# Margin Lending / Investment Gearing Rules

## Gearing Advice

Particular care must be taken by Authorised Representatives when implementing gearing; inclusive of lump sum or instalment gearing, Protected Equity Loans, Instalment Warrants, geared investments into alternative asset classes or as syndicated (or standalone) structures for Self-Managed Superannuation Funds.

The rules are based on industry ‘best practice’, ASIC ‘safe harbour’ guidelines and InterPrac Financial Planning Pty Ltd’s standards. The process outlined in the specific rules provides guidance for you when investigating and recommending the viability of gearing to your clients.

**Any initial SoA from an Adviser recommending a:**

* **Margin Lending strategy**

**Or**

* **Investment Gearing strategy**

**… must be provided to the InterPrac Financial Planning Pty Ltd for vetting prior to issue.**

**Any recommendation for a geared Product – with an asset allocation or loan to value ratio - outside the rules (below) needs specific approval from InterPrac Financial Planning Pty Ltd**

## Licensee Margin Lending / Investment Gearing Rules

##### Data Collection

1. A full Fact Find must be completed with relevance to associated gearing.
2. A conservative, worst case view must be taken of a client's gross income - particularly if a client's income fluctuates from year to year.

This is practically reflected in the SoA by including a projection (5-7 years; corresponding to a Growth/High Growth portfolio) showing affordability of loan repayments should interest rates rise by up to 3%.

1. Investment income should not be included in the calculation of regular income, unless future payments are assured (as in the case of long-term leases).
2. A realistic assessment of the client's financial and emotional ability to cope with leveraged gains and losses in their net worth as a result of market movements should be documented in the fact find or file notes.

##### Risk Tolerance & Portfolio Construction

Gearing a portfolio will increase the risk of that portfolio, particularly where borrowed funds are invested in growth assets like property and shares. Before recommending a gearing strategy for clients, assess whether the resulting outcomes will enable the client to achieve their desired goals relative to their defined risk tolerance.

Gearing can enhance the after-tax returns of a core investment and the taxation implications are quite complex. Gearing is not a reason for investing in its own right. An investment should only be entered into if there are sound investment reasons to do so. Gearing must only be entered into by investors who understand, have sufficient resources and can tolerate the risks.

The adviser is required to demonstrate through your data collection that the client has sufficient previous gearing experience or that they have a Growth/High Growth risk tolerance.

##### Ongoing Review Service

If Margin Lending or investment gearing is recommended, it is mandatory that the client have an Ongoing Service arrangement that explicitly nominates at least an annual review of the client’s relevant circumstances.

##### Loan to Value (Equity) Ratio

Not to exceed 70% when the loan is established.

##### Margin Lending Checklist

To assist InterPrac Financial Planning Pty Ltd advisers in meeting these enhanced requirements, a Margin Lending Checklist has been developed for use with clients and signed by you before making a Margin Lending or gearing strategy / product recommendation.

When providing gearing or margin lending advice, you must complete and retain this Margin Lending Checklist on the file.

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# Margin Lending Checklist

Client Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Address \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Client’s Marginal Tax Rate: \_\_\_\_\_ % Expected Loan to Value ratio \_\_\_\_ %

Circle Response

1. Has this client had a previous experience with gearing? Yes / No
2. Have the risks involved in gearing been fully explained? Yes / No
3. Has the client demonstrated their understanding of these risks? (record in file notes) Yes / No
4. Has this client previously invested in shares or managed funds? Yes / No
5. Is the client prepared to accept the volatility in the price of the investment?

(record in file notes) Yes / No

1. Was the client’s investment risk tolerance mutually assessed as Growth/Hi Growth

by both client and adviser? Yes / No

1. Is the client’s investment time frame 5 years or more? Yes / No
2. Does the client have sufficient excess disposable income to cope with an increase

in repayments if interest rates increase by 3%? (investment income is not to be factored into

meeting loan repayments.) Yes / No

1. Does the client have adequate financial resources, including existing investment

capital, that the client is willing to drawdown to meet a margin call if the value in the

investment falls in value? Yes / No

1. Has the client demonstrated that the effect of fixed and variable interest rates is

understood? (recorded in file notes) Yes / No

1. Does the client have income protection insurance in place? Yes / No
2. What is the amount ($ value or percentage of income) of cover this income

protection insurance policy provides for? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. In consideration of the client’s overall debt situation, have any other necessary

lump sum insurances been explicitly considered? (recorded in file notes) Yes / No

What is the amount ($) of cover? Life: $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Trauma: $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ TPD: $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Is this cover being recommended or already in place and has the adviser assessed suitability

in light of the client’s relevant circumstances. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Does the client understand that at the proposed level of gearing, the market would have

to fall by \_\_\_\_\_% to trigger a margin call situation? (recorded in file notes?) Yes / No

1. Does the client want to preserve the level of gearing (loan to value ratio) by:
2. Re-investing investment income? Yes / No

B. Making loan repayments from own cash flow? Yes / No

16) Does the client want to increase the level of gearing (loan to value ratio) by:

A. Not re-investing investment income? Yes / No

B. Capitalising interest on loan repayments? Yes / No

Does the client understand /or has been advised on how the arrangement will operate and how this may increase portfolio risk and repayment costs? Yes / No

I have conducted this assessment based upon the responses provided to me by the client and believe that a Margin Loan / Gearing strategy is suitable / unsuitable (Circle the correct outcome for this client.)

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Adviser Signature Date

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