSLR levy

- **\$241M**
- Approx 1,914 claims (1,556 are DASS)*
- Includes \$203 million DASS
- Funded by Top 10 FFs
- See subsector costs (table, right)
- Covers compensation payments and AFCA fees and charges only
- Due for payment late June 2024**

1st levy period

- **\$4.8M**
- Approx 11 claims (1 is DASS)*
- Compensation must be paid between 2 April to 30 June 2024 (actuarial modelling estimate)
- Funded by Government
- See subsector costs (table, right)
- Covers CSLR operating costs, compensation payments, AFCA fees and charges, contribution to capital reserve establishment
- Due for payment late March 2024

2nd levy period

- **\$24.1M**
- Approx 129 claims (86 are DASS)*
- Compensation must be paid between 1 July 2024 to 30 June 2025 (actuarial modelling estimate)
- Funded by 4 industry sub-sectors: Credit intermediaries, credit providers, securities dealers and personal financial advice
- See subsector costs (table, right)
- Covers CSLR operating costs, compensation payments, AFCA fees and charges, contribution to capital reserve establishment, ASIC administrative costs
- Due for payment September / October 2024**

3rd levy period

- TBC

Sub-sector costs

	Pre-CSLR levy	1st levy period	2nd levy period
Personal financial advice	\$233.6M	\$2.4M	\$18.5M
Credit intermediaries	\$2.8M	\$0.8M	\$1.8M
Credit provision	\$0.3M	\$0.7M	\$1.5M
Securities dealing	\$4.2M	\$0.9M	\$2.3M
Total	\$241M	\$4.8M	\$24.1M

*Claim numbers and costs shown are estimates only, based on independent actuarial reports published on the CSLR website on 18 March 2024.

** Pending legislative disallowance processes
DASS = Dixon Advisory & Superannuation Services



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2nd levy period

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The 2nd levy covers ***claims and costs paid*** between 1 July 2024 to 30 June 2025.

- For Financial Advice this will be \$18.6m (77% of the total levy)
- For Securities Dealing this will be \$2.3m (9.5% of the total levy)

2nd levy period estimate										
Type	No. complaints finalised	No. claims paid	Gross claim Payments (\$000)	AFCA Fees (\$000)	Recoveries & Offsets (\$000)	Capital Contribution (\$000)	CSLR Operating Costs (\$000)	ASIC Costs (\$000)	Investment income (\$000)	Recommended CSLR Estimate (\$000)
Financial Advice - DASS	116	86	9,431	1,447	(48)					
Financial Advice - Other	43	20	2,109	531	(114)					
Financial Advice	159	107	11,540	1,978	(162)	417	4,717	361	(289)	18,562
Credit Provision	11	6	16	162	(1)	417	571	361	(28)	1,498
Credit Intermediation	10	6	381	126	(22)	417	567	361	(31)	1,800
Securities Dealing	15	10	805	193	(45)	417	593	361	(35)	2,288
Total	195	129	12,741	2,460	(230)	1,667	6,448	1,445	(383)	24,148



How does ASIC calculate the individual levy

ASIC calculates the individual payment as determined by legislation using the following legislative instrument

				Financial Advisors				Securities Dealers	
Initial cost estimate for FY25 levy period	1	Section 7		\$18,562,058.57	A	Section 8		\$2,287,886.73	
Industry funding FY2022/23 populations	2	Section 6 item 19		2766	B	Section 6 item 35		1,095	
Industry funding FY2022/23 metrics	2	Section 7 item 19		15416	C	Section 7 item 35		145,960,169,493	
Calculation = $\frac{A - (B \times \$100)}{C}$				$\frac{\$18,562,058.57 - (2,766 \times \$100)}{15,416}$				$\frac{\$2,287,886.73 - (1,095 \times \$100)}{145,960,169,493}$	
				Minimum levy of \$100 + 1,186.14 per advisor				Min levy of \$100 + \$14.92 per \$1m of annual transactional turnover	

1 Financial Services compensation Scheme of Last Resort Levy (Collection) (Initial cost estimates for 2024/25 levy period) Determinations 2024

2 ASIC (Supervisory Cost Recovery Levy - Annual Determination) Instrument 2023/778



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David, is this is the right information for this audience?

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What do last resort claims look like?

Securities Dealing - Pete

- Advice received in 2016
- AFCA Determination 2023
- Advising firm went into liquidation
- Received advice as if they were a sophisticated investor but did not meet the requirements
- The advisor didn't assess eligibility as a sophisticated investor until after Pete had made the investment
- Claim for \$28,154 + Interest which covered the total investment

Financial Advice - Karen

- Advice received 2013
- AFCA Determination 2020
- Advising company has been deregistered
- Substantial funds in SMSF
- Lack of informed consent and a large number of unauthorised trades
- Clients were already experiencing vulnerability in supporting a terminally ill son between 2008 -2018
- AFCA Determination \$1.5m
- CSLR claim capped at \$150k

Financial Advice - Kent

- Advice received 2014
- AFCA Determination 2020
- Advising company in liquidation
- Made redundant and looking for low risk investment with guaranteed income to support family commitments
- Advice falsely represented he would receive guaranteed half yearly income
- Kent was provided advice recommending he take on more debt when his objective was to reduce debt
- CSLR claim \$55k



What does last resort actually mean?

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The CSLR has made its first payments, totalling over \$360,000 to four claimants who suffered financial services misconduct. These first four claimants had ***exhausted all other avenues*** and waited up to five years for a resolution.

“We invested with a licensed financial advisor who turned out to be fraudulent and stole all his clients' money, including ours. We lost a significant amount and approached a liquidator, who suggested lodging a claim with AFCA. However, the process was delayed due to COVID-19, and then we had to wait for the CSLR's establishment.”

“We had to apply for a financial hardship loan because we couldn't meet our mortgage payments, especially with four kids, two of whom have special needs. The compensation was like a massive weight being taken off our shoulders. It changed our lives. Without it, we would have had to sell our house. Now we can pay a substantial portion of our mortgage, significantly reducing our payments.” – Lauren, NSW



Balancing consumer protection and trust in industry

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Whilst the financial services industry works toward the betterment of their clients ***it's unfortunate that there are a small few who take advantage of the trust bestowed on them:***

"We lost our life savings as a result of very poor financial advice and misconduct. We relied on the licensed Financial Advisor to provide sound investment strategies but in the end the strategies they recommended turned out to be a conflict of interest, and feathering their own nests! The loss had a significant and detrimental impact on my partner and I because it was virtually our whole life's savings wiped out! It also caused a rift in our relationship with ongoing stress and anxiety. It was and continues to be a very dark period in our lives." – Lachlan, NSW



Balancing consumer protection and trust in industry

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Ensuring some ***basic consumer protections works to lift trust in the financial services industry*** and the professions that support it. This crucial safety net for victims of financial services misconduct is now in place and those who have experienced financial loss through no fault of their own are being compensated.

“I applied for the CSLR the minute I could. I think the CSLR is absolutely fantastic for people like me, we were taken for a ride, I know at least another 15 couples who were also scammed. Some of them died because of old age or got heart attacks because of what happened and never saw their money back. I am hoping that these companies who are illegitimate or criminals get pushed out of the business. The industry needs to have higher standards.” – Matt, NSW



Questions & Answers

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**COMPENSATION
SCHEME OF
LAST RESORT**

