



IFP Margin Lending & Gearing Policy

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Template Administration History – Version Controls			
Action (e.g. creation)	Date	Version Number	Description/Reason (e.g. new precedent)
Creation	01/12/2020	1.0	New policy
Amendment	01/11/2021	1.1	<p>*Title updated to Margin Lending & Gearing Policy</p> <p>*Section 2.1 end add “IFP acknowledges that individual client circumstances may differ to the above criteria and other sections of this policy but Margin Lending or Gearing may still be appropriate for the clients goals and objectives and in their best interests. Where this is identified by a representative, IFP and or a Responsible Manager may apply discretion to determine if a Margin Lending or Gearing strategy is appropriate to the specific circumstances of a client.”</p> <p>*Section 2.8 para 1 end add “For this purpose, any client who wishes to enter a margin lending arrangement or invest in a margin lending or gearing product, must not have their address for correspondence as the adviser’s address.”</p> <p>*Section 3, item 2 update to “a gearing checklist form must be completed for all existing and new gearing for clients. Should the checklist indicate, a gearing approval needs to be submitted to IFP Compliance to approve the strategy before it is presented to a client. A minimum of 5 working days must be allowed for the approval to be assessed or further details requested; and”</p>
Amendment	01/11/2022	1.2	<p>*Section 2, para 4 replace “be RG146 compliant in geared portfolios” with “have completed relevant additional education, as approved by IFP.”</p> <p>*Section 2.1 (c) after “Only clients with a Growth or High Growth Investor profile add “(i.e. each individual client must have a Growth or High Growth profile, cannot rely on only one client in a couple meeting this requirement or a statement from the client that they are happy to ‘combine’ risk profiles or take on a higher level of risk for the purpose of gearing)” and after ... in their own right for investment purposes ... add “(if the client has minimal experience in investing e.g. no investment funds, only superannuation and/or mortgage/investment property, gearing should not be recommended. It is likely to be more suitable and more in the est interest of the client, to introduce them to investing on a regular basis first).”</p> <p>*Section 2.1 (f) replace with “If the client holds any non-deductible debt, the adviser should recommend to minimise or reduce their exposure to non-deductible debt (eg residential finance), before making any recommendation for gearing. As a minimum the client should have a clear understanding of deductible vs non-deductible debt and the alternative to reduce debt rather than gearing should be clearly explained and addressed in the Statement of Advice to the client i.e. why it is in the best interest of the client to establish a gearing strategy rather than paying down their debt.”</p> <p>*Section 2.1 (i) add “and the level of risk required to meet their objectives”</p> <p>*Section 2.4 Double Gearing, para 2 add “A double gearing strategy is where a consumer borrows money using another asset as security (e.g. their home) to purchase shares, and then borrows more money against these shares to obtain a margin loan, to purchase more shares). As investigated by ASIC, this strategy ha had been used by some financial advisers in the past in order to circumvent the LVR restrictions.”</p> <p>*Section 2.4 Double Gearing, para 3 add “Accordingly, it is imperative that the adviser confirms with the client the source of any funds being used for a gearing / margin lending strategy. In some instances, the client may have obtained finance prior to speaking with the adviser or they may wish to utilise a mortgage off-set account etc.”</p> <p>*Section 2.5 Review of Client’s Geared Portfolios update quarterly review to “at least six (6) monthly, or more”</p> <p>*Section 2.5 Review of Client’s Geared Portfolios, para 2 update to “Where it is determined that it is in the best interest of the client to retain their position at that time (i.e. do nothing), the adviser is required to explain why this is in their best interest and</p>

		<p><i>to again warn clients that a margin call may be triggered and investments will be sold down if appropriate action is not taken in a timely manner. Such warnings must be provided in writing to the client via a SOA or ROA (only if applicable) and acknowledged in writing by the client back to the adviser (through the Authority to Proceed); this can be electronically eg email; text message; electronic signature etc. Note that as the adviser, it is your responsibility to ensure that you provide advice that is in the best interest of the client, even if this is in conflict with what the client wants to do e.g. the client may wish to do nothing, but your assessment is that it is in the best interest of the client to reduce the LVR, therefore your advice must be to reduce the LVR.”</i></p> <p><i>*Section 3 (b) add “a gearing checklist form must be completed for all existing <u>at each review</u> ...”</i></p> <p><i>*Section 3 (c) update to “schedule a review at least every six (6) months with clients to ensure that investment strategies recommended (including geared portfolios) remain appropriate to their personal circumstances. Reviews may need to be conducted more regularly during volatile market movements.”</i></p>
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1 Background and purpose of document

1.1 Background

Integrity Financial Planners Pty Ltd ("IFP") is authorised to provide financial product advice and deal by applying for, acquiring, varying or disposing of a standard margin lending facility. This Margin Lending Policy (the "**Policy**") ensures that representatives who provide advice in relation to a margin lending facility are competent and advice provided is appropriate and meets the best interest of the client.

1.2 Purpose and framework

This policy (**Policy**) is developed by the Licensee for the purposes of enabling the Licensee to:

- (a) meet its obligations under the Corporations Act and ASIC guidance; and
- (b) enable the Licensee to provide advice in relation to and to arrange "standard margin lending facilities" as defined in the Corporations Act. IFP is not licensed to provide advice on or deal in "non-standard margin lending facilities".

IFP does not consider the primary goal or objective of margin lending to be an outcome of reducing a client's taxable income by way of claiming legitimate tax allowances through interest deductions and associated franking credits.

1.3 Responsibility

- (a) The Responsible Manager/s (or a delegate with appropriate experience and seniority) will be responsible for ensuring that the Licensee:
 - (i) meets the requirements of this Policy;
 - (ii) considers and assesses the risks faced by the Licensee when carrying on a financial services business; and,
 - (iii) reviews this Policy on not less than an annual basis (unless more immediate updates are required due to legislative or regulatory change).

2 Policy Statement

IFP through its Investment Committee will review margin lenders prior to inclusion within the Approved Product List ("APL"). Criteria used will be based on IFP's Research and Investment Policy.

Special statutory obligations apply to margin lenders under Division 4A of Part 7.8 of the Corporations Act 2001 where conduct involves the issuing of a margin lending facility, or the increasing of the limit on a margin lending facility. Subsection 985G(3) of the Corporations Act 2001 provides that when dealing with a retail client, the margin lender may seek to rely on information and materials contained in IFP's Statement of Advice ("SOA") – provided that the SOA was prepared no more than 90 days before the issue or increase (the critical day), instead of the lender making its own separate 'reasonable inquiries' about the retail client, as a part of making its assessment as to whether the standard margin loan facility is not unsuitable for a retail client applicant.

IFP, in making its assessment of margin lenders for inclusion within the APL, may confer with the margin lender to determine whether it is the margin lender's intention to rely on subsection 985G(3) of the Corporations Act 2001. Where this is the case, IFP will seek to ensure that it has sufficient information to meet both IFP's 'best interest test' obligations under the Corporations Act 2001 (see below – 2.1) and also seek to obtain and record sufficient information to assist with considering whether the margin lending facility is not unsuitable for the retail client within the meaning of Division 4A Part 7.8.

Representatives who are authorised to provide advice and deal in margin lending facilities are required to have completed relevant additional education, as approved by IFP. In addition, margin lender providers may require representatives to undertake training to be accredited in the use of the margin lender's products.

Representatives' ongoing training requirements will need to also address margin lending. Training plans will be established in accordance with IFP's Continuing Professional Development (CPD) Policy.

IFP will ensure that its representatives adhere to the Policy as it may impact upon IFP's ability to rely on its professional indemnity insurance in the event of a claim. This Policy will provide guidance on:

- best interest requirements;
- loan to valuation ratio (LVR) requirements;
- personal insurance requirements;
- double gearing;
- review of client's geared portfolios;
- Statement of Advice requirements; and
- process for dealing with margin calls.

2.1 Best Interest Requirements

IFP requires the following to be conducted when assessing the appropriateness of the margin lending advice:

- a) make reasonable inquiries in relation to the client's personal financial circumstances, needs and objectives that are relevant to the provision of advice and the client's primary objective must be to create wealth and/or long term capital growth.
- b) The client must have a medium to long term time investment horizon (5 years plus).
- c) Only clients with a Growth or High Growth Investor profile (i.e. each individual client must have a Growth or High Growth profile, cannot rely on only one client in a couple meeting this requirement or a statement from the client that they are happy to 'combine' risk profiles or take on a higher level of risk for the purpose of gearing) and who have a strong understanding of investments, investment risk and volatility and the risks of gearing are to be advised to borrow funds in their own right for investment purposes (if the client has minimal experience in investing e.g. no investment funds, only superannuation and/or mortgage/investment property, gearing should not be

recommended. It is likely to be more suitable and more in the best interest of the client, to introduce them to investing on a regular basis first).

- d) assess capacity to service the margin lending facility based on cash flow projections and potential changes in financial circumstances by way of sensitivity analysis (e.g. increased interest rates or decreased returns). This is particularly important in determining whether the margin lending facility is **not unsuitable** – i.e. whether the retail client is likely to be able to meet their obligations without experiencing ‘substantial hardship’. In all gearing programs clients should have sufficient free cash flow to support the gearing program for a period of six to twelve months from sources other than investment income from the geared investments.
- e) IFP representatives must not recommend clients borrow to invest in internally geared products.
- f) If the client holds any non-deductible debt, the adviser should recommend to minimise or reduce their exposure to non-deductible debt (eg residential finance), before making any recommendation for gearing. As a minimum the client should have a clear understanding of deductible vs non-deductible debt and the alternative to reduce debt rather than gearing should be clearly explained and addressed in the Statement of Advice to the client i.e. why it is in the best interest of the client to establish a gearing strategy rather than paying down their debt.
- g) assess client's life insurance policies (refer to section 2.3 for further details);
- h) assess client's need for regular income (e.g. future retirement income, special needs as a consequence of health/disability etc) and capital growth. A detailed living expenses questionnaire should be completed by the clients to determine their suitability by the way of surplus cash flow;
- i) assess if there is an alternative strategy that may be suitable to the client's personal circumstances and the level of risk required to meet their objectives;
- j) tax position, social security entitlements, family commitments, employment security and expected retirement age should also be considered;
- k) client's ability to meet a margin call;
- l) client's continued availability to receive and respond to any margin calls (e.g. a client who is regularly uncontactable due to travel in remote locations) needs to be considered and plans detailed as to how a margin call would be managed if the client was uncontactable. Consideration also needs to be given as to the suitability of such a client with this type of strategy; and
- m) Exit strategy – when will the margin loan / gearing be wound up and how.

IFP acknowledges that individual client circumstances may differ to the above criteria and other sections of this policy but Margin Lending or Gearing may still be appropriate for the client's goals and objectives and in their best interests. Where this is identified by a representative, a Responsible Manager of IFP may apply discretion to determine if a Margin Lending or Gearing strategy is appropriate to the specific circumstances of a client and in their best interest.

IFP requires all its representatives to document the basis of advice within the SOA provided to clients.

2.2 Loan to Valuation Ratio (LVR)

LVR is the maximum loan amount that can be borrowed against a client's investment (typically securities or managed investment schemes), expressed as a percentage. Margin lenders typically allow 70% LVR. Where the client's portfolio has an LVR that is greater than 70% or the amount allowed by the margin lender, it triggers a margin call. Refer to section 2.8 of this Policy for further details on managing margin calls.

As a general rule, IFP recommends that the maximum LVR initially does not exceed 50% i.e. only a maximum of 50% must be borrowed against the investment purchase price/value of the assets purchased. The LVR may exceed 50% after the initial recommendation due to changes in market conditions.

IFP acknowledges that a LVR of 50% will place the focus on an objective or goal of achieving capital growth. IFP does not consider the primary goal or objective of margin lending to be an outcome of reducing a client's taxable income by way of claiming legitimate tax allowances by way of interest deductions and associated franking credits.

2.3 Insurance Requirements

Representatives are required to assess the adequacy of client's life risk insurance and specifically income protection and Trauma insurance when recommending the establishment of a margin lending facility. IFP requires all SOAs and other advice to include a warning specifically outlining what could happen if the client does not have any or sufficient levels of insurance, ie explain the worst case scenario clearly for the client to understand. If the adviser does not have the expertise to provide advice in relation to insurance, the SOA should also include a statement advising the client to seek specialist advice in relation to the life risk insurance in the context of obtaining, maintaining or increasing a margin lending facility.

2.4 Double Gearing

Due to the relative volatility and variability in the value of most financial products, margin lending facilities that use financial products as security for the margin loans usually have strict LVRs.

A double gearing strategy is where a consumer borrows money using another asset as security (e.g. their home) to purchase shares, and then borrows more money against these shares to obtain a margin loan, to purchase more shares). As investigated by ASIC, this strategy has had been used by some financial advisers in the past in order to circumvent the LVR restrictions.

By using traditionally less volatile assets (such as real estate and often the family residence) as security the client can enter a gearing strategy using a combination of loans (e.g. loan from real estate as well as a margin lending facility) which leads to much higher LVRs than a standard margin loan and may not be disclosed to the adviser by the client.

Accordingly, it is imperative that the adviser confirms with the client the source of any funds being used for a gearing / margin lending strategy. In some instances, the client may have obtained finance prior to speaking with the adviser or they may wish to utilise a mortgage off-set account etc.

Double gearing increases the client's risk exposure and a margin call may require the sale of the other assets used as security for the margin lending facility. If the loan is secured against the client's home it may result in the need to sell the client's house. As a general rule, **IFP does not allow double gearing.**

However, a double gearing strategy using conservative/prudent LVRs may be acceptable and depending on the client circumstances, may prove to be in the client's best interest. This will be determined on a case-by-case basis by IFP. All **double gearing strategies require written approval** from a Responsible Manager.

2.5 Review of Client's Geared Portfolios

IFP requires its representatives to review client's geared portfolios on a regular basis (at least six (6) monthly, or more where there has been a significant adverse general market movement, change in interest rates or client circumstances). Where clients are close to approaching the LVR allowed by the margin lender, options are to be discussed with the clients to ensure that the clients are aware of the risks and alternatives. Options for clients may be to do nothing or reduce the loan balance by depositing additional cash or transferring accepted investments into the margin lending facility as additional security to reduce the LVR (hence future risk of margin calls).

Where it is determined that it is in the best interest of the client to retain their position at that time (i.e. do nothing), the adviser is required to explain why this is in their best interest and to again warn clients that a margin call may be triggered and investments will be sold down if appropriate action is not taken in a timely manner. Such warnings must be provided in writing to the client via a SOA or ROA (only if applicable) and acknowledged in writing by the client back to the adviser (through the Authority to Proceed); this can be electronically eg email; text message; electronic signature etc. Note that as the adviser, it is your responsibility to ensure that you provide advice that is in the best interest of the client, even if this is in conflict with what the client wants to do e.g. the client may wish to do nothing, but your assessment is that it is in the best interest of the client to reduce the LVR, therefore your advice must be to reduce the LVR.

2.6 Statement of Advice Requirements

Clients who are borrowing to invest must be provided with a Statement of Advice outlining the following:

- a. Level of funds to be borrowed and what assets are to be used to secure the borrowings;
- b. A detailed cash flow of a minimum of 5 years but preferably 10 years;
- c. A documented strategy for retirement of the debt;

- d. An explanation of the associated risks of borrowing for investment purposes and the potential impact or magnitude of these risks including:
 - i. loss of income to support borrowings through retrenchment, divorce, illness or other unforeseen circumstances;
 - ii. Margin calls resulting from a downturn in market value of the investment portfolio;
 - iii. magnification of any loss due to downturn in market values.
- e. Strategies to address potential risks including implementation of income protection and any other relevant personal insurance and access to liquid funds to meet margin calls.

Clients must complete an Authority to Proceed acknowledging that they have received the Statement of Advice and that they understand the associated risks of borrowing for investment.

2.7 Ongoing Fees

As required by Section 964d of the *Corporations Act 2001*, representatives must ***not*** charge percentage-based fees on investments that have been made using borrowed funds. This includes margin lending products, and those investments made with funds that the clients have arranged to independently borrow.

Fixed \$ fees can be charged as agreed upfront with clients e.g. in a Letter of Engagement.

2.8 Process for Dealing with Margin Calls

Margin calls are triggered when the loan amount exceeds the LVR allowed by the margin lender. IFP's procedures provide that notifications from margin lenders are provided directly to clients. However, in addition to the direct notification to clients, IFP requires the margin lender to provide a copy of margin call notifications to the client's adviser. Margin calls are to be explained to clients in detail, in writing, in their SOAs prior to clients obtaining margin loans. For this purpose, any client who wishes to enter a margin lending arrangement or invest in a margin lending or gearing product, must not have their address for correspondence as the adviser's address.

Upon receipt of a margin call notification from the margin lender, the relevant IFP representative will contact the client and seek to address the situation. Detailed file notes and copies of correspondence with the relevant client must be maintained within the client file.

3 Commitment

To monitor adherence with this Policy, IFP and/or the relevant adviser/s will:

- a) conduct a review of a sample of client files containing margin lending / gearing advice on at least an annual basis to ensure that requirements have been complied with;

- b) a gearing checklist form must be completed for all existing (at each review) and new gearing for clients. Should the checklist indicate, a gearing approval needs to be submitted to IFP Compliance to approve the strategy before it is presented to a client. A minimum of 5 working days must be allowed for the approval to be assessed or further details requested; and
- c) schedule a review at least every six (6) months with clients to ensure that investment strategies recommended (including geared portfolios) remain appropriate to their personal circumstances. Reviews may need to be conducted more regularly during volatile market movements.

Appendix:

CORPORATIONS ACT 2001 - SECT 985G

Reasonable inquiries etc. about the retail client

Requirement to [make](#) inquiries and take steps to verify

(1) For the purposes of [paragraph](#) 985E(1)(d), the [provider](#) must, before making the assessment:

- (a) [make](#) reasonable inquiries about the [retail client](#)'s financial situation; and
- (b) take reasonable steps to verify the [retail client](#)'s financial situation; and
- (c) [make](#) any inquiries [prescribed](#) by [the regulations](#) about any matter [prescribed](#) by [the regulations](#); and
- (d) take any steps [prescribed](#) by [the regulations](#) to verify any matter [prescribed](#) by [the regulations](#).

(2) [The regulations](#) may prescribe particular inquiries or steps that must be [made](#) or taken, or do not need to be [made](#) or taken, for the purposes of [paragraph](#) (1)(a) or (b).

When not required to take steps to verify

- (3) Despite [subsection](#) (1), if:
 - (a) a [financial services licensee](#) that is authorised to [provide financial product advice](#) in relation to margin lending facilities has prepared a [statement of advice](#) for the [retail client](#); and
 - (b) the [statement of advice](#) was prepared no more than 90 days before the critical day; and
 - (c) the [statement of advice](#) recommends that:
 - (i) the [retail client](#) [acquire](#) the particular [margin lending facility](#); or
 - (ii) the [limit](#) of the particular [margin lending facility](#) be increased; and
 - (d) the [limit](#) of the facility, or the increase in the [limit](#) of the facility, is not greater than the [limit](#), or the increase in the [limit](#), recommended in the [statement of advice](#); and
 - (e) the [statement of advice](#) includes the [information](#) that was used for the purposes of preparing the [statement of advice](#);

then the [provider](#) is not required, for the purposes of [paragraph](#) (1)(b) or (d), to verify that [information](#).