



CAVENDISH

SELF MANAGED SUPERANNUATION

CLIENT GUIDE

HOW TO USE THIS GUIDE

This guide is to assist clients and advisers in understanding the common questions Cavendish staff may ask in the provision of SMSF administration services for your Fund.

DOCUMENTATION REQUIREMENTS

Cavendish requires supporting documentation for all assets and transactions to enable the preparation of the financial statements and SMSF Annual Return. The legislative requirement for an annual independent audit also necessitates additional documentation over and above that required for non-audited entities such as individuals and trusts.

This guide outlines the basic documentation requirements on a per-asset-class basis.

For the majority of clients, it is a requirement of the Cavendish service that we be the registered address for most assets, so it is anticipated we would have most of this information by year-end; however for a variety of reasons we may not have a copy and will ask you to provide it to us to complete the financial statements and income tax return for your Fund.

MARKET VALUATIONS

Market valuations are an area which is relatively straight-forward for listed assets such as shares; however the requirements for market valuation of non-listed assets such as property and collectables are more complicated.

This guide outlines when and why market valuations are required.

IN-SPECIE TRANSFERS

A common area of confusion is the documentation and valuation requirements for in-specie transfers (e.g. direct contributions of listed shares). This guide clarifies these requirements.

CONTENTS

DOCUMENTATION REQUIREMENTS	4
COMMON INVESTMENTS (cash, shares, managed funds)	4
FORESTRY MANAGED INVESTMENT SCHEME (FMIS)	5
PLATFORMS / WRAPS / PORTFOLIO ACCOUNTS	6
PROPERTY	8
PRIVATE UNIT TRUSTS	9
PRIVATE COMPANIES / PUBLIC UNLISTED COMPANIES	10
DERIVATIVES – OPTIONS TRADING	11
LOAN ACCOUNTS	12
GEARED INVESTMENTS/BORROWINGS (post 24 September 2007)	12
COLLECTABLES AND PERSONAL USE ASSETS	13
MARKET VALUATIONS	14
WHY MARKET VALUATIONS?	14
FREQUENCY OF MARKET VALUATIONS	16
MARKET VALUATION SUPPORTING DOCUMENTATION	17
IN-SPECIE TRANSFER OF ASSETS	20
DATE OF TRANSACTION	20
MARKET VALUE	22

DOCUMENTATION REQUIREMENTS

Whilst this booklet provides guidance to required documents, for some non-standard assets it will not be inclusive of all documents required. In particular, SMSF auditors may require declaration minutes regarding related party involvement or assets held on behalf of Fund.

COMMON INVESTMENTS (cash, shares, managed funds)

Cash

- Statements for all cash accounts, covering the full period 1 July through to 30 June.

IMPORTANT NOTE

Where cash statements are obtained online, it is an audit requirement that actual "statements" be obtained. Transaction listings such generated by some online banking facilities' "export" features are not sufficient, nor are listings that include notation such as "This is not a bank statement".

Term deposits

- Investment Confirmation Statements
- Holding Confirmation as at End of Financial Year; or Post 30 June renewal (where applicable)
- Annual Interest Advices

Listed securities

- Contract Notes
- OFF market transfer form (refer pg 20)
- Dividend / Distribution Advices
- CHESS Holding Statements (or End of Financial Year Broker CHESS Holding Advice)
- Issuer Holding Statements

IMPORTANT NOTE

If your broker only provides contract notes via email, please arrange for a copy to be sent to **contractnotes@cavendishsuper.com.au**. However we are unable to identify or open password protected contract notes, even if you provide us with your password. In this case we ask that you please print/scan/email a copy to us upon receipt.

Managed funds / widely-held unit trusts

- Purchase and Redemption Statements
- Distribution Advices
- Holding Confirmation as at End of Financial Year
- Annual Tax Statements
- Quarterly or Annual Unit Holding Statements

Listed instalment warrants

- Dividend/ Distribution Advices
- CHESS Holding Statements (or End of Financial Year Broker CHESS Holding Advices)
- Issuer Holding Statements
- Interest Expense Statements
- Annual Tax Statements (if available)

FORESTRY MANAGED INVESTMENT SCHEME (FMIS)

- Product Disclosure Statement (PDS)
- Income and Expense Advices

DOCUMENTATION REQUIREMENTS

PLATFORMS / WRAPS / PORTFOLIO ACCOUNTS

For Funds utilising an investment platform such as a Wrap or other Investor Directed Portfolio Service ("IDPS"), in most instances financial accounts can be prepared without additional source documentation, relying solely on the reporting provided by the platform.

In contrast the auditor has additional requirements which depend on the nature of the service being utilised.

Background

Each year an independent auditor must certify the fund's compliance with the *Superannuation Industry (Supervision) Act 1993* ("SISA") legislation, as well as the accounting and auditing standards published by bodies such as the AASB (Australian Auditing Standards Board) and the AUASB (Auditing and Assurance Standards Board).

In 2008, the AUASB released guidance statements to its members, clarifying the documentary evidence required for auditing SMSF's:

- Guidance Statement GS 009 (Oct 2008)
Auditing Self Managed Superannuation Funds
- Guidance Statement GS 007 (Mar 2008)
Audit Implication of the Use of Service Organisation for Investment Management Services

These guidance statements reaffirm that SMSF auditors require additional third party confirmation to complete the audit of the Funds' financial accounts.

Australian Auditing Standards ASA500, ASA505 and ASA402 require auditors to "obtain sufficient appropriate audit evidence, request external confirmation and consider the activities of any portfolio service organisation (such as a Wrap account)"

A registered Investor Directed Portfolio Service is a reporting platform (or Wrap) which is registered with ASIC and meets various requirements of reporting obligations. Importantly, an IDPS requires an independent audit of the platform to provide a legal surety to other Audit parties that the information presented in the investment reports can be relied upon as audit evidence.

With the spread of sophisticated portfolio management systems, many institutions are providing investment platform services to SMSF's that are not registered IDPS's and are not independently audited. SMSF auditors are therefore required to obtain additional supporting information in order to successfully pass audit.

Investor Directed Portfolio Service

Documentation requirements for Funds using an IDPS for all investments are simply the full IDPS investment reports. To satisfy audit requirements Cavendish will obtain the audit comfort letter issued to the IDPS service provider directly from that provider.

Non-Investor Directed Portfolio Service

In the event a Fund utilises a platform that is **not an IDPS**, the following information is required for audit clearance;

- Confirmation of cash account balance/s as at 30 June to reconcile with the platform reported cash position (for example, copies of the CMA/CMT statement/s covering 30 June).
- Confirmation of unit holdings for listed securities as at 30 June (for example, copies of CHESS holding statements or reporting from broking systems such as GBST)
- Confirmation of unit holdings and distribution tax components for managed funds/unit trusts for the period ending 30th June (for example, annual statement and/or tax statement)
- Confirmation of holdings and income for all Service assets (i.e. "below the line" Assets)

DOCUMENTATION REQUIREMENTS

PROPERTY

New purchase / transfer-in

- Settlement Statement / Tax Invoice / Contract of Sale (for new purchase)
- Memorandum of Transfer (for transfer into superannuation Fund)
- Independent Valuation (for business real property purchased from a Related Party – arm's length confirmation)
- Lease Agreement
- Lease Valuation (if Related Party – arms length confirmation required)
- Copy of Title
- Evidence of Insurance (i.e. Schedule from Insurers)

Annual requirements

- Current Lease Agreement
- Documentary evidence of rental income received **in accordance with Lease Agreement**
- All invoices for expenses:
 - Council Rates
 - Land Tax
 - Insurance
 - Repairs/ Maintenance
 - Property Management and Strata Fees; or alternatively
 - Property Managers Monthly Reports
- Depreciation Schedule

Three yearly cycle compliance review requirements

The following documents are required for properties every three (3) years (e.g. 30 June 2012, 2015, 2018...)

- Include items for Annual requirement; plus
- Title Search
- Market Valuation including Lease Valuation

» Refer to the next section for information on market valuation requirements.

PRIVATE UNIT TRUSTS

New purchase

- Details of all unit holders and investments within Unit Trust
- Unit Trust Certificate
- Confirmation of quantity acquired at market value

Annual requirements

- Unit Certificate (s) supporting any movements in units during year
- Signed Financial Statements and Income Tax Return (or)
- Letter from Unit Trust accountant confirming
 - Unit Trust Accounting Distribution
 - Unit Trust Taxable Distribution
 - Fund's Beneficiary Entitlement
 - Fund's Unit Holding
 - Unit Market Value

Sale of units

- Unit Redemption Certificates

Three yearly cycle compliance review requirements

The following are required for private unit trusts every three (3) years (e.g. 30 June 2012, 2015, 2018...)

- Include items for Annual requirements; plus
- Market Valuation

» Refer to the next section for information on market valuation requirements.

DOCUMENTATION REQUIREMENTS

PRIVATE COMPANIES / PUBLIC UNLISTED COMPANIES

New purchase

- Share Certificate(s)
- ASIC search
- Confirmation of quantity acquired at market value

Annual requirements

- ASIC search; or Company's End of Year Financial Statements
- Share Certificate(s) for movement in share holding
- Dividend Notice (if applicable)

Sale of shares

- Unit redemption certificates

Three yearly cycle compliance review requirements

The following are required for private companies and public unlisted companies every three (3) years (e.g. 30 June 2012, 2015, 2018...)

- Include items for Annual requirements; plus
- Market Valuation

» Refer to the next section for information on market valuation requirements.

DERIVATIVES – OPTIONS TRADING

The following requirements relate to exchange traded ("Over the Counter" or "OTC") options and other derivatives such as Contract for Difference ("CFD")

Annual requirements – OTC options trading

- Monthly Options Trading/Transactions Reports
- Open Options Position Report at financial year end provided and capitalised in accounts
- OCH Collateral Holdings Report at financial year end
- Risk Management Statement

Annual requirements – Contract For Difference ("CFD's") trading

- Product Disclosure Statement
- Agreement with CFD's trading provider
- Monthly CFD's Transaction Reports held
- All CFD's Position at financial year end
- Details of Dividends Received and Interest Paid
- Risk Management Statement

Annual requirements – Foreign Exchange Trading (FOREX)

- Product Disclosure Statement and/or
- Agreement in Financial provider
- Monthly Foreign Exchange Activity Statement
- Monthly Financial Summary
- Risk Management Statement

DOCUMENTATION REQUIREMENTS

LOAN ACCOUNTS

New investment

- Loan Agreement
- Details and relationship of person/s involved

Annual requirements

- Loan Agreement (if expired)
- Confirmation of receipt of income.

GEARED INVESTMENTS / BORROWINGS (POST 24 SEPTEMBER 2007)

Non retail products

- Legal Advice (optional)
- Loan Documents
- Holding (BARE) trust deed
- Relevant Cash Account Statements
- Interest Expense, Borrowing Cost Advices
- Confirmation of Loan Balance

Retail products (i.e. Listed Instalment Warrants)

- Product Disclosure Document/Information Memorandum provided
- Transaction Statements
- Confirmation of Loan Balance
- Interest Expense and Borrowing Cost reports
- Annual Final Tax Statements

COLLECTABLES and PERSONAL USE ASSETS

Items purchased on or after 1 July 2011

- Proof of purchase (invoice)
- Evidence of insurance in fund's name
- Lease Agreement between non-related parties (if applicable)
- Evidence of storage decision
- Market price valuation determined by a qualified independent valuer if the Fund disposes of an item to a related party

Annual requirements - Items held by the Fund on 30 June 2011

(Funds holding such assets will have until 1 July 2016 to comply with new restrictions or dispose of the items)

- Evidence of insurance held (if applicable)
- Lease Agreement held (if applicable)

Annual requirements - purchases post 1 July 2011

- Lease Agreement (if applicable)
- Confirmation of income
- Insurance Renewal Notice (compulsory for items purchased on or after 1 July 2011)
- Storage Arrangements:
 - Declaration confirming the storage arrangements has not changed **or**
 - Evidence of new storage decision/arrangements

Three yearly cycle compliance review requirements

The following are required for collectables and personal use assets every three (3) years (e.g. 30 June 2012, 2015, 2018...)

- Include item for Annual requirement; plus
- Market Valuation

» Refer to the next section for information on market valuation requirements.

MARKET VALUATIONS

WHY MARKET VALUATIONS?

Statutory requirement to prepare annual reports

The *Superannuation Industry (Supervision) Act 1993* ("SISA") and *Superannuation Industry (Supervision) Regulations 1994* ("SISR") require the trustees of a SMSF to prepare a statement of financial position and an operating statement for each income year. However, SISA and SISR do not expressly require the statements to be prepared using the principles of market value reporting.

AAS 25 Financial Reporting by Superannuation Plans ("AAS25"), which applies to 'reporting entities', requires superannuation funds to value their assets at their net market value as at the reporting date. However, as noted in *Australian Taxation Office Circular 2003/1*, most SMSF's can appropriately be classified as 'non-reporting entities' and are therefore not required to comply with AAS25.

However, despite the Australian Taxation Office ("ATO") acknowledging that most SMSF's are not 'reporting entities', the ATO considers that trustees of SMSF's should adopt the market value reporting and disclosure requirements of AAS25.

Requirement to determine market value of assets

Despite there being no statutory requirement under AAS25, SISA **does require** the market value of a SMSF's assets to be determined in certain circumstances, including:

1. Commencement of a superannuation benefit

When a superannuation benefit is to be commenced (such as a pension), the "value" of the member's superannuation interest and the amount of each of the components of the superannuation interest (i.e. taxable and tax-free) must be determined.

Per section 307-205 of the *Income Tax Assessment Act 1997*, the “value” of a superannuation interest is generally the total amount of all superannuation lump sums that could be payable from the superannuation interest at that time. This requires the market value of all of the assets comprising the superannuation interest to be determined.

2. Calculation of the market value ratio of a SMSF’s in-house assets at the end of an income year

Where a SMSF has in-house assets, the trustees are required to determine whether the market value ratio of the SMSF’s in-house assets exceeds 5% as at the end of each income year.

The market value ratio of a SMSF’s assets is calculated using the following formula:

(Number of whole dollars in value of in-house assets of the Fund / Number of whole dollars in value of all the assets of the Fund) x 100

3. Revaluation at the end of an income year, to provide fair and reasonable member balance

Cavendish endeavours to provide a fair and reasonable member balance to the trustee, which requires the use of market values as at financial year end in accordance with the ATO’s recommendations.

MARKET VALUATIONS

FREQUENCY OF MARKET VALUATIONS

To assist in the practical approach of obtaining market valuation, below is a schedule indicating when a valuation should be obtained to satisfy legislation requirements for each of the different asset classes.

Asset Class	Year End 30 June	Pension Commencement	Fund Holding In-house Assets
Listed Securities (ASX) and Managed Funds	Every Year	Commencement Date	Every Year
Listed Securities (non ASX)			
Unlisted Widely Held Unit Trust			
Unlisted Public Companies			
Forestry Managed Investment Scheme			
Arts and Collectables	Every '3' Years	Within last 12 months	
Private Companies and Private Unit Trust			
Property			

MARKET VALUATION SUPPORTING DOCUMENTATION

Unlisted public companies and unlisted widely held unit trusts

- Written valuation on investment institution letterhead ; or
- Minute from Trustee with valuation, and supporting evidence to that claim.

Arts and collectables

- Independent valuation report from accredited "Third Party"; or
- Minute from Trustee with valuation, and supporting evidence to that claim (i.e. internet extract of prices from auction houses or storage facility).

Private companies and private unit trust

- Independent valuation report from accredited "Third Party"; or
- Minute from Trustee with valuation, and supporting evidence to that claim ; or
- Interpretation of Net Assets from Financial Statements, if accounts are correctly utilising an Asset Revaluation Reserve.

In-house assets

- Independent valuation report from accredited "Third Party"; or
- Minute from Trustee with valuation, and supporting evidence to that claim.

IMPORTANT NOTE

It is imperative that Market Values are accurate for in-house Assets. If the value of all in-house assets exceeds 5% of net assets of the Fund, a breach of SISA Legislation will occur and in extreme circumstances may result in the Fund being made "non complying".

MARKET VALUATIONS

Property

- Independent appraisal including lease valuation; or
- Minute from Trustee with valuation, and supporting evidence to that claim.
- Supporting evidence when valuing property assets may include factors such as, but not limited to:
 - the value of similar properties;
 - the amount that was paid for the property;
 - valuations for council rate purposes;

The trustees must keep appropriate records of how the valuations were determined, so they can be readily verified if required. Valuations prepared by suitably qualified and independent valuers are less likely to be questioned by Auditors and the ATO.

IN-SPECIE TRANSFER OF ASSETS

Transferring assets in-specie (i.e. without converting to cash) is another means by which contributions can be made to a Fund.

Whilst Section 66(1) of the SIS Act generally prohibits an SMSF from intentionally acquiring an asset from a related party of the SMSF, Sections 66(2) and 66(2A) provide for certain exemptions, primarily:

- Listed Securities
- Business Real Property
- In-house Assets

DATE OF TRANSACTION

When assets are transferred in-specie from a related party, the transaction often happens “off-market”, and as such the date the transaction actually occurred can be complicated to determine.

The transaction date is generally deemed to be the date that the property (i.e. assets other than money or money equivalent) is received, being the date legal or beneficial ownership passes from the transferor to the SMSF trustee.

If there is no formal registration process to evidence ownership, the ownership passes to the trustee when they physically take possession of the asset.

Where there is a formal registration process, the ATO's view is that ownership passes when the Fund trustees are registered as the owner of the property.

Legal ownership can often occur sometime after beneficial ownership of property passes. The ATO accept that the contribution is made when beneficial ownership is obtained.

For in-specie transfer of real property, beneficial ownership is

obtained when the trustees are in receipt of the requisite transfer forms and there is no legal impediment stopping the Fund from effecting the transfer.

When there is a formal sale and acquisition of real property beneficial ownership will pass when the purchase is settled.

Listed securities

If listed securities are contributed to a Fund, the ATO provides slightly different interpretations based on how the shares are transferred. The trustee must hold proper legal title to the shares to be considered the owner.

A transfer via CHESS is generally taken to occur when the trustees are registered in the company's share registry.

Due to the nature of the off-market transfer process, **the transaction date may instead be taken as the date the SMSF trustee obtains a properly completed off-market share transfer form, provided that the off-market transfer form was lodged within an "appropriate" time of the date of the transfer form.**

Whilst this timeframe is not strictly defined by the ATO, our experience responding to ATO audits indicates that if the form is processed by the share registry within one month of the date on the off-market transfer form, the date on the form will generally be accepted as the transaction date.

It should be noted that the ATO has some discretion in this matter and if in doubt the date of transfer will be considered to be the date of CHESS registration. This has important implications for the valuation used, as discussed in the next section.

IN-SPECIE TRANSFER OF ASSETS

22 |

MARKET VALUE

It is important that the amount of the contribution will be the Market Value at the time the contribution is made.

For listed securities this is a unit price at which the security traded on the date of transfer. Generally this would be the closing price; however in practice any price that falls between the low and high traded unit price on the date of transfer is acceptable.

For non-listed assets, documentation supporting a market valuation as at the date of transfer should be obtained according to the guidelines in market valuation section (pg 16) of this guide.

ADDITIONAL INFORMATION

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