



7 October 2026

By Upload.

Dear Sir/Madam

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

AFMA welcomes the opportunity to comment on the Treasury Consultation Paper *Compensation Scheme of Last Resort (CSLR): application of the waterfall framework for the 2026–27 special levy*.

AFMA fully supports the proposed approach with regards to the LSEP and LFEP metrics.

The increase in Special Levy demands, to which the original scheme design inevitably led, present no easy options. AFMA welcomes the proposed reforms as announced in the Minister for Financial Services' August 19 address to the National Press Club as a way to set the CSLR on a more sustainable footing.

We welcome and note our strong support for both the development of an improved metric for the allocation of retail facing Large Securities Exchange Participants (LSEPs) and Large Futures Exchange Participants (LFEPs) for the next calculation period, and for the interim adjustments made to the waterfall as a bridging mechanism.

AFMA raises no issues with the combination of an interim adjustment via the waterfall and a redesign for the following year.

On the OTC Retail Derivatives issuer charge we note for Treasury's consideration some refinements on how this charge, might best be allocated given its increase to a substantial amount. Similarly for Custodians, we note how this might be better targeted at retail facing activity.

Thank you for considering our submission.

Yours sincerely

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Assessment of connection under Tier 2

1. Do you agree with the approach to identifying connection as outlined above? If not, what other factors should be considered?

AFMA supports the approach to identifying connection. Identifying connection by considering a product, service, or regulated activity must have formed a substantive part of the pathway to consumer loss, is logical and consistent with the aims of the scheme.

2. Does the proposed methodology for mapping connection appropriately identify sub-sectors connected to the underlying losses in FY2026–27?

The proposed methodology appears to correctly identify sub-sectors ‘connected’ in the scheme sense to the underlying losses. Noting that ‘connected’ is a scheme sense does not suggest ‘connected’ in ordinary usage.

- a. Are there any sub-sectors which have been incorrectly included or excluded? Is there evidence that would support a different assessment of connection?

For the retail OTC derivatives issuers charge, we note that holding a retail authorisation which enables the offering of retail OTC products does not establish that an entity actually issued OTC derivative products to a retail client.

We have previously not provided commentary on this charge due to the small total amount. The large increase in this charge from ~\$1 million to ~\$11 million, has increased the importance of accurately dividing this charge.

Reliance on the authorisation alone risks materially overallocation versus an entity’s retail footprint and can encourage firms to remove retail permissions solely to avoid distorted levies. We suggest that the metric should measure actual retail issuance, active retail clients, retail transactions or retail revenue—not merely the scope of the license.

For the Custodian charge, which has also moved from an insubstantial figure to ~\$1.8 million we note that most custodian activity is institutional facing. We do not have visibility on how this is divided up amongst custodians but suggest that if the intent is to target retail activity some type of retail related metric would be appropriate.

- b. Is the methodology sufficiently repeatable for application in future years?

Noting the retail OTC derivatives metric and Custodians changes suggested above we do not see any other barriers to future usage of the methodology.

Consideration of levy impact on imposed sub-sectors

3. Do stakeholders consider that the application of the prescribed entity metrics gives rise to material adverse outcomes within any sub-sector?

Treasury has noted the impacts on non-retail-facing LSEPs and LFEPs and has made adjustments to the waterfall to reduce these impacts.

- a. If yes, what evidence supports that assessment, and why would the adverse impacts justify changes that may result in the redistribution of levy liabilities and other unintended consequences elsewhere in the framework?

N/A

4. Is the viability or sustainability of any sub-sector(s) threatened by the proposed levy allocations in Table 2?

As long as the plan for timely redesign of the retail facing metrics is executed we do not see sustainability challenges.

If yes, do you have any relevant data to support your viability assessment?

N/A