# MARGIN LENDING POLICY

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**THE AIM OF THIS POLICY**
The aim of the policy is to explain the rules that apply when giving margin lending advice to retail clients. This policy should be read in conjunction with the Gearing Policy.

**WHO THIS POLICY APPLIES TO**
All Representatives authorised under Insight Investment Partner's AFSL.

If a retail client or prospective client seeks advice from you and during the course of your fact find you determine that the funds they wish to invest are margin loan funds, you must also follow all sections of this policy.

**WHAT THIS POLICY COVERS**
This policy covers:
- Authorisation to provide advice on margin lending.
- The requirements for Authorised Representatives who are not authorised in margin lending advice.
- Varying from this policy.
- Definition of a margin lending facility.
- Policy limitations you need to be aware of if you are authorised in margin lending advice.
- Your general responsibilities and obligations if you are authorised in margin lending advice.
- Your obligations when it comes to charging an ongoing fee.
- Ongoing fees you can charge clients who are in margin lending facilities prior to 1 July 2013.
- The specific financial planning and margin lending policy requirements.

**AUTHORISATION TO PROVIDE ADVICE ON MARGIN LENDING**
- As a minimum, you can provide advice to a client on margin lending facilities if you have successfully completed the specific RG146 margin lending accreditation requirements; and
- You are authorised by Insight Investment partners to provide margin lending advice.

**REQUIREMENTS FOR REPRESENTATIVES WHO ARE NOT AUTHORISED IN MARGIN LENDING ADVICE**
If you are not authorised to provide Margin Lending Advice, you cannot provide general or personal margin lending advice. You can provide factual information which takes into account the information from the client's existing credit products (provided you do not make any specific or general recommendations or statement of opinion about margin lending facilities or engage in other credit activities) where relevant to the advice being provided.

This means that (provided the above restriction is met), you can assess cash flows associated with existing margin lending facilities, net asset positions and budget considerations when establishing a reasonable basis for your recommendations.

You must:
- <u>Not</u> recommend margin lending or assess the suitability of existing margin lending facilities in discussions with clients or in your Statements of Advice. If you do so, you will be acting outside of your current authorisation.
- Limit your advice and disclose you are not authorised to provide margin lending advice, where you provide gearing advice to clients.

- Not provide 'Execution Only' services to clients that involve margin lending arrangements.
- Fully disclose to the client any benefits you may receive if you are making a referral to another adviser for Margin Lending Advice

**VARYING FROM THIS POLICY**

Where you wish to take any action that falls outside of this policy, you must seek and obtain approval from the Responsible Manager before discussing or making a recommendation to the client.

**DEFINITION OF A MARGIN LENDING FACILITY**

Under the margin lending legislation, the Corporations Act defines and regulates both standard and non-standard margin lending facilities.

A standard margin lending facility is a facility that meets the following 3 key elements:

- Credit is or may be, provided to wholly or partly, acquire one or more financial products (or refinance such an acquisition);
- The credit provided is secured by property which consists wholly or partly of marketable securities (e.g. shares, bonds, interests in a managed investment scheme) or a beneficial interest in such; and
- A loan to secured property value ratio (i.e. LVR) must be maintained by the client.

A non-standard margin lending facility is where the legal title to the marketable securities used as collateral for the loan passes from the client to the lender (i.e. ownership of the securities passes to the lender).

**POLICY LIMITATIONS YOU NEED TO BE AWARE OF IF YOU ARE AUTHORISED IN MARGIN LENDING ADVICE**

You are not permitted to:

- Provide advice on non-standard margin lending facilities.
- Provide 'Execution Only' services for margin lending facilities.
- Provide advice that includes multiple gearing.
  For example, you cannot recommend that a client meet a margin call with borrowed funds or set up a margin loan with assets purchased with borrowed funds as the security or collateral for the loan.
- Enter into any arrangements with the margin loan provider and the client to become the client's agent to receive notification of margin calls on behalf of the client. The margin loan provider must retain the obligation to notify the client of margin calls under the loan contract between the margin loan issuer and the client. However, this does not prevent you providing further advice at the time of a margin call.
- Provide any margin lending advice where the client's obligations under the margin lending facility will be guaranteed by a third party guarantor. The exception to this is if it is a spouse or legal de facto or entities that are controlled by the client and/or their spouse/legal de facto.
- Charge Asset Based Fees on any borrowed money used to acquire financial products (including product replacements) under a margin lending facility after 1 July 2013.

**YOUR GENERAL RESPONSIBILITIES AND OBLIGATIONS IF YOU ARE AUTHORISED IN MARGIN LENDING**

You must:

- Complete the specific margin lending RG 146 training requirements and hold an authorisation;
- Meet your on-going continuing education requirements; and
- Follow the standard financial product advice process and compliance policies and guidelines.
- Offer an ongoing advice service.
- Comply with all requirements of the Gearing Policy.

**YOUR OBLIGATIONS WHEN IT COMES TO CHARGING AN ONGOING FEE**
In addition to this Margin Lending policy you must also comply with the Gearing Policy. This includes offering an ongoing advice service.

From 1 July 2013, you must not charge asset based fees for the ongoing advice service when borrowed monies are used by your clients to invest in financial products. An asset based fee is a fee (e.g. % or tiered) where the level of fee is dependent upon the amount of funds used to acquire the underlying financial products (e.g. shares, interest in a managed fund).

Example: A client has $100,000 cash and wishes to invest a total of $200,000 in financial products by borrowing an additional $100,000 under a margin lending facility. An advice fee calculated as a % of the total amount invested ($200,000) is prohibited. You must only charge a flat dollar fee where borrowed funds are used to acquire financial products.

From 1 July 2013, when you are offering an ongoing advice service you must meet your Fee Disclosure Statement Obligations.

**ONGOING FEES YOU CAN CHARGE CLIENTS WHO ARE IN MARGIN LENDING FACILITIES PRIOR TO 1 JULY 2013**
You may continue to charge an asset based fee to clients with existing margin lending facilities (those in place prior to 1/7/13) for their ongoing advice service provided:

- The client is a wholesale client.
- There are no further borrowings/draw-downs under that facility for the purpose of investment.
- There have been no portfolio rebalances;
- There have been no switching of investments;

In all other cases, you will need to enter into a new fee arrangement for the ongoing advice service notwithstanding that the client may have had a margin lending facility in place prior to 1/7/13. You will also need to monitor the status of those clients who remain on asset based fees after 1 July 2013 to ensure that if their circumstances change you do not breach this policy regarding the structure of their ongoing advice fees.

Refer to the Gearing Policy for further information.

**THE SPECIFIC FINANCIAL PLANNING MARGIN LENDING POLICY REQUIREMENTS**

Data Collection

- The income and expenses section of the data collection form must show the source of income and client's expenses. As best practice, this should completely itemise the source of income and allocation of expenses. These do not need to be itemised again in the advice document. However, the client's total expenses should be accounted for and considered when determining the appropriateness of the advice. For example:
  - The client should be able to meet large one off expenditure from existing capital or other lump sums the client is confident they will receive.

Please note that the SOA should provide a warning to the client that the advice may not be appropriate if information that has been provided is incomplete or inaccurate.

You must also confirm:

- Whether anyone is acting as a guarantor over any of the client's loan obligations.
- Whether any existing assets are funded by borrowing.
- The client does not have debt, or any other amount owing on the initial security being used (or earmarked) for the margin loan. Where the initial security or collateral for the loan includes borrowed funds, this is considered a form of multiple gearing which is not permitted under this policy.
- The existing debt obligations of the client; the type of debt and the amount of such debt obligations (this includes not just the amount of any debt drawn down but also, the size of any facility) and whether the debts are secured. Debt obligations include, but are not limited to home loans, investment loans, car loans, personal loans, business loans, study loans and credit card debt.

Statement of Advice or Advice Document Requirements

- Ensure you use the standard gearing advice templates.
- Projections need to be provided for a minimum of 5 years.
- When establishing a new margin loan, or recommending adding further funds to an existing margin loan, the maximum portfolio LVR (Loan to Value Ratio) permitted is 50%, irrespective of the individual product LVR permitted by the margin lender. This applies only when the client or spouse/de facto or controlled entities are the only asset pledged to the margin loan.

*For example, you recommend a margin lending strategy for the client who has $20,000 of their own capital to contribute to the investment. The investment will be into two managed funds (Fund A and Fund B) that have maximum LVRs (as determined by the lender) of 60% and 70% respectively.*

*Despite these higher LVRs at a product level, the maximum margin loan you can recommend to the client is $20,000 (resulting in $40,000 invested in total) as this will result in an overall LVR of 50%.*

*There may be times when the client's LVR is above 50% due to such factors as market movements, the client wishes to extend the margin loan for a short term trading opportunity (with the intention to exit within a year) and/or tax implications.*

*If the LVR exceeds 60%, the adviser must review the portfolio, investment strategy and gearing strategy. As the LVR may have exceeded 60% due to market movement, the client may have a regular contribution strategy which may reduce the LVR back to below 60%. The outcomes of the review will be assessed on a case by case basis.*

*If the LVR exceeds 70% then a plan needs to be put in place with the client as to how this will be reduced. This plan may be to sell assets and reduce debt, put up more security, set aside further cash that they will ultimately pledge to the margin loan or use to repay debt. The adviser must inform the Responsible Manager of the client and the plan that has been in place.*

*In instances where the clients have other assets (such as their home or liquid investment assets but excluding preserved superannuation) outside of those pledged towards the margin loan, there may be instances where the initial LVR may be higher but must seek the approval of the Responsible Manager.*