

Rest Submission – CSLR Reform Options – May 2026

Rest welcomes the opportunity to provide feedback and comments on reform options to ensure the ongoing sustainability and effectiveness of the Compensation Scheme of Last Resort (CSLR) following higher than expected claims and funding pressures since its inception.

Rest is one of Australia’s largest superannuation funds, with around two million members – or around one-in-seven working Australians – and around \$105 billion in assets under managementⁱ. We represent around one million members under the age of 30, who are decades from retirement. Many of our members work in part-time or casual jobs, which can make it harder to build super consistently over their working lives. We put our members needs at the centre of everything we do, and we are deeply committed to maximising the retirement outcomes of our members.

Executive Summary

The collapse of Shield and First Guardian resulted in losses to almost 12,000 Australians of around \$1.2 billion,ⁱⁱ and is expected to add to the financial pressures on the CSLR, already experiencing higher claims than expected due to large-scale failures such as Dixon Advisory and United Global Capital. There were several factors that appear to have contributed to the Shield and First Guardian losses, including lead generation activity, limitations in the regulatory framework for managed investment schemes, deficiencies in the exercise of due diligence over investments on platforms, and inappropriate advice provided to working Australians who had worked over many years to build their retirement savings.

These losses were experienced outside the protections of the strong prudential supervision of APRA-regulated funds, who have very limited prospect of any claim on the CSLR. Despite this, APRA-regulated funds have been called upon to contribute to the CSLR shortfall for 2025-26, to the amount of approximately \$6.1 million.

Rest does not support an ongoing funding model that requires APRA-regulated funds, in particular profit-to-member funds that must pass on costs to members, to financially compensate for losses arising from other sector failures or misconduct, especially when the members of those funds would generally only be able to access the Scheme in very limited circumstances.

In development of the CSLR, the special levy provision was intended to only be imposed in the event of unexpected high claims, or extraordinary circumstances, however with the Scheme only in place for two years, and with the prospect of special levy imposition for at least another year, it is clear that substantial reform is needed to not entrench the scenario where APRA-regulated funds continue to provide funding for a scheme that is not designed to provide compensation for their members.

Rest supports a range of measures as proposed in other consultation papers released by Treasury, namely *Curbing lead generation activity* and *Enhancing member protections*, and we have made submissions to Treasury on these proposals. We believe that the implementation of many of the reforms proposed should, in time, reduce the claims on the CSLR. Notwithstanding this, it appears likely that compensation claims will continue to regularly exceed the levy caps, and therefore further measures need to be considered.

Rest supports proposals in the consultation paper targeted at limiting the extent of compensation claims made on the CSLR, including enabling the Scheme to deduct all relevant payments from claims, expanding the subrogation rights to cover full AFCA determination amounts, allowing the pursuit of additional sources of recovery amounts including professional indemnity insurers, and a range of technical improvements as contemplated in the consultation paper.

Further comments on the remaining reform options in the consultation paper are outlined below.

Comments on reform options

Proposal 4 - Revising the treatment of counterfactual loss for CSLR-eligible financial advice complaints

The CSLR is intended to provide a last resort for compensation, where all other options have failed; the scheme is funded with levies across organisations and sectors; and ongoing sustainability is a critical consideration. Considering these factors, Rest supports Option 1, which would provide compensation from the Scheme, up to the cap, only for the capital loss incurred.

Proposal 5 - Embedding greater certainty in the special levy framework

Rest does not support an ongoing special levy framework that continues to require APRA-regulated funds, in particular profit-to-member funds that must pass on costs to members, to financially compensate for losses arising from other sector failures or misconduct, when the members of those funds would generally only be able to access the Scheme in very limited circumstances.

While we understand that the proposed waterfall framework seeks to provide certainty regarding the potential special levy liability, and a broader levy base, the framework entrenches an expectation that continued costs of the CSLR will be funded by APRA-regulated funds that have not contributed to the significant losses giving rise to claims on the CSLR. The design of the CSLR levy should focus on ensuring that funding is consistently met from contributions by the primary sub-sectors.

Should Treasury instead proceed with the waterfall framework for design of a special levy, then we would support measures to ensure that any ongoing contributions by APRA-regulated funds are minimised in light of these concerns, namely:

- A primary commitment to any special levy being short-term in nature, while further Scheme and levy design is in progress;
- The waterfall framework should explicitly state that the special levy cap for each 'tier' is fully exhausted before levying the subsequent sub-sector tier; and
- The base of each sub-sector tier should be as broad as possible, to minimise cross-subsidisation and the burden on any individual firm.

Proposal 6 - Considering responses to the role of self-managed superannuation fund (SMSF) losses in pressure on the CSLR

Rest respects that some individuals make a decision to manage their superannuation in an SMSF, however we believe that there is currently an unequal treatment of SMSFs in the context of the CSLR. SMSFs do not contribute to the levy that funds the CSLR, however have been a significant claimant in the first two years of operation of the Scheme. This is compared to APRA-regulated

funds, who have contributed under the special levy for 2025-26, and are highly likely to in the following year, even though their members would generally only have limited access to the Scheme.

The decision to establish an SMSF is a significant one, as individuals are no longer merely fund members but adopt important responsibilities as trustees, and therefore their role as consumers is not as clear as members of other funds.

Rest supports Option 2, to exclude SMSFs from eligibility to claim under the CSLR and from any requirement to contribute to its funding.

This recommendation, however, is with the expectation that other measures to improve consumer protections would be enacted, leading to a reduction in potential future losses by SMSFs, and that government and regulators consider what more can be done to support informed decision-making by individuals when contemplating a SMSF.

Rest believes that improvements could be made to the education and understanding of SMSF trustees, including of the responsibilities and risks they undertake when establishing SMSFs. Strengthening education and awareness for SMSF trustees can help ensure that members are better informed about the risks and obligations associated with SMSFs, including the need to undertake their own investment oversight, and the increased exposure to conduct and governance risks. This can also enhance member protection, particularly where switching decisions are made in high-pressure environments. Such education should include:

- appropriate warnings issued by a regulator at the time of establishment
- minimum recommended balances for SMSFs, and
- mandatory online education and acknowledgement of accepting the risks and implications of being a SMSF trustee.

Proposal 7: Facilitating levying of Managed Investment Scheme (MIS)-related losses

Rest supports a broad-based levy on MISs as part of the considerations of the levy redesign. As acknowledged in the consultation paper, there have been significant examples of losses when investing in MISs.

In principle, we support a design that seeks to levy the sub-sectors that contribute to compensation claims on the CSLR, and while not all MISs are implicated, the intent of the special levy waterfall proposal is to spread the financial burden to subsectors first connected to the underlying misconduct, and then levy a broad base of unconnected sub-sectors and entities. Therefore, if the waterfall special levy mechanism is implemented, a broad-based levy on all MISs is appropriate, and levying across a larger number of entities spreads the costs across a broader base.

Rest also believes that measures contemplated in the *Enhancing consumer protections* and *Curbing lead generation activity* consultation papers should also contribute to a reduction in claims for compensation related to MISs, for example, restrictions on high-pressure sales, improved due diligence by platform trustees.

Conclusion

Rest appreciates the opportunity to provide comment on these important reforms and welcomes Treasury's attention on protecting consumers from harm through misconduct and financial failure. Many of the reforms proposed in the three consultation papers are interdependent, and the measures contemplated in other papers have the potential to contribute to a reduction in claims and therefore have a positive impact on the sustainability of the CSLR.

We look forward to further consultation on the reforms proposed.

Submitted: 22 May 2026

ⁱ As at 31 December 2025.

ⁱⁱ <https://www.asic.gov.au/about-asic/asic-investigations-and-enforcement/enforcement-activities/first-guardian-master-fund/>