

Margin Lending Policy

Obligation

A person who holds an AFS licence must comply at all times with their obligations as a licensee. These obligations include the obligations listed in s912A(1), and the conditions of their AFS licence.

The general obligations set out in section 912A (1) of the Corporations Act include:

* Doing all things necessary to ensure that the financial services covered by the AFS licence are provided efficiently, honestly and fairly;
* take reasonable steps to ensure that PGW Financial Services Pty Ltd.’s representatives comply with the financial services laws;
* Maintaining the competence to provide those financial services; and
* Ensuring that PGW Financial Services Pty Ltd.’s representatives are adequately trained, and are competent, to provide those financial services.

In addition to the general obligations, there are additional responsibilities imposed on licensees who recommend margin loans. PGW Financial Services Pty Ltd is authorised to advice and deal by way of arranging on behalf of another on margin loans and as such the documented procedures do not address the requirements of the provider or issuer of the margin loan.

Expectation

ASIC has set out its expectations of how licensees can meet their obligations with regards to representatives in:

* Regulatory Guide 104 Licensing: Meeting the General Obligations [RG 104] Section E Monitoring, supervision and training of representatives
* Regulatory Guide 146 Licensing: Training of financial product advisers [RG 146] This policy sets out minimum training standards for people who provide financial product advice to retail clients and
* Regulatory Guide 175: Financial product advisers - Conduct and disclosure

ASIC expects licensees to have adequate measures, processes and procedures in place to:

* Ensure that representatives are adequately trained, and are competent, to provide margin lending advice.
* Include margin lending products on the PGW Financial Services Pty Ltd approved product list as per the research policy.
* Where a client has been assessed as unsuitable, ensuring the loan is not provided.
* Ongoing monitoring of the client’s margin loan/s in place.

Responsibility

It is the responsibility of the Responsible Managers to review this policy on an annual basis.

Licensee Procedure

PGW Financial Services Pty Ltd recognises that while margin lending strategies can be used as a long-term strategy for the right client there are inherent risks in these strategies.

PGW Financial Services Pty Ltd has formulated this procedure to be followed by all representatives when providing this type of advice to retail clients.

It is expected that as part of the advisory process, consideration of all the clients’ circumstances, needs and objectives, are considered prior to any recommendation.

PGW Financial Services Pty Ltd has established clear guidelines for representatives to follow including ensuring the margin lending facilities are after a due diligence process, included in the Approved Products List to not only minimise risks to the licensee & its’ representatives but to ensure clients have access to quality products and investments.

This policy applies to margin lending only. Should PGW Financial Services Pty Ltd.’s policy not be adhered to by the representative, the representative may face the risk of not being covered by Professional Indemnity insurance and PGW Financial Services Pty Ltd may take one or any of the following actions:

* Additional monitoring arrangements
* Peer review/audit of all work
* Restrict authority
* Termination of authority

PGW Financial Services Pty Ltd has established procedures and guidelines for the following:

* Margin lending facility that is authorised
* Acting in the clients Best Interests
* Margin calls
* Authorisation and training of personnel
* Loan to Valuation Ratios (LVR)
* Portfolio asset allocation
* Interest payments
* Insurance requirements
* Guarantors
* Double gearing strategies
* Needs analysis
* Disclosure document requirements

Margin Lending Facility that is Authorised

Margin lending is defined as a financial product within Chapter 7 of the Corporations Act 2001 (Cth).

In the Act, margin lending is defined as either:

* A ‘standard margin lending facility’; or
* A ‘non-standard margin lending facility’; or
* ASIC may declare a particular facility to be a margin lending facility

A ‘standard margin lending facility’ is where:

* Credit is or may be provided to acquire or partly acquire one or more financial products or a beneficial interest or repay another credit facility;
* The credit provided is secured by property which consists wholly or partly of marketable securities or a beneficial interest therein; and
* A loan to value ratio is maintained by the client

A ‘non-standard margin lending facility’ is where:

* The client transfers marketable securities or beneficial interest therein to a provider;
* Property is then transferred to the client as consideration or security;
* The transferred property may then be applied wholly or partly to acquire a financial product or beneficial interest therein;
* The client has a right to be given marketable securities equivalent to the transferred securities; and
* A loan to value ratio is maintained by the client.

PGW Financial Services Pty Ltd only authorises the use of standard margin lending facilities.

These provisions only apply to individuals and not business lending.

Best Interests

A margin lending recommendation must not be provided to a client if the client is deemed to be in the clients ‘Best Interests’. Section 985E (1) requires a written assessment to be undertaken by the provider of the margin loan. PGW Financial Services Pty Ltd is not authorised to provide or issue the margin loan and only arranges for a client to acquire the margin loan as such the obligation to assess unsuitability and provide a written assessment does not apply. However, PGW Financial Services Pty Ltd recognises that when providing advice on margin loans Representatives should always act in the Best Interests of the client.

As a guide the Licensee notes the following factors that may be considered when assessing if the advice is in the clients Best Interests:

* Whether the client has taken out a loan to fund the equity contribution made by the borrower for establishing the margin lending facility and /or whether the security for taking out the loan includes residential property (please see the section on double gearing below)
* Time horizon – if the client does not have a long-term horizon is will be unsuitable. Minimum timeframe recommended is generally between 7 to 10 years.
* Client’s cash flow position to be able to cover interest expense and cover margin calls.
* Client’s requirements for emergency funds or reserves and assessment of other liquid assets available in short term.
* Age and stage in life. While generally younger clients may be more suitable than those closer to retirement, the added risk as well as other lifestyle factors must be taken into account.
* Can an alternative strategy be used to achieve the same objectives without gearing?
* Insurance provisions in place or to be put in place and/or the client’s inability to be insured.
* Client’s acceptance of unexpected market volatility.
* Client’s suitability for investing in growth assets.
* Clients risk profile as determined via the risk profiling tools provided by PGW Financial Services Pty Ltd. As a general rule of thumb gearing strategies will be more suitable to growth or high growth profiles. However, PGW Financial Services Pty Ltd recognises that the assessment of suitability should be undertaken on a case by case basis.
* Collateral to be used to secure loans and any inherent debts in the collateral.
* Other existing levels of debt.
* If on an ongoing basis the client cannot be contacted by any of the usual means of communication.
* The client’s ability to enter into the contract (e.g. bankruptcy).
* Whether the client has appointed an agent /guarantor to act on their behalf and in this case is the agent/guarantor aware of the risks associated with the loan (please see section below on appointment of agents/ guarantors)

Margin Calls

Margin loans are subject to margin calls when the loan value ratio (LVR) is exceeded. The lender will take steps to limit their total exposure or LVR at the agreed maximum level by requesting additional equity, cash or equivalent from the borrower.

PGW Financial Services Pty Ltd does not allow its Representatives to enter into an agreement with the client and lender to receive notifications for the margin loan and related margin calls. All notifications must be forwarded directly to the client from the lender.

Authorisation and Training of Personnel

PGW Financial Services Pty Ltd has as part of its Representative Training policy determined the initial and ongoing requirements for Representatives authorised to provide advice and deal in margin lending products.

Loan to Valuation Ratios (LVRs)

A LVR is usually a pre-set maximum proportion of an investment amount a lender will lend e.g. a LVR of 75% means the lender will lend up to 75% of the investment purchase price/value of the assets purchased. The LVR is used to establish the maximum size of the loan and also used to determine when a margin call should be initiated.

PGW Financial Services Pty Ltd.’s policy is that the maximum loan to valuation ratio in all instances should not exceed 60% at the time margin lending advice was provided i.e. only a maximum of 60% must be borrowed against the investment purchase price/value of the assets purchased.

LVR (%) = Borrowed Funds X 100 Total investment

The establishment fee is not to be included as part of the total investment.

Where property is used as security, the representative must give preference to the use of the equity in the investment property above the use of equity in the principal residence.

The maximum amount to be borrowed using property (including refinancing & drawdowns) is 80% of the value of the property.

Maximum borrowing (property) = (Value of property x 80%) – all outstanding debt

Where the Licensee’s LVR is exceeded, the Representative must take all necessary steps to ensure the LVR is brought back to the required level.

A margin loan facility is taken as being increased if:

* The increase is a result of a contribution of further secured property or transferred securities that occurs without the knowledge or agreement of the provider;
* The provider permits the increase to continue; and
* The increase is no more than 5% of the current limit of margin lending (within the meaning as prescribed)

Portfolio Asset Allocation

PGW Financial Services Pty Ltd recognizes that gearing and margin lending strategies should be a part of the relevant client’s overall strategy. Therefore, PGW Financial Services Pty Ltd.’s policy is that the amount invested and secured to meet loan liabilities is not to exceed 60% of the relevant client's total investment portfolio and, where the value of a portfolio varies for any reason, the margin loan or gearing arrangement is to be reviewed to retain a buffer of at least 10% in excess of the minimum required by the lender.

Interest Payments

Where interest is capitalised or compounded PGW Financial Services Pty Ltd and its Representatives will ensure that the relevant client knows at all times what amount is being capitalised or compounded and will ensure the LVR is unlikely to be exceeded.

Insurance Requirements

Risk insurance is an important part of the financial planning process. It is even more important to have appropriate insurance in place to provide protection against accident, illness or death where gearing & margin loans are recommended or are in place.

PGW Financial Services Pty Ltd requires all margin lending recommendations must include a recommended level of cover or the client is referred to another advisor for at least one of the following personal insurance products:

* Life insurance;
* Total and permanent disability insurance;
* Trauma cover; and
* Income protection

PGW Financial Services Pty Ltd requires that in all instances, a representative must be able to show that the type of insurance & levels of cover recommended are in the clients Best Interests. As such, there may be instances whereby the recommended level of cover maybe reduced (e.g. affordability, existing insurance cover in place, age, etc).

Should a client either decline to accept the recommendation or reduce the level of cover, a signed declaration must be obtained from the client.

Guarantors

A person can be a guarantor by providing security for the margin loan. By becoming a guarantor, the person will enter into a legal agreement with the lending institution & will be responsible for the debt repayments should the borrower fail to repay the margin loan or fulfil any obligations on the margin loan conditions.

PGW Financial Services Pty Ltd does allow guarantors for a client’s margin lending strategy however written approval must be obtained & maintained on the client file. Please refer to Appendix B for the approval form.

Double Gearing Strategies

A double gearing strategy is where a client borrows money – usually against their home equity and uses these funds as security for an additional loan and then invests using the total borrowing.

Double gearing strategies accelerate the risks normally associated with simple gearing strategies.

PGW Financial Services Pty Ltd does allow double gearing strategy however written approval must be obtained & maintained on the client file. Please refer to Appendix C for the approval form.

Needs Analysis

PGW Financial Services Pty Ltd requires a comprehensive needs analysis to be completed using the licensee’s templates to ensure the client meets the above criteria. Should a client not wish to provide sufficient detailed information, then a gearing &/or margin lending strategy cannot be provided.

Disclosure Document Requirements

PGW Financial Services Pty Ltd requires an eligible advice document (e.g. a SOA) must be provided to the client when providing advice and where advice is provided on a particular facility or product, the relevant product disclosure statement (PDS) must also be provided to the client. The advice document (where applicable) should include the following additional information when recommending a margin lending facility or increasing the limit of existing facilities:

* The type of gearing (e.g. negative, neutral, positive, double gearing)
* The benefits of gearing &/or margin lending and risks.
* If guarantor, details of how the guarantor has been informed and warnings to include the possible risks & consequences;
* Clients risk profile
* The investment timeframe
* A description of the gearing facility / product
* Any assets used as security (in particular if primary residence) and the implications
* The amount of any other debt
* Whether the client has taken out a loan or intends to take out a loan to fund the equity contributions in establishing the margin loan and/or whether the security for the loan includes residential property
* The amount borrowed, including any instalment gearing
* The Loan to Value Ratio (including calculation)
* The interest rate on the loan including whether it is fixed or variable and implications and examples of effects of rising interest rates
* The interest expense for year 1 including lump sum and instalment (if applicable)
* Margin calls (if applicable) – what they are, how they are made, why & how clients will manage these margin calls including worked examples
* Effects and examples of decreasing returns
* Insurance recommendations
* Any implications if the client were to terminate the facility / product (e.g. loan repayment penalties, CGT, etc)
* Why it is appropriate to the client taking into consideration the client’s needs, objectives & financial situation
* Why this strategy has been recommended over other strategies
* Why the gearing type has been recommended over others (e.g. equity in residential property over margin lending)
* Any other information prescribed the Act or the relevant regulations.

PGW Financial Services Pty Ltd does not have a specific template for margin lending however does have a standard disclosure template which is mandatory to use and PGW Financial Services Pty Ltd expects the above factors to be incorporated where applicable.

Please refer to Appendix A for the margin lending checklist

**APPENDIX A**

MARGIN LENDING CHECKLIST

This checklist is to be completed for all margin lending recommendations and maintained on the client file.

If a ‘no’ response is applicable, then you have not met all the requirements of this policy & the recommendation for margin lending must not be presented to a client.

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

Adviser Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

| CHECKLIST | YES | NO | N/A |
| --- | --- | --- | --- |
| Has a comprehensive needs analysis been undertaken? |  |  |  |
| Is the risk profile for all clients either growth or high growth? |  |  |  |
| Is the client investment timeframe at least 7-10 years? |  |  |  |
| Are the products recommended on the Approved Products List? |  |  |  |
| Is the total amount geared and invested within the licensee’s recommended portfolio allocation? |  |  |  |
| **Does the SOA include information on the following?** |  |  |  |
| The type of gearing (e.g. negative, neutral, positive, double gearing) |  |  |  |
| The benefits of gearing &/or margin lending and risks |  |  |  |
| If guarantor, details of how the guarantor has been informed and warnings to include the possible risks & consequences |  |  |  |
| Clients risk profile |  |  |  |
| The investment timeframe |  |  |  |
| A description of the gearing facility / product |  |  |  |
| Any assets used as security (in particular if primary residence) |  |  |  |
| Amount of any other debt |  |  |  |
| Details about whether the client has taken out a loan or intends to take out a loan to fund the equity contributions in establishing the margin loan and/or whether the security for the loan includes residential property and the relevant implications |  |  |  |
| The amount borrowed, including any instalment gearing |  |  |  |
| The Loan to Value Ratio (including calculation) within the licensee guidelines |  |  |  |
| Why it is appropriate to the client taking into consideration the client’s needs, objectives & financial situation |  |  |  |
| The interest rate on the loan including whether it is fixed or variable and implications and examples of effects of rising interest rates |  |  |  |
| The interest expense for year 1 including lump sum and instalment (if applicable)  Margin calls (if applicable) – what they are, how they are made, why & how clients will manage these margin calls including examples |  |  |  |
| Effects and examples of decreasing returns |  |  |  |
| Does the recommendations include risk insurance?   * Life Insurance * TPD * Trauma * Income Protection |  |  |  |
| Any implications if the client were to terminate the facility / product (e.g. loan repayment penalties, CGT, etc) |  |  |  |
| Why it is appropriate to the client taking into consideration the client’s needs, objectives & financial situation? |  |  |  |
| Why this strategy has been recommended over other strategies? |  |  |  |
| Why the gearing type has been recommended over others (e.g equity in residential property over margin lending)? |  |  |  |
| Does the client have sufficient cash surplus to meet a 2% rise in interest rate? |  |  |  |
| Disclosed all fees and commissions (including loan products, investment products & insurance products) is clear & concise? |  |  |  |

**APPENDIX B**

Approval Form for Appointing a Guarantor

|  |  |
| --- | --- |
| **Name of Representative** |  |
| **Client name** |  |
| **Relationship between client and guarantor.** |  |
| **Reasons for providing a guarantee** |  |
| **How is the Guarantor notified of the of the agreement, risks and consequences** |  |
| **How will the Guarantor be contacted in the event of a margin call** |  |
| **Approval conditions (if applicable)** |  |

Signed by Representative: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Approved by: Date: / /

Responsible Manager

**APPENDIX C**

Approval Form for Recommending a Double Gearing Strategy

|  |  |
| --- | --- |
| **Name of Representative** |  |
| **Client name** |  |
| **Reasons for recommending a double gearing strategy?** |  |
| **What is the Basis behind the recommendation? Including reasons why simple gearing or another alternative strategy is not suitable.** |  |
| **Have all safe harbour steps been met to show that this advice is in the clients Best Interests?** |  |
| **How will double gearing achieve the client’s needs and objectives?** |  |
| **What is being used as a security for the initial borrowing i.e. residence, investment property. Please include the current value of the security.** |  |
| **How will the client be notified of the risks, and issues associated with double gearing?** |  |
| **How will client fund margin calls, and interest payments** |  |
| **Approval conditions (if applicable)** |  |

Signed by Representative: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Approved by: Date: / /

Responsible Manager