Building a sustainable compensation scheme of last resort

International evidence and reform priorities for Australia

ASFA Policy White Paper
Drawing on independent international benchmarking by Marsh Risk Consulting

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Executive summary

The sustainability of the Compensation Scheme of Last Resort has reached a critical point. The APRA-regulated superannuation sector has now been required to contribute a special levy to the CSLR, to compensate losses arising from elsewhere in the financial system. The revised estimates of claims, fees, and costs have grown substantially – representing a rapidly compounding burden on the retirement savings of 19 million Australians. When ordinary Australians are being asked to pay for investment risks they did not take, changes need to be made.

$6.1 million	$198.1 million	$170.3 million
levied on the superannuation trustees sub-sector for 2025–26	revised total CSLR estimate for 2026–27	personal advice estimate above its $20 million cap

Levying the compulsory retirement savings of Australians is a poor policy outcome. APRA-regulated superannuation funds operate within a highly-regulated, safe, preventive prudential framework, are expected to remediate their own members where operational failures occur, and have a separate statutory mechanism for financial assistance in exceptional cases of fraud or theft. Members of those funds are highly unlikely to derive any material practical benefit from the CSLR, while fund resources may be used to subsidise losses arising in other sectors. The cost ultimately falls on the retirement outcomes of the 19 million Australians with superannuation.[1]

Proposed regulatory settings place a growing burden on the APRA-regulated superannuation trustee sub-sector to fund unpaid compensation liabilities generated by other sectors. For 2025–26, $6.1 million of a $47.3 million special levy was imposed on the "superannuation trustees" sub-sector, which principally comprises APRA-regulated superannuation funds. The Government's April 2026 reform consultation proposes to make APRA-regulated superannuation a standing funder within a three-tier levy waterfall. That would entrench the use of fund fees - with the economic cost ultimately affecting members' retirement outcomes – in order to meet compensation costs generated almost entirely outside superannuation.[2]

1. ASFA, Compensation Scheme of Last Resort (CSLR): Reform options to support ongoing sustainability, submission to Treasury (22 May 2026); Treasury, Compensation Scheme of Last Resort – reform options to support ongoing sustainability (7 April 2026).
2. Corporations (Financial Services Compensation Scheme of Last Resort—Special Levy) Determination 2025; Treasury, Compensation Scheme of Last Resort – reform options to support ongoing sustainability (7 April 2026).

The scale of levies is escalating sharply. Personal financial advice compensation, fees and costs were $67.3 million for 2025–26. The initial personal advice estimate for 2026–27 was $126.9 million; the revised July 2026 estimate is $190.3 million within a total scheme estimate of $198.1 million. The revised personal advice estimate is $170.3 million above the statutory sub-sector cap, and further claims connected with Shield Master Fund and First Guardian Master Fund are expected in later years.[3] Much of this cost will fall on Australians with superannuation accounts.

The trajectory is not linear. On current settings, clustered failures outside superannuation can generate special levies that are passed through to consumers or weaken levy-paying firms, increasing the risk of further failures and additional compensation claims. Independent analysis of the CSLR describes this as a self-reinforcing cycle. If action is not taken to improve the sustainability of the CSLR, the result could be rapidly compounding growth in the levy burden unless the scheme architecture is reformed.[4]

What international best practice shows

Expert research undertaken by Marsh Risk consulting of international comparator schemes identifies four recurring characteristics that make compensation schemes sustainable: operation as a genuine mechanism of last resort; funding embedded within coherent statutory architecture; strong governance and operational resilience; and clearly defined statutory boundaries regarding compensable loss.[5]

Australia's CSLR needs reform. The central problem is not the mechanics of one annual levy or the distribution of one special levy. It is the interaction of a broad, outcome-based loss scope, dependence on unpaid AFCA determinations, limited scheme discretion and a concentrated funding base. **Marsh concludes that tightening triggers and loss definitions, aligning funding with loss causation, and strengthening governance and supervisory integration would be more effective than adjusting levy mechanics alone.**[6]

3. Compensation Scheme of Last Resort, Initial Estimate for FY 2027 (4th Levy Period) (published 17 November 2025); Financial Services Compensation Scheme of Last Resort Levy (Collection) (Initial Cost Estimates for 2026-27 Levy Period) Determination 2025; Compensation Scheme of Last Resort, Revised Estimate for FY 2027 (4th Levy Period) (published 2 July 2026); Financial Services Compensation Scheme of Last Resort Levy (Collection) (Revised Cost Estimates for 2026-27 Levy Period) Determination 2026.
4. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for the Association of Superannuation Funds of Australia (August 2026) 4, 6.
5. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 4–6, 8–9.
6. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 4, 6, 10.

ASFA's reform priorities

- **Genuine last resort**: Re-anchor the CSLR to an objective, event-based last-resort trigger after primary remedies and recoveries have been exhausted.
- **Transparent and clear scope**: Define compensable loss in statute, preserving redress for specified institutional failure and misconduct while excluding ordinary investment performance and open-ended hypothetical loss, known as the 'but for' test.
- **Risk-based funding**: Align funding responsibility with the activities that create compensation risk, with ring-fenced classes, risk-based contributions and no permanent reliance on APRA-regulated superannuation as a general backstop.
- **Greater powers**: Give the scheme robust governance, recovery powers, data access, stress-testing and proportionate discretion within clear statutory limits.
- **Take definitive action**: Implement reform in a way that preserves valid consumer entitlements and makes protection durable rather than simply shifting escalating costs between sectors.

The international comparator schemes reviewed by Marsh demonstrate that consumer protection and funding mechanisms can be appropriately targeted, strongly governed and financially sustainable over the long term.

A redesign of Australia's CSLR along those lines is necessary to ensure it is fit for purpose, and to maintain the integrity of Australia's retirement savings system, in accordance with the legislated objective of superannuation.[7]

7. Superannuation (Objective) Act 2024 (Cth) s 5.

1

The case for scheme redesign

1.1 Why ASFA has prepared this paper

The Association of Superannuation Funds of Australia (ASFA) is the peak body representing Australia's superannuation sector. Its members collectively manage the retirement savings of 19 million Australians and operate within one of the largest compulsory retirement savings systems in the world.

The effectiveness of Australia's retirement income system depends upon confidence. Consumers must have confidence not only in superannuation funds themselves, but also in the wider financial system through which retirement advice, investment services and retirement income products are delivered.

Consequently, ASFA has a longstanding interest in policies that strengthen financial consumer protection while supporting efficient, competitive and well-regulated financial markets.
The Compensation Scheme of Last Resort (CSLR) forms part of that broader policy landscape. Although the CSLR is not a superannuation-specific institution, its long-term effectiveness contributes to confidence across the wider financial services sector. As Australians approach and enter retirement, they engage increasingly with financial advisers, managed investments, retirement income products and other regulated financial services. Confidence that appropriate consumer protections remain available where regulated firms fail therefore supports confidence in the retirement income system more generally.

Recognising the significance of these issues, ASFA commissioned Marsh Risk Consulting to undertake an independent comparative review of compensation schemes operating across a number of comparable overseas jurisdictions.

The purpose of that review was not to identify a preferred overseas legislative model.

Rather, it sought to examine how different jurisdictions have addressed common policy challenges relating to consumer protection, financial sustainability, governance and operational resilience.
The Marsh benchmarking assessed comparator schemes against three consistent themes:

- Integrity as a genuine scheme of last resort;
- Financial sustainability; and
- Governance and operational resilience.

Jurisdictions differ significantly in their legal systems, institutional structures and financial markets. Direct comparison of legislative provisions alone is therefore unlikely to provide meaningful guidance for Australian policymakers.

By contrast, identifying the characteristics consistently associated with mature and financially sustainable compensation schemes provides a stronger basis for policy development.
This paper builds upon that comparative evidence.

It does not advocate the adoption of any particular overseas model, nor does it suggest that Australia's legislative framework should mirror arrangements operating elsewhere.
Instead, it asks a different question:

What can Australia learn from the common characteristics of mature statutory compensation schemes while remaining firmly grounded in Australia's own regulatory architecture?

The policy framework presented in the sections that follow represents ASFA's assessment of that evidence within the context of Australia's financial system, legislative framework and public policy objectives.

2

The CSLR’s development, design and operation

2.1 The evolution of Australia’s financial consumer protection framework

Australia's contemporary financial regulatory system has developed progressively over several decades in response to structural changes in financial markets, increasing consumer participation and lessons arising from major financial failures.

Responsibility for maintaining confidence in the financial system is shared across several institutions, each performing distinct but complementary functions.

The Australian Prudential Regulation Authority (APRA) promotes the financial soundness of authorised deposit-taking institutions, insurers and registrable superannuation entities through prudential supervision and risk-based regulation.

The Australian Securities and Investments Commission (ASIC) administers Australia's financial services and markets legislation, regulates market conduct and licensing, and undertakes enforcement action where financial firms fail to comply with their legal obligations.

The Corporations Act 2001 establishes the legislative framework governing financial services licensing, disclosure obligations, conduct standards and consumer protections applicable to financial service providers. Together with associated regulations and regulatory guidance, it provides the legal architecture within which Australia's financial services industry operates.

Independent external dispute resolution (EDR) is provided through the Australian Financial Complaints Authority (AFCA), which enables consumers and small businesses to resolve disputes with financial firms without commencing court proceedings. AFCA may make binding determinations requiring financial firms to compensate consumers where legal obligations have not been met.

These institutions perform different roles, yet collectively contribute to a single objective: maintaining confidence that Australia's financial system operates fairly, transparently and in the interests of consumers.

The introduction of the CSLR represented the next stage in the continuing evolution of this framework.

The CSLR is not an alternative to prudential regulation, conduct regulation or external dispute resolution. It is the final component of an integrated financial consumer protection framework.

Accordingly, statutory compensation should not be viewed as an isolated policy initiative. It is the final safeguard within Australia's broader financial consumer protection framework. Its effectiveness depends not only upon its own legislative design, but upon the coherence of the wider regulatory architecture within which it operates.

As operational experience develops, the continuing evolution of the scheme should therefore be considered within the context of Australia's broader regulatory architecture rather than in isolation.

This observation is central to the analysis that follows.

2.2 Development of the CSLR

The Financial Services CSLR commenced operation on 2 April 2024, after a lengthy and contentious development process.

For almost three decades, the question of how to implement appropriate compensation arrangements for financial services failures was periodically reconsidered but repeatedly deferred because of the inherent challenges it presented.

Some key milestones along the way included:

- Discussion of compensation mechanisms in the context of financial services licensing reforms under the Financial Services Reform framework, which ran from initial consultation in late 1997 through to implementation in 2002;
- The Inquiry into Financial Products and Services in Australia, conducted by the Parliamentary Joint Committee on Corporations and Financial Services in 2009 (the 'Ripoll Inquiry'), following financial sector collapses including Storm Financial and Opes Prime;
- The Review of Compensation Arrangements for Consumers of Financial Services in 2011–12 (the 'St John Review');
- The Review of the financial system external dispute resolution framework ('the Ramsay Review') in 2015–17.

The CSLR in its current form is largely – but not entirely – based on the recommendations in the supplementary final report from the Ramsay Review. The commitment to implement a CSLR formed part of the former Coalition Government's response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

While Bills to implement the CSLR were initially introduced by the Coalition Government in late 2021, these lapsed and legislation (in very similar terms) was ultimately passed in 2023 by the Labor Government.

2.3 Operation of the CSLR

The CSLR is a statutory scheme that may provide up to $150,000 in compensation where:

- AFCA has made a relevant determination concerning an eligible financial product or service;
- The claimant has notified AFCA of non-payment within 12 months after the determination was made, or within a longer period agreed by AFCA;
- If the financial firm still exists, AFCA has completed the steps it considers appropriate to seek payment;
- The amount remains unpaid and the CSLR reasonably believes the claimant is unlikely to be fully paid;
- The claimant is not entitled under another statutory compensation scheme to compensation equal to or greater than the amount determined by AFCA, with any lesser statutory compensation taken into account when calculating the CSLR payment; and
- The claimant applies to the CSLR.[8]

The CSLR is operated, under authorisation from the Minister, by Compensation Scheme of Last Resort Limited. It is a public company limited by guarantee, governed by a board of directors, with aspects of its membership specified by legislation. It is independent of AFCA and ASIC; however, there are some important dependencies:

- ASIC is responsible for administering the levy framework that funds the CSLR and provides data and advice relevant to levy calculations;
- The CSLR relies on determinations made by AFCA; it does not itself assess a consumer's complaint or the compensation payable in relation to that complaint;
- This has led to concerns that the 'counterfactual loss' (or 'but for') approach adopted by AFCA has inappropriately inflated compensation claims under the CSLR;
- Information sharing arrangements exist between the CSLR, AFCA and ASIC.

2.4 Funding of the CSLR

The Government provided one-off funding to establish the CSLR and meet the costs of its first levy period (2 April–30 June 2024). Separately, the legislation imposed a one-off pre-CSLR levy on the ten largest banking and insurance groups to fund the historical backlog of eligible AFCA complaints that pre-dated the scheme.

8. Corporations Act 2001 (Cth) ss 1063–1067.

Aside from these transitional arrangements, the CSLR is fully funded by industry through annual, further and special levies. Cross-subsidisation is embedded as a key feature of the funding model. Annual levies are paid by financial firms in the four primary sub-sectors covered by the CSLR, and are subject to a $20 million per annum sub-sector cap. A total scheme cap also applies, across all sub-sectors, set at $250 million per annum.

Where a revised estimate remains within the relevant sub-sector cap, a further levy may be raised under the statutory framework.

Where a revised estimate exceeds the cap, the CSLR notifies the Minister of the need for a special levy. The Minister determines whether a special levy is imposed, which sub-sectors must pay, the amount and timing, or whether compensation is paid in instalments. ASIC then calculates each entity's share, issues levy notices and collects the levy.[9]

2.5 Levy experience to date

The levy requirements for compensation, fees and costs for 2023–24 and 2024–25 were within the relevant levy caps and no special levy was required.

For 2025–26, the total compensation, fees and costs for the personal financial advice sub-sector were $67.3 million, exceeding the $20 million sub-sector cap by $47.3 million. The Government consulted on potential options for dealing with this excess within the legislative framework, and the Minister ultimately determined a special levy across retail-facing sub-sectors—extending beyond personal financial advice and the other primary sub-sectors. Of this amount, $6.1 million was levied on the "superannuation trustees" sub-sector, which principally comprises APRA-regulated superannuation funds.[10]

On 17 November 2025, the CSLR published an initial 2026–27 estimate of $126.9 million for the personal financial advice sub-sector—$106.9 million above the $20 million sub-sector cap. The estimate excluded claims connected with Shield Master Fund and First Guardian Master Fund because of uncertainty about their scale, and the CSLR indicated that the revised estimate might be higher.[11]

On 2 July 2026, the CSLR published a revised 2026–27 estimate of $198.1 million, of which $190.3 million was attributed to the personal financial advice sub-sector—$170.3 million above the sub-sector cap.[12]

The increase is largely attributable to faster-than-anticipated complaint processing by AFCA for Dixon Advisory & Superannuation Services and the first tranche of claims associated with Shield

9. Corporations Act 2001 (Cth) ss 1069F(3), 1069H; Financial Services Compensation Scheme of Last Resort Levy Act 2023 (Cth) ss 8–9, 13–15; Financial Services Compensation Scheme of Last Resort Levy (Collection) Act 2023 (Cth) pt 3; Compensation Scheme of Last Resort, "Levies" (accessed 14 July 2026).
10. Corporations (Financial Services Compensation Scheme of Last Resort—Special Levy) Determination 2025.
11. Compensation Scheme of Last Resort, Initial Estimate for FY 2027 (4th Levy Period) (published 17 November 2025); Financial Services Compensation Scheme of Last Resort Levy (Collection) (Initial Cost Estimates for 2026-27 Levy Period) Determination 2025.
12. Compensation Scheme of Last Resort, Revised Estimate for FY 2027 (4th Levy Period) (published 2 July 2026); Financial Services Compensation Scheme of Last Resort Levy (Collection) (Revised Cost Estimates for 2026-27 Levy Period) Determination 2026.

Master Fund ("Shield") and First Guardian Master Fund ("First Guardian"). The CSLR has confirmed that it is seeking a special levy to fund the amount above the sub-sector cap.

As at 14 July 2026, the Minister had not determined arrangements for the FY2027 special levy. The Government's April 2026 consultation proposes significant changes to the levy framework (see section 2.9 below). Because the revised estimate includes only the first tranche of Shield and First Guardian claims, further claims may arise in later levy periods.[13]

2.6 How does the CSLR apply to the APRA-regulated superannuation sub-sector?

Superannuation is not one of the four financial products and services covered by the CSLR. APRA-regulated superannuation funds are only 'in scope' for the CSLR to the extent that covered products or services are provided under an Australian Financial Services Licence (AFSL) held by the fund trustee. In practice, this is limited to the provision of personal financial advice.[14] Superannuation funds use a variety of arrangements to provide financial advice to their members. Not all provide personal financial advice, and not all hold an AFSL directly.

Those APRA-regulated funds with 'in-house' personal financial advisers contribute toward the CSLR's funding on that basis through the annual levy. As those funds are subject to stringent prudential supervision, the risk of loss is. It is highly unlikely that an AFCA compensation determination against a trustee, relating to services provided under an AFSL, would go unpaid and progress to the CSLR. Therefore, even where a fund provides personal financial advice, its members are unlikely to receive any material benefit from the scheme.

Despite this, $6.1 million of the total $47.3 million special levy for 2025–26 was levied across the entire superannuation trustees sub-sector – not merely those holding an AFSL. Further, the Government's April 2026 consultation paper proposes making the APRA-regulated superannuation sub-sector a permanent source of "backstop" funding through the special levy mechanism.[15]

13. Compensation Scheme of Last Resort, "Compensation Scheme of Last Resort releases FY2027 revised levy estimate" (2 July 2026); Compensation Scheme of Last Resort, "Levies" (accessed 14 July 2026); Treasury, Compensation Scheme of Last Resort – reform options to support ongoing sustainability (7 April 2026).
14. This would also be the case in relation to services provided under an Australian Credit Licence; however, these are not commonly held directly by an APRA-regulated superannuation fund trustee.
15. Treasury, Compensation Scheme of Last Resort – reform options to support ongoing sustainability (7 April 2026).

2.7 How compensation and loss is treated within superannuation

As outlined above, 'superannuation' is not one of the financial products and services covered by the CSLR. Individuals within an APRA-regulated superannuation fund cannot claim from the CSLR. There is a sound rationale for this - APRA-regulated superannuation already operates under a comprehensive prudential framework that is unique within Australia's financial system. This framework seeks to prevent member losses, requires trustees to remediate operational failures, and provides a statutory mechanism for financial assistance in exceptional cases of fraud and theft:

- Unlike most sub-sectors covered by the CSLR, APRA-regulated superannuation fund trustees operate within a trust law framework. Members' retirement savings are held on trust. Fund trustees are subject to the traditional duties of a trustee under the general law, including equitable and fiduciary obligations, with modification – and significant expansion – by the Superannuation Industry (Supervision) Act 1993 (SIS Act) and other legislation.
  - Importantly, the SIS Act overlays additional statutory duties and provides a regulatory framework administered by APRA.
- The regulatory framework involves APRA licensing of Registrable Superannuation Entities along with prudential oversight, with stringent operational and prudential standards directed toward preventing or minimising operational failures. Those standards include the Operational Risk Financial Requirement (ORFR) – financial resources that must be maintained to address losses arising from operational risk.[16]
  - The ORFR is designed to ensure trustees have financial resources available to respond to operational failures before they threaten members' interests or the viability of the fund.
- If members suffer loss, for example through administration errors, operational failures, unit pricing errors, service provider failures or trustee breaches, the trustee is expected to provide remediation. Depending on the circumstances this may be funded through trustee reserves, insurance, recoveries from third parties (such as service providers) and, where appropriate, the ORFR.
- A further tier of protection can be triggered if an APRA-regulated fund is unable to pay benefits due to fraud or theft. Part 23 of the SIS Act enables the Minister, subject to statutory conditions, to approve a grant of financial assistance to the affected fund, which is then recouped from other APRA-regulated funds through a levy - in effect, a sector-specific, sector-funded compensation scheme.[17]

16. Australian Prudential Regulation Authority, Prudential Standard SPS 114 Operational Risk Financial Requirement (effective 1 July 2025).
17. Superannuation Industry (Supervision) Act 1993 (Cth) pt 23.

2.8 Superannuation sector's key policy concerns with the CSLR

Throughout the development period for the CSLR and since its commencement, ASFA has raised a number of key policy concerns, primarily regarding the moral hazard inherent in the scheme's architecture.

The principal moral hazard concern associated with the CSLR has been the potential for cross-subsidisation, whereby well-managed firms bear the costs of failures by poorly managed firms.

ASFA contends that requiring cross-subsidisation from the APRA-regulated superannuation trustee sub-sector takes this to a new and unacceptable level. As the sector has consistently maintained, it is inappropriate for Australians' superannuation savings to be levied to compensate losses arising in other sub-sectors:

- There is a lack of evidence that unpaid compensation determinations are a material issue within the APRA-regulated superannuation sub-sector.[18]
- Further, as noted in section 2.7 above, APRA-regulated superannuation is fundamentally different from sub-sectors covered by the CSLR. Rather than relying principally on an ex post industry-funded compensation scheme, superannuation operates within a comprehensive prudential framework that seeks to prevent member losses, requires trustees to remediate operational failures, and provides a statutory mechanism for financial assistance in exceptional cases of fraud or theft.

A secondary aspect to the moral hazard concerns is that the existence of a compensation scheme may weaken incentives for prudent behaviour by firms or consumers. Aspects of the CSLR's design – including its limited scope, last-resort nature, reliance on AFCA determinations and industry levy structure – were ostensibly intended to mitigate these behavioural risks. However, given persisting concerns regarding loss causation and compensation funding, this has, in ASFA's view, been unsuccessful.

18. ASFA, Compensation Scheme of Last Resort (CSLR): Reform options to support ongoing sustainability, submission to Treasury (22 May 2026) 2–4.

2.9 Reform will support the sustainability of the CSLR

The Government consulted between 7 April and 22 May 2026 on measures intended to support the sustainability of the CSLR.[19]

The proposed reforms include some technical improvements, expansion of the CSLR's subrogation rights, enabling the CSLR to deduct certain payments from compensation, revising the treatment of counterfactual loss for financial advice complaints, considering the role of losses incurred by self-managed superannuation funds, facilitating levying of managed investment schemes and improving recovery of unpaid AFCA determinations within corporate groups.

Perhaps most significantly, however, the Government has proposed reforms to the special levy aspect of the CSLR's funding arrangements. These would see the introduction of a three-tier 'waterfall' framework, entrenching the role of retail-facing sub-sectors as 'final backstop payers'. Sectors like superannuation hold strong misgivings with entrenching a CSLR funding model that requires ongoing contributions from sectors outside the scope of the CSLR. These levies are funded from resources that would otherwise be used to deliver members' retirement outcomes. When there is little realistic prospect of an unpaid determination against a prudentially regulated fund trustee flowing through to the CSLR, change must be pursued.

ASFA's response further states that:[20]

- Any extension of the waterfall framework to the APRA-regulated superannuation sub-sector must apply as a short-term option only while a more comprehensive reconsideration of the Scheme is undertaken.
- The waterfall must be explicitly framed to ensure the special levy cap for each "tier" is fully exhausted before recourse can be had to the next tier of sub-sectors.
- Where the special levy cap for the primary sub-sector(s) is fully exhausted, any remaining special levy amount must be spread to the maximum extent possible to minimise cross-subsidisation and the burden on individual financial firms.

19. Treasury, Compensation Scheme of Last Resort – reform options to support ongoing sustainability (7 April 2026).
20. ASFA, Compensation Scheme of Last Resort (CSLR): Reform options to support ongoing sustainability, submission to Treasury (22 May 2026).

3

International experience and the characteristics of effective and sustainable schemes

3.1 The Marsh benchmarking

ASFA commissioned Marsh Risk Consulting to test the Australian CSLR against a targeted set of mature international schemes. Marsh assessed last-resort integrity and consumer protection, financial structure and sustainability, and governance and operational resilience. The purpose was to identify recurring design principles, not to select a foreign statute for direct transplantation into Australia.

The schemes differ materially in legal form, compensation limits and funding mechanics. Nevertheless, the benchmarking shows strong convergence around strict scope, aligned funding and effective governance. Sustainable schemes generally use event-based triggers, narrowly define compensable loss, align contribution responsibility with loss causation and retain the capacity to manage exposure under stress.

The full report from Marsh is attached as an appendix to this White Paper and key points are highlighted in the following sections.

3.2 International evidence at a glance

Comparator	How the scheme is bounded	Sustainability lesson for Australia
United Kingdom – FSCS	Firm default; compensation within clear statutory limits; poor investment performance alone is not covered. Funding is organised by contribution class, with recoveries and an independent administrator.	Scope discipline can coexist with strong consumer protection. Funding classes and recoveries reduce routine cross-subsidisation and volatility.[21]
United States – SIPC	Broker-dealer insolvency plus missing customer cash or securities. Claims proceed through court-supervised liquidation after firm assets and recoveries are exhausted.	An objective "line in the sand", risk-aligned funding and strong recovery powers make the last-resort boundary enforceable.[22]
EU / EEA – ICS	Compensation where an investment firm cannot return client assets. The harmonised framework focuses on custody and safeguarding failures, not investment outcomes.	A narrow statutory purpose limits scope creep while allowing national funding models to reflect local institutions.[23]
France – FGDR	Event-based inability to return client money or securities; €70,000 cap; poor performance, unsuitable advice and market losses excluded. Prefunded and integrated with supervision and resolution.	Higher compensation limits can be sustainable when paired with narrow losses, ring-fenced funding and early supervisory intervention.[24]
Netherlands – BCS	Authorised firm cannot return client money or instruments; €20,000 cap; rules-based activation; funded solely by Dutch investment firms.	Conservative scope, sector-focused funding and simple administration promote predictability and low moral hazard.[25]
United Kingdom – SRA Compensation Fund	Discretionary compensation for solicitor dishonesty or failure to account for client money; focused on trust money rather than service quality.	A professional-services analogue can protect clients while retaining a clear loss category and governance discretion.[26]

Source: Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report (August 2026).

21. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 8, 14.
22. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 8, 16.
23. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 9.
24. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 9, 19.
25. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 9, 21.
26. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 9.

3.3 Four characteristics of sustainable compensation schemes

3.3.1 Operation as a genuine mechanism of last resort

A sustainable scheme is activated by an objective failure event and sits behind prudential supervision, conduct regulation, dispute resolution, insolvency processes, insurance and recoveries. It does not become the primary mechanism for converting every unpaid legal outcome into an industry-funded claim.

The international examples make the boundary operational. The FSCS acts after a firm is declared in default. SIPC acts after broker-dealer insolvency and confirmation that client assets are missing. EU investor schemes act where client money or instruments cannot be returned. These triggers are linked to institutional failure rather than the mere existence of a disputed or unpaid outcome.[27]

Implication for the CSLR

An unpaid AFCA determination can remain an important gateway, but it should not by itself determine the type and scale of loss that the statutory scheme must fund. The CSLR needs a separate, clearly legislated last-resort boundary.

3.3.2 Funding embedded within coherent statutory architecture

Funding sustainability starts with statutory purpose and scope. Scope determines eligibility; eligibility determines liabilities; liabilities determine the size and volatility of funding requirements. Changing the levy formula without addressing upstream drivers can redistribute costs but cannot make the scheme sustainable.

International schemes use different funding methods, but the funding mechanism is connected to the risk being protected. SIPC is funded by broker-dealers whose custody activity creates the exposure. The Netherlands confines funding to investment firms. France combines sector-specific prefunding with narrow eligibility. The FSCS uses contribution classes, limits cross-class support and actively pursues recoveries.[28]

27. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 6, 8–9, 14, 16.
28. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 8–9, 14, 16, 19, 21.

Implication for the CSLR

The primary design question is not simply which additional sectors can be made to pay. It is whether liability drivers, funding classes, reserves, recoveries and backstop arrangements form a coherent system aligned with loss causation.

3.3.3 Strong governance and operational resilience

Compensation schemes administer public entitlements and large, uncertain liabilities. Mature arrangements therefore combine clear statutory limits with independent administration, transparent reporting, recovery activity, access to information and the capacity to respond proportionately during claims surges.

The FSCS can declare defaults, assess eligibility and pursue subrogated recoveries. SIPC works through court-appointed trustees and liquidation processes. France coordinates closely with prudential supervisors and can use resolution tools such as asset transfers to reduce cash outlays. Marsh's broader finding is that integration with supervision and insolvency reduces reliance on cash compensation and improves resilience.[29]

Implication for the CSLR

The CSLR should have the authority and information needed to manage exposure within Parliament's statutory boundaries, rather than being required to absorb the full consequences of decisions made elsewhere without independent scope or cost control.

3.3.4 Clearly defined statutory boundaries regarding compensable loss

The strongest recurring feature is loss-definition discipline. Comparator schemes distinguish losses caused by institutional failure, missing assets or specified misconduct from market movements, poor investment performance and open-ended outcome-based loss. This protects consumers without converting statutory compensation into an investment guarantee.

Marsh identifies the Australian "but-for" methodology as unique among the comparator schemes. It can extend compensation beyond firm failure and missing assets to hypothetical or outcome-based losses, while the CSLR has no discretion to manage scope once the AFCA determination becomes eligible. International experience suggests that controlling what is compensable is more important to sustainability than adjusting the payment cap alone.[30]

29. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 6, 14, 16, 19.
30. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 4, 6, 10.

Implication for the CSLR

Legislation should define actual compensable loss, permitted categories of misconduct or asset failure, required offsets and exclusions. Ordinary investment risk should remain with investors; statutory compensation should address clearly specified failures of regulated institutions.

4

Reforming the Australian CSLR

4.1 Why the present architecture is not sustainable

The Australian CSLR delivers an important consumer safeguard, but its present architecture differs materially from the international benchmarks. Marsh identifies four linked pressures: broad outcome-based losses, dependence on AFCA determinations, limited scheme discretion and a narrow levy base increasingly reliant on special levies.[31]

Those pressures are now visible in the levy experience. The personal financial advice sub-sector has generated costs far above its annual cap; the superannuation trustees sub-sector has already been called on through a special levy; and the revised 2026–27 estimate includes only the first tranche of Shield and First Guardian claims. A permanent waterfall may spread the immediate bill, but it does not change the liability drivers.[32]

International benchmark	Current Australian feature	Resulting risk
Objective event-based failure trigger	Unpaid AFCA determination is the operative gateway	Scheme exposure inherits the breadth of the underlying determination
Narrow, statutory loss categories	Counterfactual “but-for” loss can include outcome-based or hypothetical loss	Scope creep, moral hazard and unpredictable aggregate liabilities
Funding aligned with loss causation	Narrow primary base with special-levy spillover to unrelated sectors	Cross-subsidisation, levy volatility and pressure on retirement savings
Independent administration with discretion and recoveries	Limited ability to reassess liability or manage cost once triggered	Reduced capacity to respond proportionately under stress

31. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for ASFA (August 2026) 4, 6, 10.
32. Corporations (Financial Services Compensation Scheme of Last Resort—Special Levy) Determination 2025; Compensation Scheme of Last Resort, Revised Estimate for FY 2027 (4th Levy Period) (published 2 July 2026).

4.2 Proposed reform framework

1. Re-anchor the CSLR as a genuine scheme of last resort

Create a clear statutory trigger linked to institutional failure and exhaustion of primary remedies. An eligible AFCA determination should remain relevant, but CSLR eligibility should also require objective statutory conditions that preserve the scheme's residual role.

2. Define compensable loss with precision

Specify actual net loss categories, required offsets and exclusions. Protect consumers against defined institutional failure, missing assets, fraud or specified misconduct, while excluding ordinary investment performance and open-ended hypothetical outcomes. The purpose is to preserve redress, not to guarantee returns.

3. Align funding responsibility with compensation risk

Use sector- or activity-based funding pools, risk-sensitive contributions, strong recoveries and transparent backstop rules. Consider prefunding or reserves where actuarially justified. APRA-regulated superannuation should not be entrenched as a permanent general backstop for losses generated in sectors from which members are highly unlikely to derive any material practical benefit.

4. Strengthen governance and operational resilience

Provide independent administration within clear statutory limits, supported by information-sharing with AFCA, ASIC and APRA, early-warning data, stress testing, audited reporting, recovery and subrogation powers, and proportionate discretion to manage claims surges and emerging risks.

5. Protect consumers through a controlled transition

Preserve accrued and valid entitlements, publish clear eligibility rules and adopt a scheduled independent review of scheme scope, claims drivers and funding adequacy. Reform should improve the durability of compensation rather than create uncertainty for consumers already within the system.

4.3 A practical test for future reforms

Any proposal to change the CSLR should be tested against four questions:

- Does it reinforce operation as a genuine mechanism of last resort?
- Are funding arrangements embedded within coherent statutory architecture and aligned, where practicable, with loss causation?
- Does it strengthen governance, recovery capacity and operational resilience?
- Does it preserve clear statutory boundaries regarding compensable loss?

A proposal that merely widens the levy base without addressing scope, governance and loss definition does not meet this test.

5

Conclusion

The CSLR is an important part of Australia's consumer protection framework. Its legitimacy and effectiveness, however, depends on being both effective for eligible consumers and sustainable for those required to fund it.

The current trajectory is unsustainable. The superannuation trustees sub-sector has already been subject to a special levy, the revised 2026–27 estimate is substantial and includes only the first tranche of Shield and First Guardian claims. Using retirement savings as a standing backstop for failures elsewhere is not a durable solution.[33]

The Marsh research provides a clear evidence base for reform. Across different legal systems and funding models, mature schemes share four characteristics: a genuine last-resort trigger, funding embedded in coherent statutory architecture, strong governance and operational resilience, and disciplined statutory boundaries around compensable loss.

Australia should use those characteristics to redesign the CSLR. This will ensure that consumer protection and funding mechanisms are appropriately targeted, strongly governed and financially sustainable over the long term.

33. Corporations (Financial Services Compensation Scheme of Last Resort—Special Levy) Determination 2025; Compensation Scheme of Last Resort, Revised Estimate for FY 2027 (4th Levy Period) (published 2 July 2026).

References

1. Marsh Risk Consulting, Compensation Schemes of Last Resort Sustainability Report, prepared for the Association of Superannuation Funds of Australia (August 2026).
2. Corporations Act 2001 (Cth), Part 7.10B.
3. Financial Services Compensation Scheme of Last Resort Levy Act 2023 (Cth).
4. Financial Services Compensation Scheme of Last Resort Levy (Collection) Act 2023 (Cth).
5. Corporations (Financial Services Compensation Scheme of Last Resort—Special Levy) Determination 2025.
6. Compensation Scheme of Last Resort, Initial Estimate for FY 2027 (4th Levy Period) (published 17 November 2025).
7. Financial Services Compensation Scheme of Last Resort Levy (Collection) (Initial Cost Estimates for 2026-27 Levy Period) Determination 2025.
8. Compensation Scheme of Last Resort, Revised Estimate for FY 2027 (4th Levy Period) (published 2 July 2026).
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10. Treasury, Compensation Scheme of Last Resort – reform options to support ongoing sustainability (7 April 2026).
11. ASFA, Compensation Scheme of Last Resort (CSLR): Reform options to support ongoing sustainability, submission to Treasury (22 May 2026).
12. Superannuation Industry (Supervision) Act 1993 (Cth), Part 23.
13. Australian Prudential Regulation Authority, Prudential Standard SPS 114 Operational Risk Financial Requirement (effective 1 July 2025).
14. Superannuation (Objective) Act 2024 (Cth), s 5.
15. Compensation Scheme of Last Resort, “Levies” (accessed 14 July 2026).

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Appendix: Compensation Schemes of Last Resort Sustainability Report, prepared for the Association of Superannuation Funds of Australia

MARSH

August 2026

Compensation Schemes of Last Resort Sustainability Report

The Association of Superannuation Funds of Australia

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MARSH

Executive Summary

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Executive Summary

Project Scope & Approach

Marsh Risk Consulting (“Marsh”) was engaged by the Association of Superannuation Funds of Australia (“ASFA”) to undertake a Compensation Scheme of Last Resort (“CSLR”) sustainability review, focused on global benchmarking and best practices. The approach taken involved assessing the Australian CSLR against a targeted set of international compensation schemes across three marking criteria (defined overleaf): (i) Last-resort integrity and consumer protection; (ii) Financial structure and sustainability; and (iii) Governance and operational resilience.

Project Outputs

International Best Practices: Common design principles observed across sustainable international compensation schemes, including disciplined loss definitions, clear last-resort triggers, sector-aligned funding responsibility, and governance mechanisms that actively manage scope and volatility.

Scheme Benchmarking: Each selected scheme is described in terms of mandate, coverage, funding structure, and governance, illustrating the practical trade-offs jurisdictions have made between consumer protection, sustainability, and system resilience. These scheme-specific insights are paired with a set of metrics to enable quantitative comparison, including compensation paid, levies, recoveries, administrative expenses.

Key Findings

CSLR: The CSLR is unique among international comparator schemes in being triggered by unpaid AFCA determinations and applying a “but-for” compensation methodology. This approach materially expands the scope of compensable losses beyond firm failure and missing assets to include outcome-based and hypothetical losses, while leaving the scheme with no discretion to manage scope or cost once triggered.

The CSLR is funded through a narrow sub-sector levy base, with increasing reliance on special levies in response to concentrated losses. As compensation volumes rise, this structure creates a self-reinforcing cycle: higher levies are either passed through to investors and consumers, or increase financial pressure on levy-paying firms, elevating insolvency risk and further compensation claims.

International Best Practices: Sustainable international schemes maintain clear, event-based failure triggers, tightly defined compensable losses, and funding models that align contribution responsibility with loss causation. These schemes deliberately exclude outcome-based losses, delineating consumer protection and market or investment risk.

Effective schemes also combine scope discipline with governance discretion, enabling administrators to manage exposure, apply rules consistently, and respond proportionately under stress. Where prefunding or broad, diversified levy bases are used, they are paired with strict eligibility criteria and supervisory integration, materially reducing levy volatility and reinforcing the role of compensation schemes as true mechanisms of last resort.

Methodology

A structured, evidence-based approach to international benchmarking against the CSLR

1 Scheme Selection

A comprehensive long list of international compensation and protection schemes was assessed at a high level against the CSLR's scope, triggers, and funding design. This produced six close comparator schemes across the United Kingdom, European Union, and United States with the greatest relevance to CSLR sustainability and design considerations.

2 Benchmarking Framework

A consistent benchmarking framework was applied to enable like-for-like comparison across schemes, assessed against three core themes:

(i) Last-resort integrity and consumer protection; (ii) Financial structure and sustainability; and

(iii) Governance and operational resilience.

3 SME Validation

Targeted interviews with Marsh Group subject-matter experts were conducted to validate scheme design, operational practice, and observed outcomes across jurisdictions. These discussions provided insight into how schemes operate in practice, including the application of triggers, funding mechanisms, and governance controls.

4 Comparative Insights

Qualitative insights from expert interviews were combined with available quantitative information on scheme scope, funding, and claims experience. This synthesis enabled robust cross-scheme comparison and identification of key design features to inform consideration of CSLR sustainability and potential future redesign.

Benchmarking Framework Definitions

Last-Resort Integrity and Consumer Protection
The extent to which a scheme provides effective consumer protection while maintaining a clear, enforceable boundary as a true last-resort, including disciplined triggers, narrowly defined compensable losses, and appropriate exhaustion of other remedies.

Financial Structure and Sustainability
The robustness of a scheme's funding and financial design, including alignment between risk and contributors, predictability of levies, capacity to absorb losses over time, and mechanisms to manage volatility without undermining fairness or viability.

Governance and Operational Resilience
The effectiveness of a scheme's governance, decision-making authority, and operational capability to administer compensation consistently, manage scope and risk, and respond to stress events.

Key Findings: International Best Practices

Global benchmarks show that sustainable schemes rely on strict scope, aligned funding, and strong governance

Key CLSR Issues

The CSLR's current design combines broad, outcome-based compensable losses with limited scheme discretion, creating sustained pressure on funding fairness and sustainability.

- Compensation is triggered by unpaid AFCA determinations using a "but-for" methodology that is unique among comparator schemes, extending coverage beyond firm failure to losses that are not event-based.
- A narrow levy base and increasing reliance on special levies create a reinforcing cycle in which rising compensation leads to higher levies that are either passed on to investors or weaken firm resilience, increasing the likelihood of further failures and additional compensation costs.

International Best Practices

Last Resort Integrity & Consumer Protection

International best practices assert scheme purpose with clarity, anchoring compensation to clear, event-based failure triggers and narrowly defined losses.

- Comparator schemes limit compensation to institutional failure and missing assets, preserving a clear last-resort boundary.
- This discipline materially reduces scope creep, moral hazard, and pressure on funding over time.

Implication for CSLR:
Consider whether tighter triggers and loss definitions are needed to re-anchor CSLR as a true last-resort mechanism.

Financial Structure & Sustainability

Sustainable schemes control costs primarily through what is compensable, not just how much is paid.

- International schemes with higher caps remain viable because losses are tightly defined and infrequent.
- Funding models are typically aligned to loss causation, limiting cross-subsidisation and levy volatility.

Implication for CSLR:
Re-examining compensable loss scope and industry-specific funding alignment may be more effective than adjusting levy mechanics alone.

Governance & Operational Resilience

Effective schemes retain discretion and operate within broader supervisory and resolution frameworks.

- Governance structures allow schemes to manage stress exposure, apply rules consistently, and respond proportionately.
- Integration with supervision and insolvency processes reduces reliance on cash compensation and improves outcomes.

Implication for CSLR:
Strengthening governance discretion and upstream integration could improve operational resilience and long-term sustainability.

Global Benchmarking

02

Global Benchmarking Summary

#	Scheme	Overview	Key strengths or unique features	Funding	Liability limit	Structure	Interaction with customers
1	**Australia – Compensation Scheme of Last Resort (CSLR)**	Statutory last-resort scheme compensating consumers with unpaid AFCA determinations due to financial firm insolvency	• Broad loss definition including "but-for" losses • Narrow levy base focused on specific financial advice and credit sectors • Strong link to AFCA determinations	• Funded by levies on ASFA members within covered sectors, option for special levies where sector caps have been exceeded • Limited cross-subsidy controls meaning possibly inequitable contributions from covered sectors	• AUD 150,000 per consumer	• Not-for-profit company established by legislation • Governed with industry and government oversight	• Consumers claim after unpaid AFCA determination where firm cannot pay • Compensation paid based on AFCA findings, no reassessment of liability
2	**UK – Financial Services Compensation Scheme (FSCS)**	Statutory last-resort compensation scheme protecting customers of failed FCA/PRA-authorised financial firms	• Broad levy base including banks enhances funding resilience • Clear exclusion of poor investment performance absent misconduct	• Funded by levies on authorised firms across multiple contribution classes • Supplementary levies raised when annual limits exceeded	• £120k per person per firm for investments • £120k per depositor per bank for deposits	• Independent statutory body established by government • Multiple sub-schemes aligned to regulated activities	• Customers claim directly to FSCS once firm declared in default • Claims assessed and paid by FSCS
3	**US – Securities Investor Protection Corporation (SIPC)**	Investor protection scheme covering customers of failed broker-dealers where client assets are missing	• Strict asset-return model avoids compensation for market losses • Strong integration with insolvency and trustee processes	• Funded by member broker-dealers via assessments • Borrowing authority with US Treasury backstop	• Up to USD 500k per customer • Maximum USD 250k cash	• Non-profit corporation established by federal statute • Court-appointed trustee administers broker liquidation	• Customers file claims through SIPC-appointed trustee • Assets transferred or replaced where possible

Global Benchmarking Summary

#	Scheme	Overview	Key strengths or unique features	Funding	Liability limit	Structure	Interaction with customers
4	**EU / EEA – Investor Compensation Schemes (ICS)**	Statutory national schemes compensating investors when investment firms fail to return client assets	• Harmonised EU framework promotes consistency across jurisdictions • Narrow focus on missing client assets limits scope creep	• Industry-funded at national level • Funding models vary by jurisdiction	• Minimum €20k per investor (EU directive floor)	• National schemes operating under harmonised EU framework • Focus on custody and safeguarding failures	• Investors submit claims to national scheme • Compensation paid where assets cannot be returned
5	**EU – France: Investor Compensation Mechanism (FGDR)**	Statutory investor compensation scheme protecting customers of authorised investment firms where client money or securities cannot be returned	• Higher compensation limit than the EU minimum. • Strong integration with prudential supervision	• Prefunded through regular ex-ante contributions from investment firms • Limited cross-subsidiasation	• €70,000 per investor per institution	• Independent statutory mechanism operated within the FGDR • Closely integrated with French supervisory and resolution authorities	• Eligibility and compensation are determined on an event-based basis • No compensation reassessment
6	**EU – Netherlands: Investor Compensation Scheme (BCS)**	Statutory investor compensation scheme protecting customers of authorised investment firms where client money or securities cannot be returned	• Tight loss definition limited to missing assets preserves last-resort integrity and breadth of coverage • Low moral hazard due to narrow scope and event-based activation	• Primarily relies on ex-post contributions following a firm failure • No routine cross-sector subsidisation and no standing government backstop	• €20,000 per investor (EU minimum)	• Statutory scheme administered within the Dutch supervisory framework • Rules-based activation with limited discretion	• Compensation is triggered only where client assets cannot be returned • Payments may be staged where contributions are being collected
7	**UK – Solicitors' Compensation Fund (SRA)**	Discretionary fund compensating clients for losses due to solicitor dishonesty or failure to account for client money	• Close analogue for advice-like professional failure • Focus on trust money rather than service quality	• Funded by annual contributions from solicitors and law firms • Special levies raised if required	• Generally up to £2m per claim (discretionary)	• Administered by Solicitors Regulation Authority • Discretionary scheme focused on trust money protection	• Clients apply directly to the Compensation Fund • Claims assessed on a discretionary basis

Australia - Compensation Scheme of Last Resort (CSLR)

Broad loss definitions and limited scheme discretion materially weaken last-resort integrity and funding sustainability for the Australian CSLR

Overview	• Statutory, industry-funded **last-resort scheme covering unpaid AFCA determinations** where firms are insolvent and cannot meet obligations. • **Operates downstream of AFCA**, **relying on determinations** rather than conducting its own liability assessment.
Last Resort Integrity & Consumer Protection	• The last-resort trigger (an unpaid AFCA determination) creates a clear gateway, but does not meaningfully limit the type or scale of losses compensated. • Using AFCA's "**but-for" loss approach can extend payouts beyond actual loss** (can include cases with no loss), increasing the risk that poor investment outcomes are socialised leading to moral hazard. • **Limited ability to separate misconduct, regulatory failure, and market-driven outcomes** weakens boundary discipline versus international peers. • **Consumer protection is strong**, but it can blur the line between redress for wrongdoing and protection against investment risk.
Financial Structure & Sustainability	• Funding is levied across **four sub-sectors**: (1) personal financial advice, (2) credit intermediation, (3) credit provision, and (4) securities dealing. • A **narrow levy base** (with limited prefunding) concentrates costs in a small set of contributors, **increasing volatility and cross-subsidisation risk**. • **$150,000 per-consumer cap** limits individual payouts but not aggregate liabilities from large firm failures. • Reliance on post-event **special levies,** which tends to target sub-sectors, **amplifies sensitivity to clustered insolvencies and claims surges**. This structure risks **vicious cycle of increased levies** weakening firm resilience, **leading to further failures**. • Limited recoveries from failed firms and PI insurers reduce offsets, increasing net levy costs.
Governance & Operational Resilience	• Governance combines **industry funding with government-set policy settings**, creating shared accountability but **limited operational discretion**. • Reliance on **AFCA determinations simplifies administration** but limits the CSLR's ability to apply independent judgement or cost controls. • Operationally stable at low volumes, but governance and **design features limit adaptability under sustained stress** or elevated claim environments.

Key CLSR Issues

Broad Loss Definition
Compensation is triggered by unpaid AFCA determinations, extending coverage beyond firm failure to outcome-based loss.

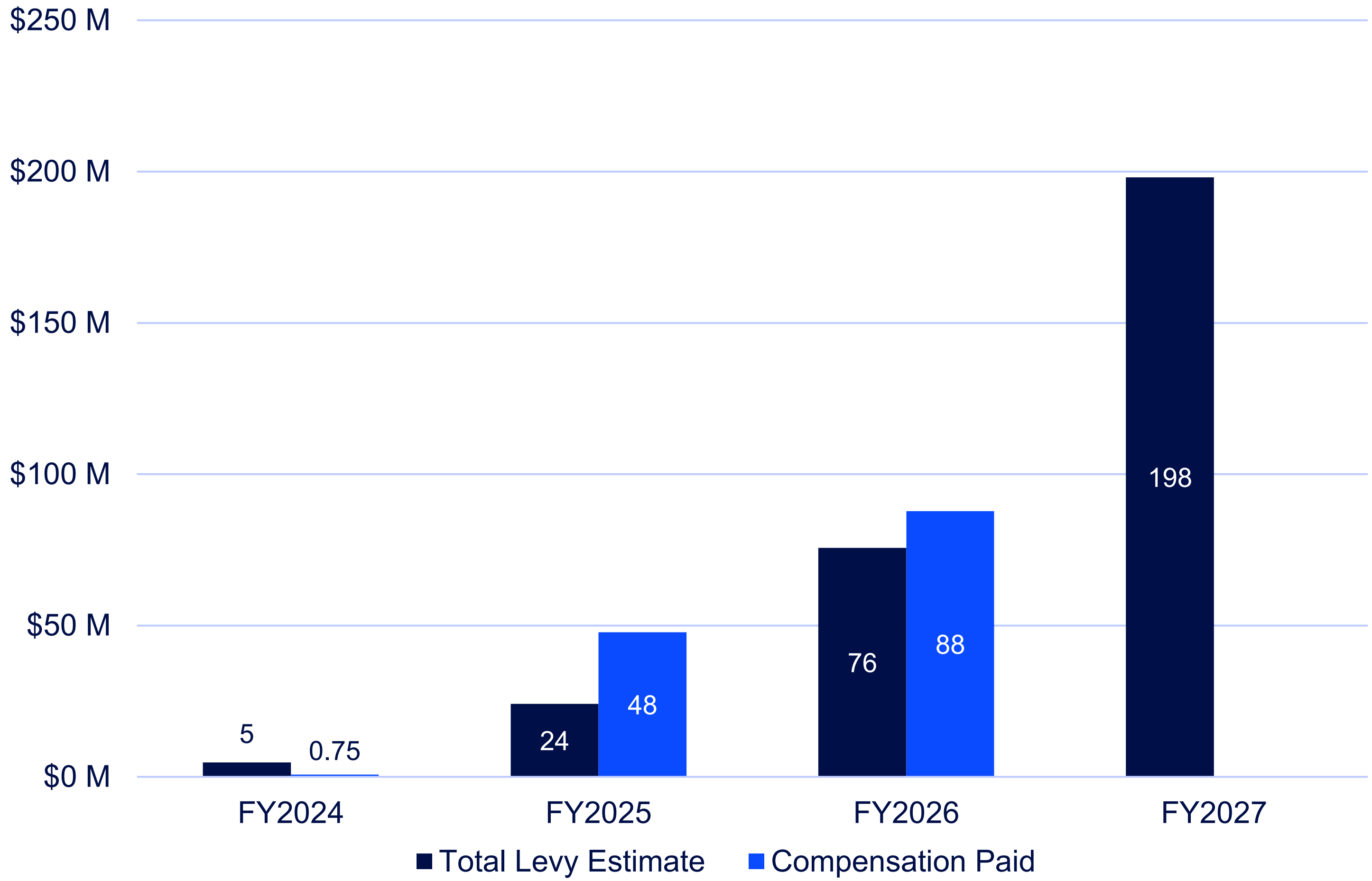
Regular Cross-Subsidisation
Broad compensable losses added to a sub-sector special levy with a narrow base creates ongoing exposure to volatile and recurring funding demands.

AFCA-Dependency
Reliance on AFCA determinations embeds precedent-driven expansion risk, with limited ability to push back on scope creep under stress.

Australia - Compensation Scheme of Last Resort (CSLR)

CSLR is facing sustainability pressure as annual compensation paid is outpacing the annual levy raised

Total Annual Levy vs Total Annual Compensation Paid ($M, 2024-2027)



Key Metrics

Scheme Size
The levy for the scheme is projected to reach $198 million in 2027, reflecting an increase from $76 million in 2026 and $24 million in 2025. However, projected compensation payments are expected to outpace annual levy collections in several years, limiting the scheme's ability to build reserves and increasing reliance on future levies.

Compensation Cap
Per-consumer cap of AUD 150,000 constrains individual claims but does not limit aggregate liabilities arising from large firm failures. Where losses arise from systemic misconduct or widespread advice failures, total compensation obligations may materially exceed annual levy capacity despite the existence of an individual cap.

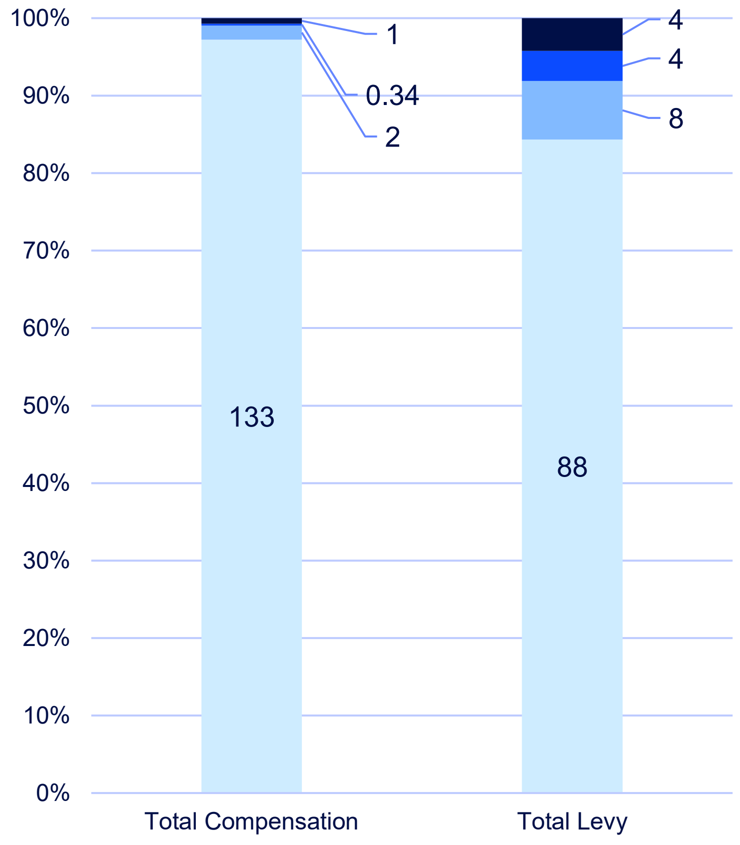
Operating Expenses
During FY2025 the scheme incurred administration expenses of $4.3 million.

Sources: 1) https://cslr.org.au/firms-the-cslr-has-made-compensation-payments-against/ 2) https://cslr.org.au/levies/
FY2026: revised levy estimate; FY2027: initial levy estimate

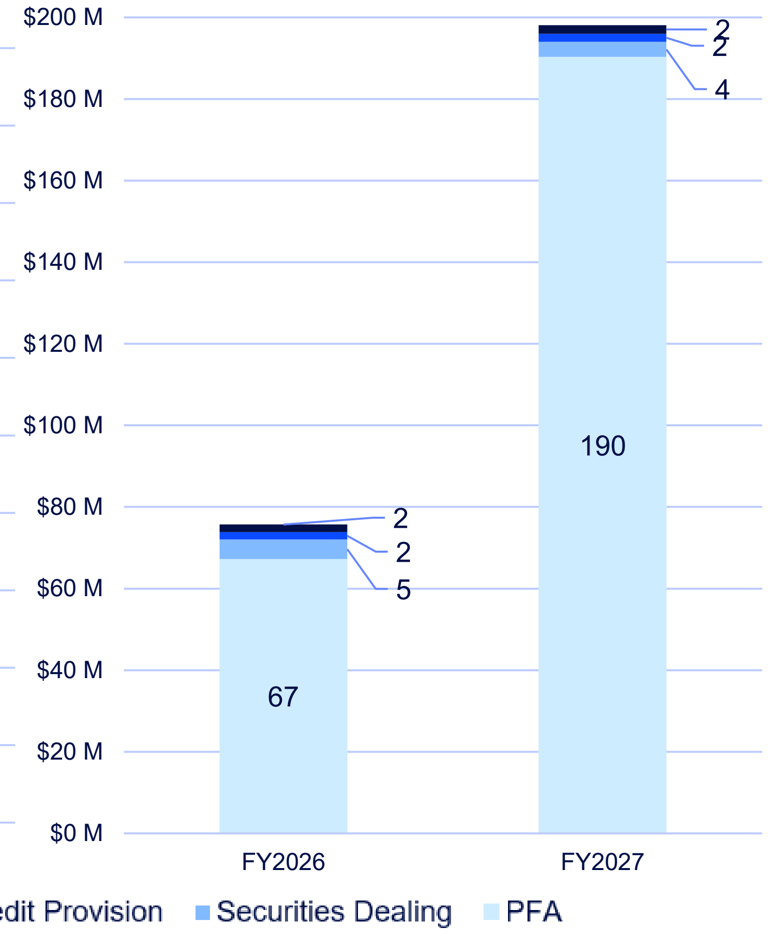
Australia - Compensation Scheme of Last Resort (CSLR)

Claims arising from the Personal Financial Advice sub-sector are driving the need for special levies

Cumulative Compensation vs Levy, by Subsector since CSLR inception ($M, 2024-2026)



CSLR Levy Estimates ($M, 2026-2027)



Key Metrics

Disproportion in Compensation-Levy Rates
The Personal Financial Advice sub-sector is driving 96% of total compensation paid to date while it has only contributed 84% of the current levy to date.

Sub-Sector Special Levy
In FY2026, the $20M sub-sector cap was reached for the Personal Financial Advice sub-sector. As such, a $47M special levy was requested by the CSLR.

For FY2027, the forecast levy stands at $190.3M for the Personal Financial Advice sub-sector. This would require a special levy of $170.3M to cover to gap, over three times that of the FY2026 special levy.

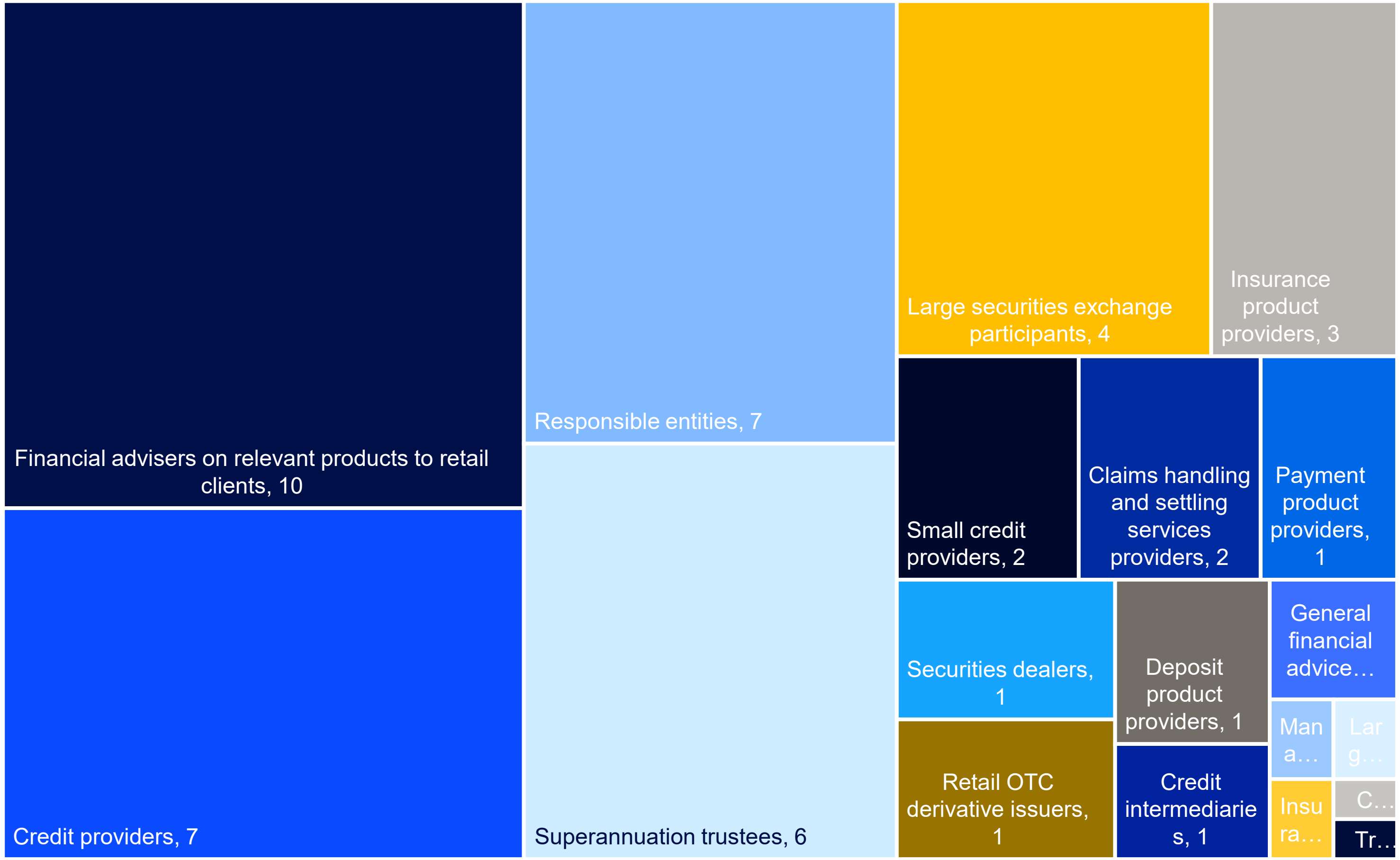
The FY2026 special levy was spread across retail facing sub-sectors. Special levy demand continues to be driven by the high volume of claims from the failure of Dixon Advisory. The recent failures of Shield Master Fund and First Guardian Master Fund will be the next to hit the CLSR.

Sources: 1) https://cslr.org.au/firms-the-cslr-has-made-compensation-payments-against/ 2) https://cslr.org.au/levies/. PFA: Personal Financial Advise.
Personal financial advice & securities dealing compensation ($980,036) has been combined into personal financial advice sub-sector in the lefthand side figure.

Australia - Compensation Scheme of Last Resort (CSLR)

Concentrated losses in Personal Financial Advice sub-sector has developed the need for a special levy, however funding burden is distributed across Capital Markets, Credit, Supers, Funds and Insurance sub-sectors

Special Levy by Sub-Sector ($MN, 2026)



Key Metrics

Special Levy
64% ($30.2M) of the $47.3M is borne by financial advisers (relevant products), credit providers, responsible entities, and super trustees.

The CSLR special levy is highly concentrated due to the use of formula-based activity/size metrics. As such, subsectors with the largest metric bases carry a disproportionate share thereby creating volatile, hard-to-forecast charges that are likely to be passed through to end customers via higher advice fees, fund/admin fees, or credit margins.

Cross-Subsidisation
Of the $47.3M special levy, at least $23.8M (50%) is paid by non-advice subsectors in the top contributors alone (credit providers $7.2M; responsible entities $6.5M; super trustees $6.1M; and large securities exchange participants $4.4M).

MARSH

Source: ASIC CSLR special levy

UK - Financial Services Compensation Scheme (FSCS)

FSCS is a structured sector-first funded scheme, with an active governance arrangement enabling resilience while constraining cross-subsidisation

Overview	• Established by the government in 2001 as an independent body providing compensation when authorised financial services firms fail. • Eligible customers (individuals and small businesses) of failed banks can claim up to **£120k per person**, per bank/building society/credit union; **for insurance, cover is 90% of the claim value**. There is no aggregate scheme cap, only per-customer limits. • **Funded by the financial services industry** through an annual levy covering both compensation costs and operating expenses.
Last Resort Integrity & Consumer Protection	• Compensation is payable only where a **firm failure involves regulatory breach or inability to return client assets**; poor investment performance alone is not covered. • **Levies are risk/size-based,** firms contribute in proportion to their size (including deposit base relative to the sector). • **Funding is split between compensation costs and management expenses**, with separate levies for each (including FSCS running and claims-handling costs). • In 2024–25, FSCS **paid £327m to 32,634 customers** across deposits and insurance claims. • **38,666 regulated firms** funded the levy; **45 firms were declared in default**. • In this time, FSCS **recovered £76m** from failed firms and reported 85% average customer satisfaction.
Financial Structure & Sustainability	• Levies are set by funding class, with each **firm's charge driven by the cost of failures within its class**. • The PRA and FCA cap annual levies per class to limit affordability impacts and avoid sudden levy shocks. • Any **surplus is carried forward**, which can reduce levies in future years even if costs rise. • A **supplementary levy can be raised if funds are insufficient** before the next cycle (including across other classes), but it is rarely used and the methodology is relatively opaque.
Governance & Operational Resilience	• FSCS is an **independent statutory body with authority to declare defaults**, assess eligibility, and administer compensation within clear statutory limits. • Banks provide a diversified levy base and **act as a last-resort buffer**, activated only under defined conditions. • FSCS can pursue recoveries from insolvent firms; through subrogation it assumes claimants' rights after paying compensation, **reducing moral hazard**.

Why this matters for CSLR

Narrow Scope
Clear statutory boundaries only activated where a firm failure involves regulatory breach or inability to return client assets; poor investment performance alone is not compensable.

Conditional Cross-Subsidisation
Levies are based on the total cost of failure of other firms within industry classes, with only a back up option of supplementary levy fund raising from other industry classes.

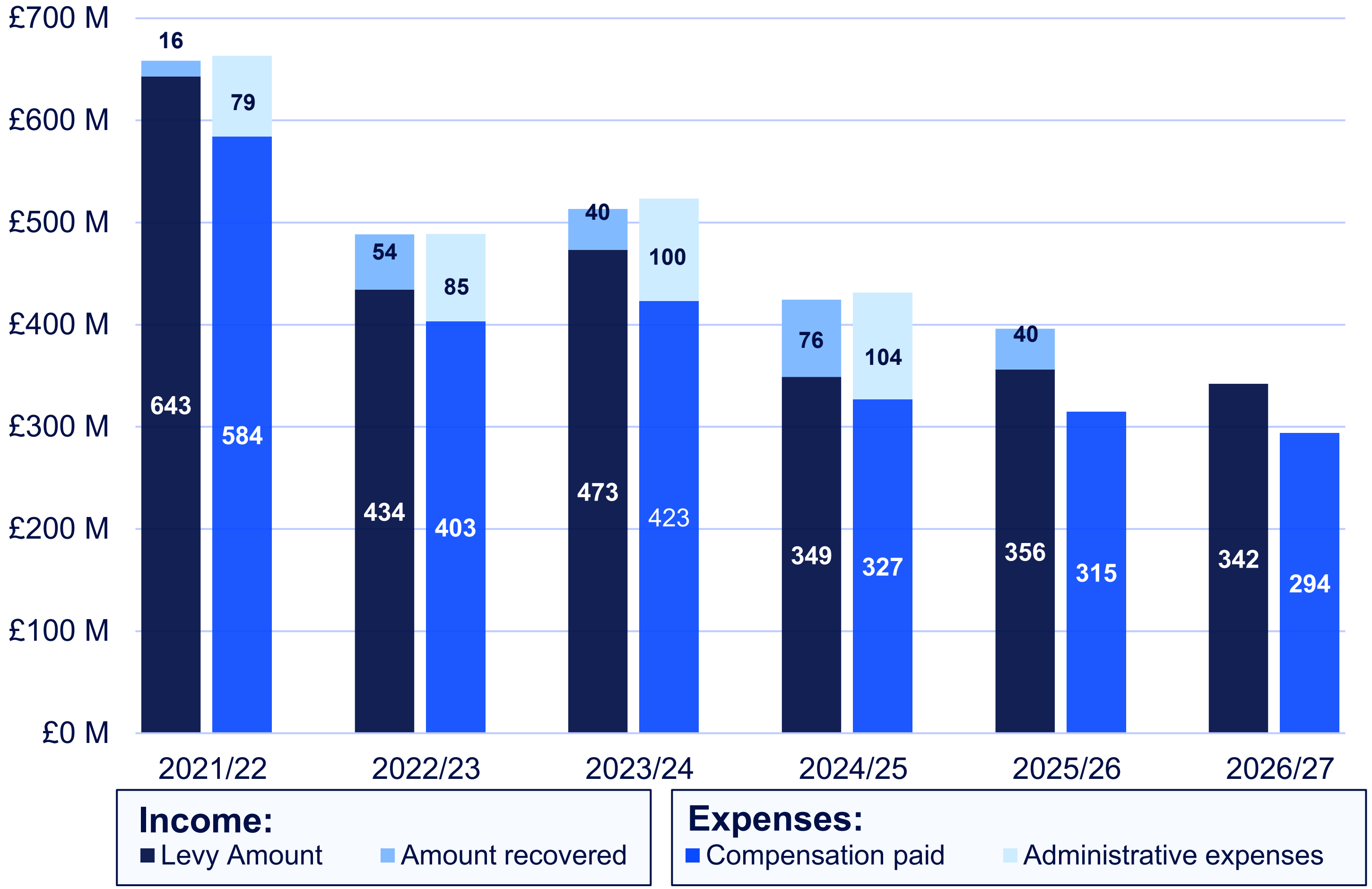
Independent Body
FSCS can actively manage and adapt with oversight from regulators, whereas the CSLR largely absorbs outcomes set elsewhere.

MARSH

UK - Financial Services Compensation Scheme (FSCS)

Levies have declined for the FSCS over the past 6 years, reflecting falling compensation rates said to be a product of increasingly robust regulatory environment with fewer failures

FSCS Income vs Expenses (£MN, 2021-2026)

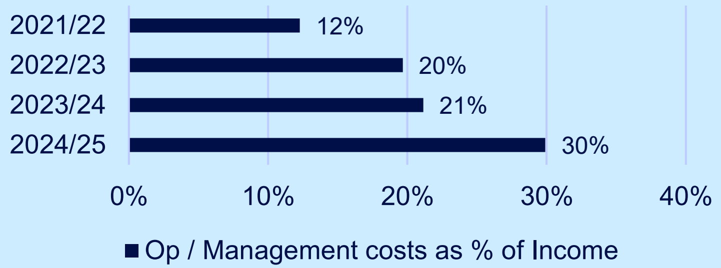


Key Metrics

Fund Size
The FSCS holds little working capital, relying on supplementary levies when shortfalls arise, with commercial and Treasury borrowing facilities available as backstops.

Historical Claims
Notable claims include >£20B in compensation for customers of five collapsed banks during 2008 financial crisis; London Capital & Finance plc (2019) >£173M; Independent Insurance Company Limited (2001) paid out >£405M over a 13-year period.

Administrative Expenses costs as % of Income



Sources: 1) FSCS annual report 2024-25; 2) FSCS annual report 2022-23; 3) FSCS Chief Executive's statement - November 2025 Outlook
2025/26 and 2026/27 compensation and levy amounts are forecast estimates.

US - Securities Investor Protection Corporation (SIPC)

Non-profit corporation created to protect investors in restoring investors’ cash and securities if their brokerage firm fails

Overview	• SIPC is a **non-profit**, **member-funded** US corporation that **protects investors’ cash and securities** if a brokerage **fails or enters bankruptcy**. • It restores missing customer assets, **not** losses from market movements or **poor investment advice**. • Funding comes from member levies and investment income (government bonds/interest), with **contingency access to bank credit or SEC loans** if needed. • As of December 2025, SIPC had **3,130 member firms**.
Last Resort Integrity & Consumer Protection	• Compensation is **triggered only after a broker-dealer becomes insolvent** and it is confirmed that customer cash or securities are missing. • Coverage is **capped at $500,000 per customer**, including up to $250,000 for cash. • Claims are handled through a **court-supervised liquidation process**, accessed only after firm assets and recoveries are exhausted. • SIPC **protects the broker-dealer’s custody function**, restoring the securities and cash in customer accounts at the start of liquidation. • **Non-US citizens** with accounts at SIPC-member firms **receive the same protection** as US residents/citizens.
Financial Structure & Sustainability	• The SIPC Fund reached an anticipated **$5bn milestone in 2025**. • Its **industry-funded model** with a broad contributor base **supports predictable, scalable funding**, supplemented by a **$2.5bn US Treasury line of credit**. • Funding comes from **member assessments** and **interest on US Government Securities**; if the Fund falls below target, members are assessed as a percentage of revenues. • In 2025, SIPC reported **$557.9m** from member assessments/contributions and **$159.9m** in interest income, with **$22.39m** in expenses.
Governance & Operational Resilience	• SIPC is governed by a **Board of Directors** appointed under the Securities Investor Protection Act (SIPA), which sets policy and oversees operations; in member-firm insolvencies, **SIPC acts through court-appointed trustees**. • The **model is member-funded proactively and focused on returning customer assets**, reducing cash outlays; if the Fund is insufficient, SIPC can borrow from the US Treasury under statutory authority.

Why this matters for CSLR

Enforceable Boundary of Last Resort
SIPC only fills the residual gap where client assets are missing after legal mechanisms are exhausted, this court-supervised liquidation creates an objective, enforceable “line in the sand” for last-resort intervention.

Funding Base Aligned with Risk
Solely funded by broker-dealers, the entities that custody client assets and create SIPC exposure, with no need for industry cross-subsidisation.

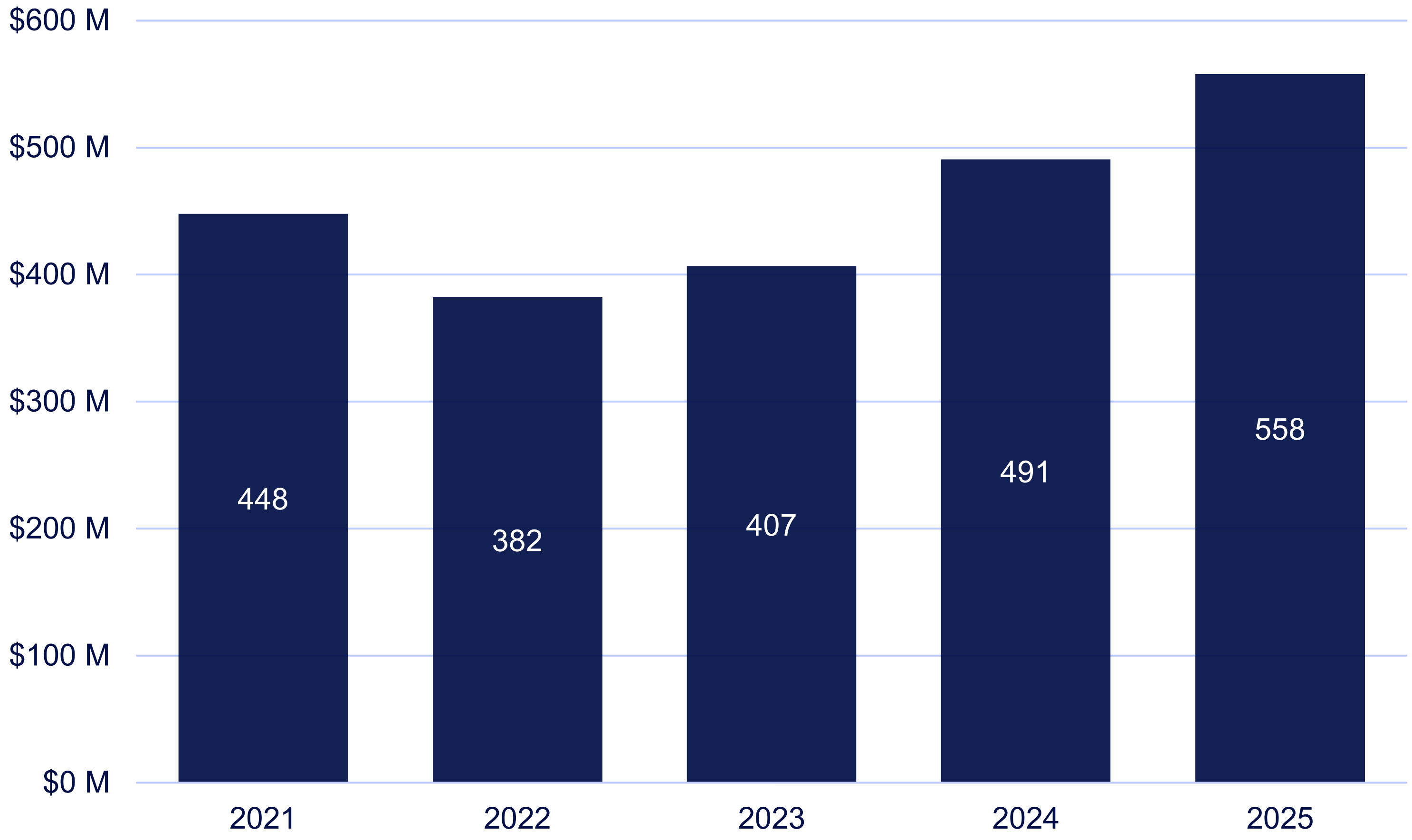
Strong Recovery and Backstop
Steps into customer rights in liquidation and actively recovers from estates (reducing cash requirements). Has statutory authority to borrow from the US Treasury, which has never been used.

MARSH

US - Securities Investor Protection Corporation (SIPC)

Infrequent but severe failure exposure managed through asset-return prioritisation and a standing reserve, with minimal recent fund utilisation

Fund Size ($MN, 2021-2025)



Key Metrics

Fund Size
During 2025, SIPC's fund balance reached ~$558 million, supported by sustained member assessments and minimal recent compensation drawdowns.

Low Recent Claims
From 2021–2025, SIPC reported near-zero compensation payments, reflecting a strict asset-return model and court-supervised liquidation process rather than cash compensation.

Historical Claims
Risk profile is low-frequency, high-severity, with large, institution-level failures:

- Bernard L. Madoff Investment Securities (2008): SIPC committed ~$851M, the largest intervention in its history.
- MJK Clearing (2001): SIPC advanced $177M, transferring 173,500 accounts within seven days.

Sources: SPIC Annual Report 2025

EU / EEA - Investor Compensation Schemes (ICS)

Whilst not explicitly a scheme, the EU/EEA ICS provide minimum-compensatory framework across Europe emphasising asset protection and deliberately excluding investment outcome performance

Overview	• The EU/EEA **Investor Compensation Scheme (ICS) framework** (Directive 97/9/EC) **requires national schemes to protect retail investors** when authorised investment firms cannot return client assets. • Compensation covers only missing client money or securities, **excluding poor performance or advice quality**. • The **€20,000 per-investor minimum cap** limits aggregate exposure, reduces levy volatility, and supports long-term scheme sustainability.
Last Resort Integrity & Consumer Protection	• Compensation is **triggered only when a firm cannot return client assets**, keeping the focus on institutional failure rather than market or investment losses. • The **narrow scope limits moral hazard** by excluding ordinary market risks. • The **Directive sets a baseline level of protection**, while allowing Member States to adopt higher caps. • Where caps are higher (e.g., France €70,000; Spain €100,000), **loss definitions are generally not broadened**; higher limits are typically supported by sector-specific funding, voluntary top-ups, or additional prudential safeguards. • Germany operates a voluntary top-up scheme offering materially higher cover for participating firms.
Financial Structure & Sustainability	• **Funding is typically sector-specific**, with investment firms paying for their own failure risks, limiting cross-subsidisation. • Cross-industry use of funds is tightly controlled (e.g., France requires statutory authorisation; Spain requires government approval; the Netherlands has no cross-sector pooling). • **Member States can tailor funding models** above the EU minimum to reflect local market structure and historic failure patterns. • Capped exposure and sectoral funding **support predictable levies** and financial resilience.
Governance & Operational Resilience	• The ICS framework is set in **EU law** and delivered through **national schemes**, ensuring a consistent legal basis while reflecting local governance. • Wider EU operational resilience requirements (including ICT risk management expectations under **DORA**) shape the environment in which firms and schemes operate; **consistent standards** and limited cross-subsidisation **support long-term resilience**. • Scheme activation is generally **event-based** (firm failure/return failure), enabling a defined claims process rather than case-by-case dispute determination.

Why this matters for CSLR

Clear Trigger
ICS compensation is tightly linked to firm failure and missing assets, reinforcing last-resort integrity and limiting moral hazard compared to CSLR's broader loss scope.

Targeted Funding
Sector-specific funding requirements reduces cross-subsidisation risks, addressing a key CSLR challenge where unrelated sectors bear disproportionate costs.

Bounded Exposure
Standardised cap (minimum €20,000 per investor) helps limit total liabilities and dampen levy volatility, whilst nation states and sectors can assert limits appropriate to differing contexts.

DORA: Digital Operational Resilience Act; EEA: European Economic Area; EU: European Union

EU - France: Investor Compensation Mechanism (FGDR)

France have asserted higher compensation limits than mandated by the EU, these are sustained through strict scope discipline, proactive prefunding, and supervisory integration

Overview	• France's investor compensation scheme, run by the Fonds de Garantie des Dépôts et de Résolution (FGDR), is a **more expansive but disciplined implementation** of the EU Investor Compensation Scheme framework. • It combines **higher limits**, prefunding, and close alignment with supervision and resolution, while **maintaining clear last-resort boundaries.**
Last Resort Integrity & Consumer Protection	• Compensation is triggered only if an authorised **investment firm cannot return client money** or **financial instruments** due to insolvency or resolution. • Coverage is limited to custody/safeguarding failures; it **excludes poor performance, unsuitable advice**, and market losses. • France sets a **€70,000 per-investor cap**, well above the EU minimum, while keeping the same narrow loss definition. • Statutory exclusions and **event-based triggers preserve last-resort purpose** and limit moral hazard despite higher limits.
Financial Structure & Sustainability	• The scheme is **prefunded via regular ex-ante contributions** from investment firms, reducing reliance on post-event levies. • Funding is **sector-specific and ring-fenced**, limiting routine cross-subsidisation from banks or insurers. • Higher limits are underpinned by narrow loss definitions, strong supervision, and **historically low claims frequency**. • Alignment with **resolution planning and early intervention** helps reduce the risk of large, sudden fund drawdowns.
Governance & Operational Resilience	• FGDR is an independent statutory body with a clear legal mandate. • Close coordination with prudential supervisors provides **early visibility of firm distress**, enabling proactive risk management. • **Resolution tools** (e.g., asset transfers) are used where possible to reduce cash outlays. • Governance supports **ongoing monitoring of risk exposure** and funding adequacy.

Why this matters for CSLR

Consumer Protection
Demonstrates that higher consumer compensation limits can be sustainable when paired with strict loss-definition discipline and prefunding.

Ring-Fenced Funding
Shows how sector-specific funding and ring-fencing materially reduce cross-industry subsidisation.

Supervisory Integration
Highlights the importance of integrating compensation schemes with broader supervisory and resolution frameworks.

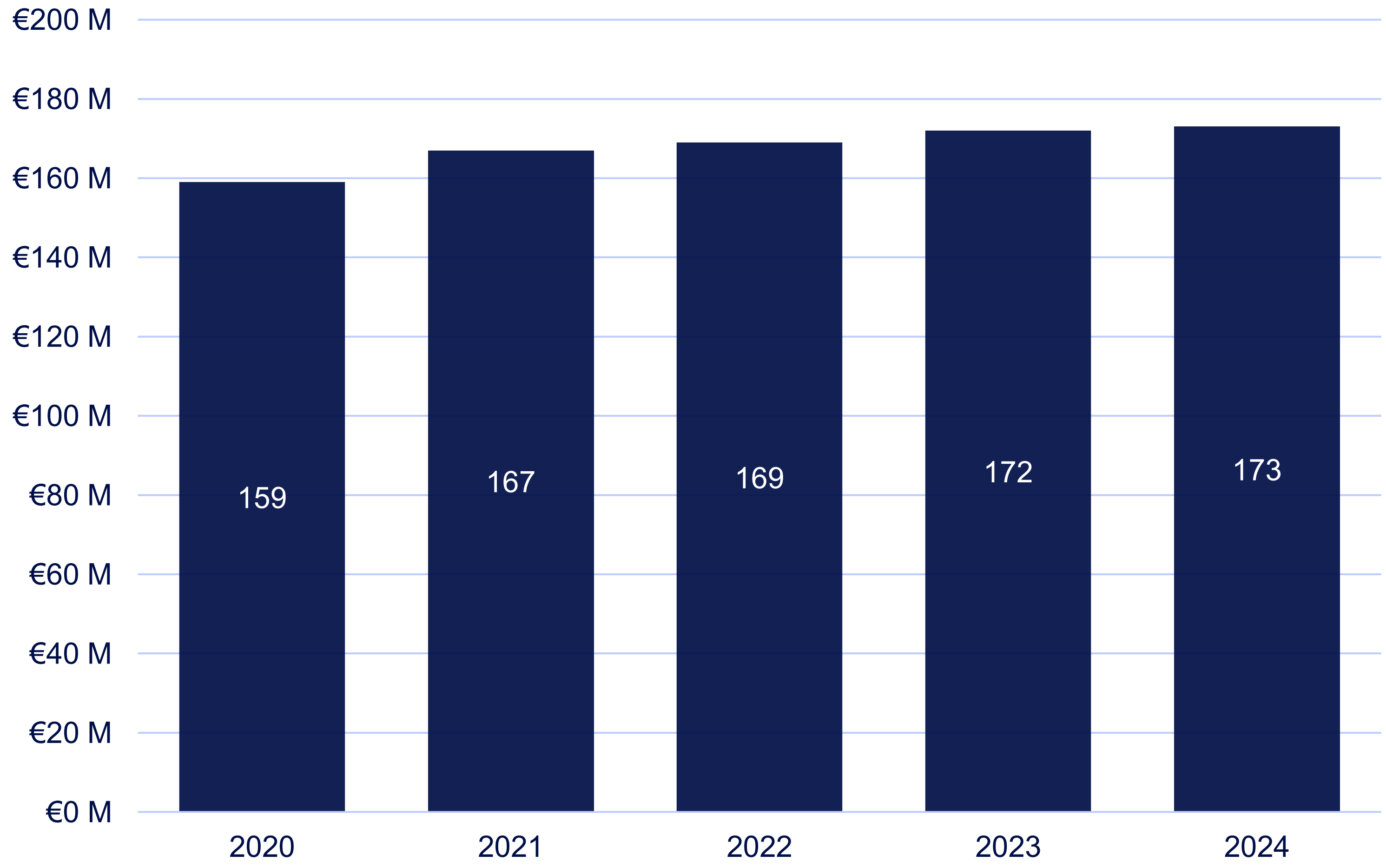
MARSH

EU: European Union

EU - France: Investor Compensation Scheme (FGDR)

Low-frequency, high-severity design supported by strict scope and prefunding. The FGDR has recorded no material drawdowns in over a decade

Fund Size (€MN, 2020-2024)



Key Metrics

Fund Size
In 2024, the fund hit its €173 million target, meaning no more levies will be required until there are draw downs in terms of compensation.

No Recent Claims
The French investor compensation scheme reported zero payouts from 2020–2024, consistent with tight, event-based loss definitions.

Historical Claims
Risk profile is low-frequency, high-severity Compensation events are rare, but historically large when triggered by firm failure.
Historical Claims include:

- Crédit Martiniquais / Financière du Forum (2015) – claim >€237M following liquidation.
- Dubus SA / Géomarket (early-2010s) – compensation paid; partial recovery €150k in 2022.

MARSH

Sources: FDGR Annual Reports 2020 – 2024

EU - Netherlands: Investor Compensation Scheme (BCS)

Whereas the Netherlands have maintained conservative limits and clear event-based triggers to prioritise sustainability over breadth of coverage

Overview	• The Dutch Investor Compensation Scheme (Beleggerscompensatiestelsel - BCS), run by De Nederlandsche Bank (DNB), is a **conservative**, **tightly scoped implementation** of the EU Investor Compensation Scheme framework. • It prioritises clear purpose**, strict loss definitions**, and **long-term financial sustainability**, meeting EU minimum standards and reinforced by strong governance and operational controls.
Last Resort Integrity & Consumer Protection	• Compensation applies only if an authorised **investment firm cannot return client money** or financial instruments due to insolvency or resolution. • Coverage is limited to custody/safeguarding failures; it **excludes poor performance, unsuitable advice, and market losses**. • The **€20,000 per-investor cap** matches the EU minimum and intentionally limits exposure to preserve last-resort status. • **Triggering is event-based and rules-driven**, positioning the scheme as a safety net rather than a dispute-resolution tool.
Financial Structure & Sustainability	• The scheme is **funded solely by investment firms** operating in the Netherlands, aligning funding responsibility with loss causation. • Tight eligibility and **conservative limits** cap liabilities and reduce funding volatility. • The model **favours fairness and predictability** over broad cross-subsidisation.
Governance & Operational Resilience	• The scheme sits within the Netherlands' **strong prudential and conduct framework**, supporting **early detection of firm distress**. • **Governance is rules-based** with limited discretion, **reducing precedent risk and scope creep**. • Operationally **simple design enables efficient payouts** without complex claims assessment. • **Clear statutory limits** reduce pressure to expand coverage; there is no automatic Treasury/government backstop if scheme resources are insufficient.

Why this matters for CSLR

Strict Loss Definition
Demonstrates how strict loss-definition discipline can preserve sustainability even with relatively modest compensation limits.

Aligning Funding with Purpose
Reinforces the importance of aligning funding responsibility closely with loss causation and scheme purpose.

Sector Focused
There is no automatic Treasury or government backstop that guarantees payouts if scheme resources are insufficient, keeping the scheme insulated from political pressure and fiscal exposure.

MARSH

Note: Detailed information regarding Fund Size, Compensation Payments and Levies are not publicly available for this fund.

UK - Solicitors Regulation Authority Compensation Fund (SRA)

SRA Compensation Fund acts as a scheme of last resort with a highly discretionary design and tight loss definitions supporting fund integrity and cost control for professional services

Overview	• Established in 2007, SRA is **independent regulator** of solicitors & law firms in England and Wales regulating **more than 200K solicitors and 9,200 firms**. • **Compensation fund** comes from levies **on regulated firms & solicitors regulated**. Often cited as a professional-services analogue to financial advice compensation schemes. • Compensation fund is **discretionary**. Payments made according to **SRA Compensation Fund Rules** and SRA guidance; successful claimants **do not have an automatic statutory right to payment**. • Fund designed to cover individuals; **maximum grant per individual is £2MN**
Last Resort Integrity & Consumer Protection	• No automatic entitlement. Grants made mainly for **losses caused by dishonesty or failure to account by a regulated solicitor/firm**, typically all other remedies (including insurance or recovery) exhausted. • **Discretionary payment model allows scope and loss boundaries to be actively managed** in response to cost pressures. • Limited scope does not compensate for service quality or commercial outcomes absent of dishonesty or failure to account.
Financial Structure & Sustainability	• For 2024-25, **individual fee of £90**, **firm fee of £2,220**. Total budgeted contribution for **2024-25 was £14.6MN**. Levy levels are determined through a forward-looking, risk-based approach rather than relying on historical claims. • Compensation **volumes irregular and case-driven**, reflecting solicitor dishonesty and failure to account for client money rather than service quality or advice outcomes. • **Recovering costs of intervening** into a firm SRA regulate, including costs of using external law firms to assist. Fund **recovered an average of £3.2MN pa in costs** between 2013/14 & 2019/20.
Governance & Operational Resilience	• Burden of the fund on the profession has **received criticism in recent years with contributions increasing due to high value claims** (individual fee up **200%** from £30 to £90, firm fee up **236%** from £660 to £2,220). • The SRA administers a discretionary Compensation Fund and applies its Rules and guidance when deciding grants, allowing it to refine guidance and decision-making over time within its regulatory framework.

Why this matters for CSLR

Discretionary Fund
Loss definition and discretion fundamentally determine what the scheme is for. The SRA demonstrates that strong consumer protection can coexist with strict last-resort integrity

Narrow scope
Limited eligibility reduces claim frequency and severity, SRA demonstrates that cost sustainability is driven as much by what is excluded as how funds are raised.

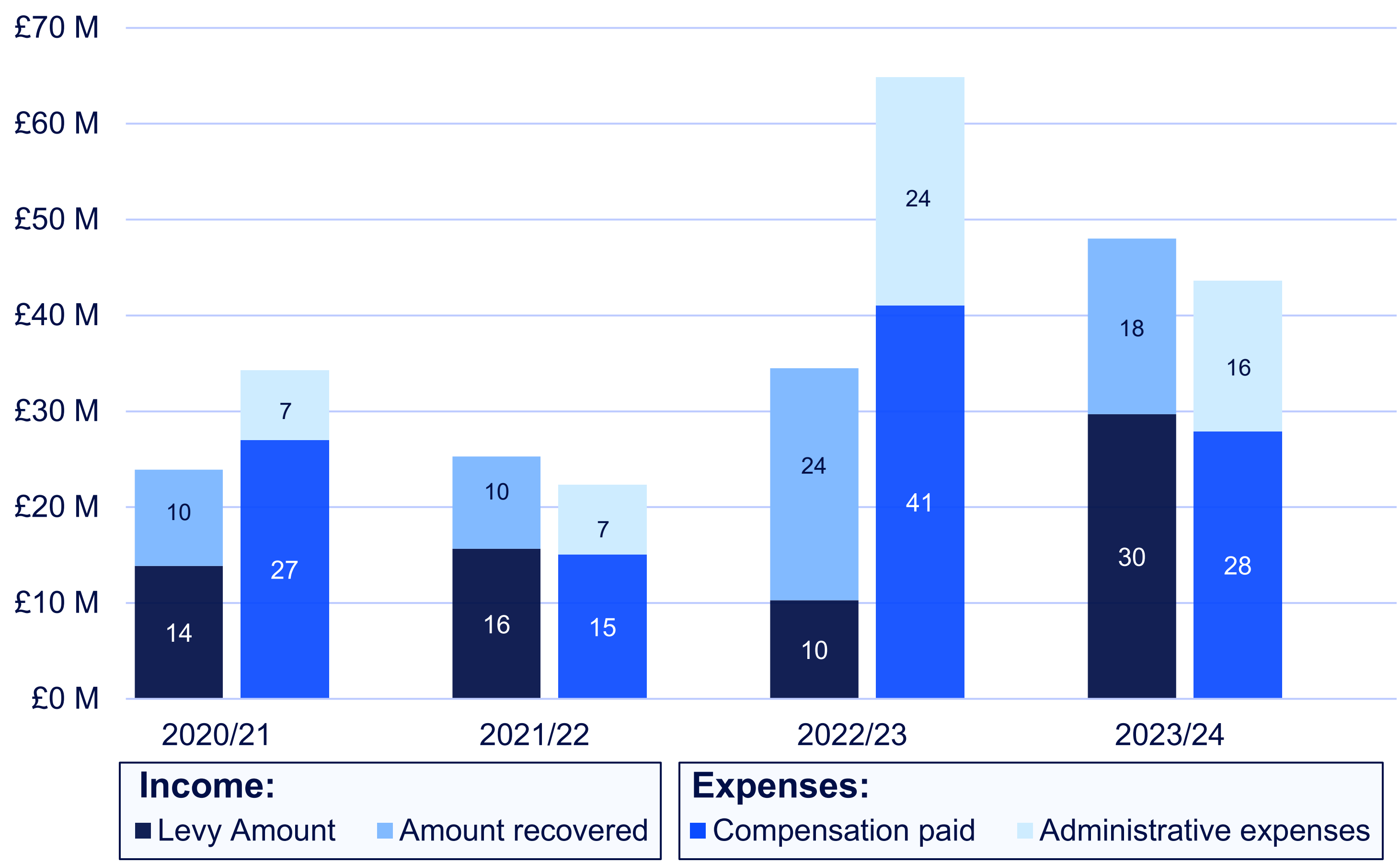
Independent Body
SRA has discretionary authority and full oversight, enabling it to adjust decision-making, tighten guidance, and respond to emerging risks and scope creep.

MARSH

UK - Solicitors Regulation Authority Compensation Fund (SRA)

SRA Levy saw 200% increase from 22/23 to 23/24, however Levy volatility often reflects precautionary funding rather than rising compensation demand

Fund Income vs Expenses (£MN, 2020-2024)

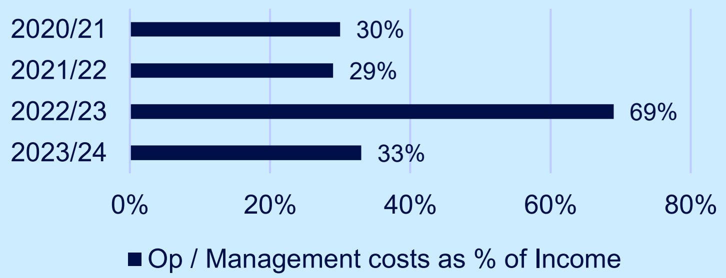


Key Metrics

Fund Size
As at 2023/24, the fund held approximately £44.65 million after net levies and recoveries. The fund is designed to compensate individual losses, with claims capped at £2 million.

Historical Losses
Historical losses include Axiom Ince Ltd (2023) >£17M paid, forecast to total £41M; Metamorph Group (2022) >£ 27M; Kingly Solicitors (2020) £>10M; PM Law Ltd (2026) ~£10M.

Administrative Expenses costs as % of Income



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Appendix

03

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- About us | FSCS
- How FSCS is funded | Financial services firms levy | FSCS
- What we cover | Check your money is protected | FSCS
- Claims information - small businesses & charities | FSCS
- CP1/26 – Financial Services Compensation Scheme – Management Expenses Levy Limit (MELL) 2026/27 | Bank of England
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- Investor compensation schemes
- Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes

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- FGDR Annual Report 2020
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- SRA | Can you apply to the compensation fund? | Solicitors Regulation Authority
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We are leaders in risk, strategy and people. One company, with four global businesses, united by a shared purpose to build the confidence to thrive through the power of perspective.

ASFA Policy White Paper

Building a Sustainable Compensation Scheme of Last Resort