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HD **WATCHDOG TESTS POWER**

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Self-managed funds exist and operate in a risky space

THE Australian Securities & Investments Commission has launched a welcome test case of its powers over **property** spruikers selling **property** into the $535 **billion** self-managed fund sector.

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The move comes as the Murray inquiry is set to recommend changes to the law to ensure people packaging **property** for superannuation funds are subject to the same regulations as those selling financial products to investors.

The case is against **Park** Trent Properties, alleging it carried on an unlicensed financial services **business** by selling investment properties to self-managed funds.

ASIC has no power over real **estate** agents. If your local agent recommends you **buy** a **property**, that is outside the regulator's control. But if the agent recommends the **property** for your self-managed fund, then you are arguably caught within the ASIC net.

That is one of the issues to be settled in this matter, but there is plenty of agitation in the industry to change the law to include **property** spruikers in the legislative controls.

Self-managed funds have tended to operate in an Alice in Wonderland type law where they think they are entitled to all the safeguards of an Australian Prudential Regulation Authority-regulated fund without any of the controls or levies.

In the Trio collapse the funds overseen by APRA were covered by a statutory compensation fund that paid victims of the fraud. Self-managed investors were denied access to compensation.

Many self-managed fund investors fail to remember they are the trustees and hence responsible for their own investment choices, whether they win or lose. The debate over **property** spruikers is part of the discussion around what are valid investments to include in self-managed funds, which are meant to provide for long-term savings and retirement income.

The SMSF Owners' Alliance released a statement yesterday supporting the ASIC move but noting that **property** was a relatively small proportion of SMSF investments. Roughly $80bn of self-managed funds is invested in **property**, with $18.7bn invested in **residential property**.

Compounding the issue is leverage, and the Murray inquiry noted that from 2008 to 2012 borrowings increased from 1.1 per cent of funds to 3.7 per cent, and the amount borrowed per fund increased from $122,000 to $357,000. The figures may be small but they're growing quickly.

This is fine as long as the risks are appreciated.

There are some who question the merits of allowing SMSFs to borrow and this too will be subject to review by Murray.

If ASIC wins the Park Trent case it will establish its role in controlling wayward property spruikers, which is undeniably good news, but better still if changes were made to the legislation to put the issue beyond doubt.

Good in theory THE lead-up to next Monday's unveiling of the China free trade deal should be put in the context of a 2012 Productivity Commission report which noted the impact on national income from such deals is limited.

The benefits if there are any depend on Australian exporters taking up the challenge.

Dairy is a case in point where China has an obvious interest in developing competing suppliers to New Zealand, given it has gone from being self-sufficient a decade ago to importing some $6 billion worth of dairy products last year.

New Zealand enjoys virtually duty free exports to China whereas Australian exports are hit with 10-15 per cent duty.

By all reports Trade Minister Andrew Robb has won what is called a New Zealand-plus deal, which means duty free exports and some more.

That works well so long as Australian suppliers have the ability to supply the market.

Murray Goulburn now has an estimated 37 per cent of the Australian milk pool, up from 30 per cent four years ago, and is slowly but surely moving its production base away from commodity products to higher value-added items.

It has a factory in Quing Dao and offices in Beijing and Shanghai. Clearly a bigger base is required by all concerned at a time when global dairy prices are cyclically low.

Still, after getting nothing from the Japan free trade deal, the dairy industry will welcome a breakthrough in China.

A dairy win in China no doubt means other primary producers like rice and sugar might not do so well, but the talk of a better deal for the services sector will obviously be a boost.

The Productivity Commission report noted trade deals are in theory good but don't go close to the benefits achieved through domestic micro-economic reform.

Central steps it up TEN years ago James Fazzino, at Incitec Pivot, and Richard Cottee, then at Queensland Gas Co, signed a landmark gas supply deal which was to underwrite the latter's future and ultimate sale to BG.

BG still supplies gas to Incitec's Gibson Island operations. The two are in the news again, with Cottee now at small Northern Territory-based Central Petroleum, which has signed a supply deal which could be the answer to Incitec's problems with rising gas prices.

Fazzino has long banged the drum for gas reservation policies to support local manufacturing, and he has now revealed the $50million cost hike he faces in 2016 through higher gas prices.

The deal is for 15 petajoules a year out of the company's total consumption of some 42 petajoules and at prices which are some 30 per cent cheaper than Fazzino would get on the open market.

Some, like this column and Richard Cottee, have argued the problem is more on the supply side and if you remove constraints to supply then prices will be manageable.

Central Petroleum is a short-supplier in the Northern Territory and the Incitec deal can underwrite its expansion on the east coast by providing a long-term deal which it can borrow against.

First it needs the state and federal governments to follow through on a recent agreement to open the market via a pipeline into the Brisbane area from Alice Springs.

But a solid commercial contract would seem the icebreaker, just like the Incitec deal with Queensland Gas a decade ago.

Cottee, of course, is a man of much higher ambitions and he sees this deal as a step towards his long-cherished aim of turning Moomba into Australia's Henry Hub, a gas collection point which establishes a central domestic market-based pricing system that encourages smaller players into the market.

Right now the big guys — Santos, Origin, and BG et al — have their minds rightly focused on LNG contracts to Japan and **China**.

But if you are an $80m Alice Springs-based producer, a long-term supply deal with Incitec is huge **business**.

That's what was unveiled yesterday and pushed Central Petroleum's stock price up 9.5 per cent to 23c a share on heavy volume.

It needs a boost, given the stock was trading at 58c back in April and this contract is some four years away in terms of delivery.

Valiant effort IN his spare time James Fazzino does up Valiant cars and just last month he won the prize for the best in show 1971-75 model for his limelight green VJ Regal wagon at the Chrysler Restorers Club of Australia "Show and Shine" awards in Melbourne.In that part of the world that's about as good as it gets.

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