Supervision GROUP

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THE TRUSTEE

The SMSF newsletter that keeps you informed and in control.

INSIDE THIS EDITION

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Welcome

Two years ago, we had a market update where inflation was mentioned. At that time, it was not clear if inflation would make an appearance when Government spending worldwide was viewed as unsustainably high and would result in higher inflation. Well, it has finally arrived.

Government spending decisions, geopolitical and local environmental events impacting supply chains have added up to the highest inflation figures in Australia and the western world for some time. All businesses and industries have been impacted by increased costs and delays caused by reduced production. Employees have disappeared and the ones left have been resigning in record numbers, leaving services businesses short staffed.

Yet despite all the doom and gloom above, Australia has recorded a better-than-expected trade surplus due to world-wide demand for our goods. A small shire in Perth's western suburbs has regained the top spot as the most expensive real estate in Australia. Housing prices have been strong in WA and unemployment is low. Unemployment is at a 48 year low. The glass must be half full.

There is a consistency in our message in this publication. Challenges are always in front of us, yet the power of people continues to push society in the right direction. Progress is never in a straight line, but we seem to get there over time.

In this edition we discuss the last SMSF technical summit and also some learnings from our clients who have experienced some difficulties with investment scams. Money attracts criminal activity, so we urge our clients to be careful if you are offered returns too good to be true.

Our 2022 Tax return schedule is going well, so please take advantage of our current workflow and send us any information that you have been requested. Beat the rush.

We wish you all the best for the months ahead and look forward to meeting with you soon.

Christopher Homer
Director

Feature Article – What I Learned on the Gold Coast - SMSF Association Technical Summit

It's a bit sad but my recent winter getaway included a two-day SMSF technical summit conducted by the SMSF Association. Whilst the conference was created for industry insiders which would put normal people to sleep within 10 minutes, there are some important highlights that I would like to bring to your attention.

Documentation is vital

Investment Strategies

Investment Strategies need to be supplied to the Auditor each year. Trustees are responsible for creating their own investment strategy and updating it regularly or when events impact their existing strategy. We have an online investment strategy that gives you the ability to create your own SMSF investment strategy. You can create your own unique investment strategy for your SMSF here:

www.supervision.com.au/investment-strategy-builder/

Investment strategies document the plans Trustees have in place for the investments they currently have and how they propose to deal with future events if they occur.

For example: "Currently, the SMSF is receiving enough cash income in the form of Dividend payments to meet members pension requirements. If Dividend payments fall below members expected pension requirements, the Trustee intends to sell shares or invest in higher Dividend paying investments to meet pension requirements of the members."

When selecting investments, Trustees must consider the risk tolerance of the members. Members need to be aware that reducing risk will reduce the return of the SMSF. There is no right or wrong answer, but what you write needs to match.

If you have Crypto Currency (Digital Assets) in your SMSF, then your investment strategy will need to deal with the following issues:

- Volatility
- Loss of Wallets
- How you or other Trustees will access Passwords or Seed Phrases
- What percentage of the portfolio you are going to expose so that your SMSF can deal with liquidity & volatility
- Large Capital Gains that require cashflow to pay tax

We estimate that creating your own investment strategy document will take 30 minutes to an hour to complete if you are going through the process systematically. This annual time investment is not high if you consider that your Superannuation is the second biggest asset that most people own.

Estate Planning Directions

It is important to document any intended changes to the SMSF due to the death of a Director/Trustee. In the case of single Director/Trustee SMSF's, the death of that Trustee will create questions about who will step into the SMSF to wind it up or indeed keeping it going under certain circumstances. Documenting your intensions will confirm the person you would like to take over the SMSF to distribute your remaining member balance. If you have selected a person for this task, asking them to sign the document and giving them a copy will increase the chances that your plans will come to fruition. Power of Attorney's also give certainty if you are sick and can't sign documents for your SMSF.

Wealth Transfer in Australia is Real

Growing Need for Advice

It is estimated that $3.5 Trillion will transfer over the next 20 years. To put that into perspective the total market cap of the ASX is currently $1.7 Trillion. Transfer of wealth on this scale will change the lives of many Australians beyond recognition. The sheer volume and dollar value of future transfers will challenge the financial services sector's ability to provide safe, efficient and tax effective solutions for Australians.

Financial Advisers have Suffered

Mental Health of Advisers at breaking point

Whilst the demand for advice is continuing to grow, the mental health of licenced financial advisers has been hit by the fallout of a royal commission and imposed education requirements (FASEA). The following results of a wide-ranging survey were explored.

- 80% of Financial Advisers reported stress levels had significantly increased
- 53% reported their mental health had significantly declined
- 39% reported their physical health significantly declined
- 63% believe the mental health of staff is affected
- 56% are 'drinking more' & some are taking up smoking to reduce stress
- Effects are; restless disturbed sleep, overwhelm, burnout, lack of exercise and longer hours at work
- 29 Male Suicides, 1 Female

Sophisticated Investor Certificates are Challenging

From time to time, you may be interested in an investment that is not a 'retail' investment. The investment manager may require a Wholesale Investor Certificate or a Sophisticated Investor Certificate for you to participate, usually signed by an accountant.

Investment providers require these letters in order to provide less disclosure documentation. Retail "Mum & Dad" investors need far more disclosure documentation because they don't have the same level of financial understanding as a "sophisticated investor". If you are sophisticated, you know the investment, are capable of doing your own research (proper research, not a google search) and you don't need a statement of advice provided by a licenced financial adviser.

The regulations describe a sophisticated client and prescribe the asset and income criteria which must be met before you can issue a certificate. A person is only eligible to be the subject of a certificate if they have:

- a gross income of $250,000 or more per annum in each of the previous two years or
- net assets of at least $2.5 million

That sounds pretty straightforward, but how you count assets depends on the control that the individual has over them. If the individual holds assets in Trusts and other vehicles, then you can see how it becomes difficult to quickly calculate.

On top of asset rules, accountants are implored by their professional bodies to make judgement calls on the clients understanding of the asset they want to purchase. If they are not satisfied due to a lack of evidence that the client does not understand completely, then are urged not to sign. This makes sense because having money does not mean you are in anyway sophisticated.

All of the above makes it difficult to sign with any speed. If you require a certificate, please be prepared to supply evidence and also understand the time required to complete.

Investment Scammers

We have heard some disturbing news coming from our clients and also from our professional bodies about some very complex and not so complex scams that are impacting investors.

Hacking

If your SMSF cash account is hacked, your money can be stolen. We recommend that all clients change their passwords regularly. Also be very careful how you store passwords and the amount of information you share online as well. Try using different approaches to password creation, with phrases that are difficult to hack.

Two factor Authentication is another way to protect your money. Two factor Authentication is the process where a code is created or sent to another unrelated device and a code is used to verify your password. A criminal would find it difficult to open your account with this type of authentication.

Whilst no one method is full proof, the more difficult you make it, the more likely the criminal will move on to someone that has not taken any precautions.

Investment Scams

Investing large sums into investments that do not exist is becoming more and more prevalent. We have firsthand experience in our client base and also what we read in the media. In most cases, people searching online for investment opportunities have been contacted and induced into investing. A series of phone calls and email interactions has led to the client parting with their money to invest.

An article in the Switzer Daily recently has outlined some suspicious activity.

Here are my tips to avoid these financial fraudsters:

- If any deal sounds too good to be true, it probably is!
- If you've never heard of the website, forget it.
- If it's a well-known bank name, don't do anything online until you are sure it's the real McCoy. One 2GB listener put hundreds of thousands of dollars into what he thought was a CBA fixed deposit product but it was a fake website that the CBA did not know about.
- If the website/business is registered in Iceland's capital, Reykjavik, avoid it like the plague.
- If the trading name is London Choice Investments SL, then dump any idea of reading any further.
- If it's trying to flog anything that sounds like AusBondTrust, Au-Investor and Millennium Bonds, shut the site down.
- And if the messages are asking you to sign up to work with stockbrokers from unknown businesses then suspect a rat!

It is important to understand that these scams are sophisticated, the fraudsters can provide elaborate documents and online portals to seem legitimate. Sometimes we want to believe something so much that we miss the finer details which can alert us to danger.

Don't stop looking for opportunities, but not everything you read on the internet is real. Whilst the internet has provided massive opportunities for ordinary people to grow business, it also attracts the worst elements of human nature. Whilst we are not investment advisers, if you do have concerns about any investment, please feel free to contact us for guidance. At the very least we can provide an objective view of what has been offered.

2022 Tax Return Schedule

Supervision has hit the ground running with our 2022 Tax Return schedule. We are currently meeting our weekly targets. This time of the year we are methodically working through our pre-programmed schedule. Completing your SMSF now avoids all of the stress associated with later in the program. At the moment we are sending out information requests in bulk.

In general, this is what we require (apply to your circumstances):

1. Cash

a. Bank Statements (if not ANZ or Macquarie Bank)

b. Term Deposit Statements

2. Contributions

a. Confirm your contributions (employer contributions using ESA code will be automatically confirmed)

3. Investment Documents

a. Any Purchase & Sale Documents (if not on CMC Markets)

b. Income Documents (Annual Tax Statements – Managed Funds or Trusts)

ETF Tax Guide – Stolen from Chris Brycki (Stockspot)

Video is here: https://youtu.be/C49bSsPICcE

ETF's are becoming more prevalent in SMSF portfolio's.

If your SMSF portfolio invests in ETF's, there are two events that will cause your SMSF to pay tax on those investments.

1. Capital Gains Tax – When you make a profit after selling your ETF's
2. Tax on Distributions – When you receive income from your ETF's

Capital Gains Tax is paid when you sell your ETF is sold and you made a profit. In your SMSF, you will pay either 15% or 10% on the gain, the lower amount if you had held the shares for more than 12 months.

Distributions pay tax also when the ETF pays distributions throughout the year. Tax on your income (for accumulation accounts) is 15%. ETF's provide tax reports at the end of each financial year.

Inside of the distribution statements you will also see "non-cash" components like:

- Franking Credits
- Foreign Credits
- AMIT (Attribution Managed Investment Trust) Cost Base Adjustment

Most would be familiar with Franking and Foreign credits; AMIT may be unfamiliar to you. AMIT has the ability to impact the cost base of your investment up or down. So if you are keeping your own records of the cost base of these investments, don't forget the AMIT component. Or you can just use the unrealised gains report in "My Portfolio" for the right amount.

Editorial Content – SuperStream Rollovers: Plenty of Potential but Improvements Needed

Since 1 October 2021, all SMSFs are required to process rollover requests using the **SuperStream** rollover standards. The impact of this is best considered from two perspectives: **the immediate practical impact vs the big picture future destination.**

If you consider the massive inflow and sideway movements of money in superannuation, it makes sense for the federal government to create an IT framework that entrenches the regulator as the central hub. The ATO is able to collect its own data instead of relying on data from other participants. While the super system survived before SuperStream came along, that doesn't mean standardising digital communication between all super participants is a bad idea, now or in the future.

The recent addition of SuperStream for rollovers may be topical, but it is only the latest iteration in a string of previously implemented measures to improve transparency and the tracking of super funds.

Benefits for SMSFs

ESA (electronic service address) codes linked through STP (Single Touch Payroll) have reduced the amount of time spent confirming employer contributions for members. The compulsory nature of STP, and the need for software to conform to it, has been positive for SMSF members. SMSF trustees may be unaware of the depth of its operation, but most would assume a system to automate employer contribution tagging would be in place.

Class contends (through its data collection) SuperStream has created additional inflows of money into SMSFs leading to greater funds under management.

While some correlation can be inferred, it's difficult to confirm if SuperStream is the cause of such uptakes. In our experience, SMSF rollovers are quicker to facilitate, but it's unlikely that more or fewer SMSFs have been created for this reason. The past two years have served up many challenges that have shaped the investment and SMSF environment. Listing the events chronologically during this time (starting with COVID 19), may see SuperStream ranked quite low.

An in-depth questionnaire for new entrants would be required to confirm any connection.

A search on SMSF establishment timeframes shows the average is between 4-6 weeks, and we don't know of any claims made by other providers that disagree with this. Despite not being able to connect SuperStream to all the positive aspects of SMSF growth, this doesn't mean over time it won't have an effect. At the moment, SuperStream rollovers are hit and miss, but improvements and efficiencies are expected to increase over time.

Once ID verification is automated, the last manual processes will be removed, which will make the system even more efficient.

Timeframe issues

Without opening the industry fund vs SMSF debate, it is difficult to see how SMSFs will be able to comply with the timeframe and deadlines for rollover. Here, industry funds have the advantage for a number of reasons. Even firms that have implemented continual processing will struggle to move a member's balance within three days. If a trustee jumps the gun and requests the receiving fund to initiate a roll-in (from an SMSF to an industry/retail fund), they may be unaware of the conditions that a firm such as Supervision requires. Cash requirements, online banking limits, processing times, documentation and valuations, etc, make it difficult to close out a member's balance within that timeframe. The variables increase if a wind-up is also needed. As a result, companies in the SMSF accounting space need to educate their clients on the process.

Roll outs can be rejected by providers, but it is still not clear what the long-term ramifications will be.

It may also be helpful to establish an additional protocol to define the initiation. Currently, rollover requests can be initiated by either side

of the process but we suggest the receiving super fund should take responsibility for it. This makes the timeframe of three days redundant. New rules, such as this, will provide greater clarity and further define responsibility.

Consolidating super is now easier through MyGov if the member wishes to transfer 100% of their balance into their SMSF.

Insurance holds back many clients from fully consolidating their balances. In the age of total superannuation balance and unused contribution caps, consolidating simplifies those calculations and makes life easier for trustees. Conversations about insurance (when a consolidation is requested) can become more specific if a professional provider is part of the rollover process.

As a business, we have seen an uplift in awareness of insurance issues since MyGov automated the transfer process.

Cooperation brings success

Overall, we view SuperStream as a work in progress rather than a finished product.

We feel the implementation for rollovers was rushed, and the process underdeveloped. All participants, including our team, were unaware of the data that needed to be recorded in multiple places for a rollover to work. The reasons for rejecting rollovers were not fully understood nor were the teams of large industry and retail funds aware of what was required to fix the rejections or any breakdown in the system.

Ultimately, it felt as if the creators of the rollover scheme were disconnected from the users, which led to much confusion.

We believe, however, that the collective experience of all users will improve the efficacy of the system. Minor adjustments will always be required, but by cooperating, we are confident the experience will continue to improve.

Class view: SuperStream rollover and digital release authorities

The rollout of SuperStream rollover is a classical manifestation of those information asymmetry market failures you learn about during university economics 101. The main issues are as follows:

1. You have the regulator ATO holding all the cards close to its chest without giving you much information, hoping you can guess what card it is. The ATO has built extra web services such as SMSF Member Tick and SMSF Verification Services (SVS) to validate member and fund information. But for privacy reasons, it won't tell you the proper error messages if things go wrong. This is particularly problematic for tax agents for SMSF only, as often they do not have the authority to act on behalf of members in dealing with the ATO or the APRA fund.

2. The lack of transparency with APRA funds and delaying tactics make it difficult to conduct a rollout from their funds into SMSFs, which further exacerbates the problem:

- There is no visibility showing which APRA funds are SuperStream Rollover V3 compliant, as many APRA funds are updating their systems and processes and gradually transitioning to the new payment and data standards;
- There is no central place to easily verify USI (unique superannuation identifier) for all APRA funds, particularly as APRA funds move into closure or consolidate to create new USI products;
- There is no central place to confirm or verify BSB and account numbers of superannuation funds.
- Some APRA funds never respond to initiate rollover in request from an SMSF or reject for no legitimate reason.
- If the member proceeds with a rollover transfer request, they make trustees verify their identify and SMSF bank details manually.
- If a rollover into an APRA fund was made with a mistake by the fund administrator (i.e. payment was made but a SuperStream message showed an error), getting the payment back is near impossible.

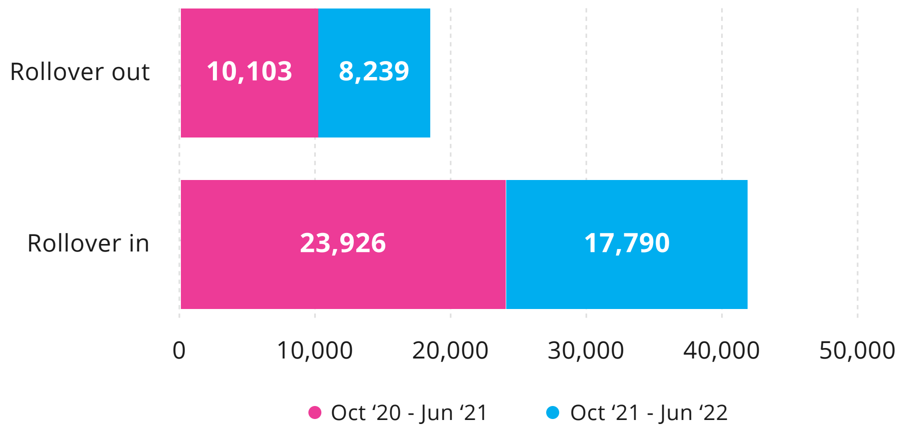
3. Banks act as the facilitator to support the payment standards, as it only allows Electronic Fund Transfer (EFT) as the approved method of payment.

- This makes it a very challenging practice for a full rollover when most of the banks have EFT limits of less than $100,000.
- Some banks do not support a description of more than 16 characters, which is the length of a unique payment reference number.

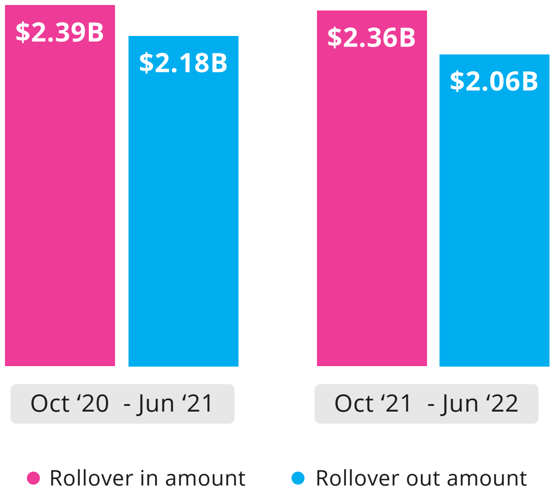
4. The dichotomy between financial advisers and accountants, and their respective and sometimes conflicting roles in SuperStream rollover may also be under the radar. Members/trustees who want to do rollover transactions should receive appropriate financial advice. Yet SuperStream solutions created an unprecedented opportunity for fund administrators/accountants to be 'trigger happy' without realising the full consequences (e.g. assessing the insurance needs of members in the APRA fund).

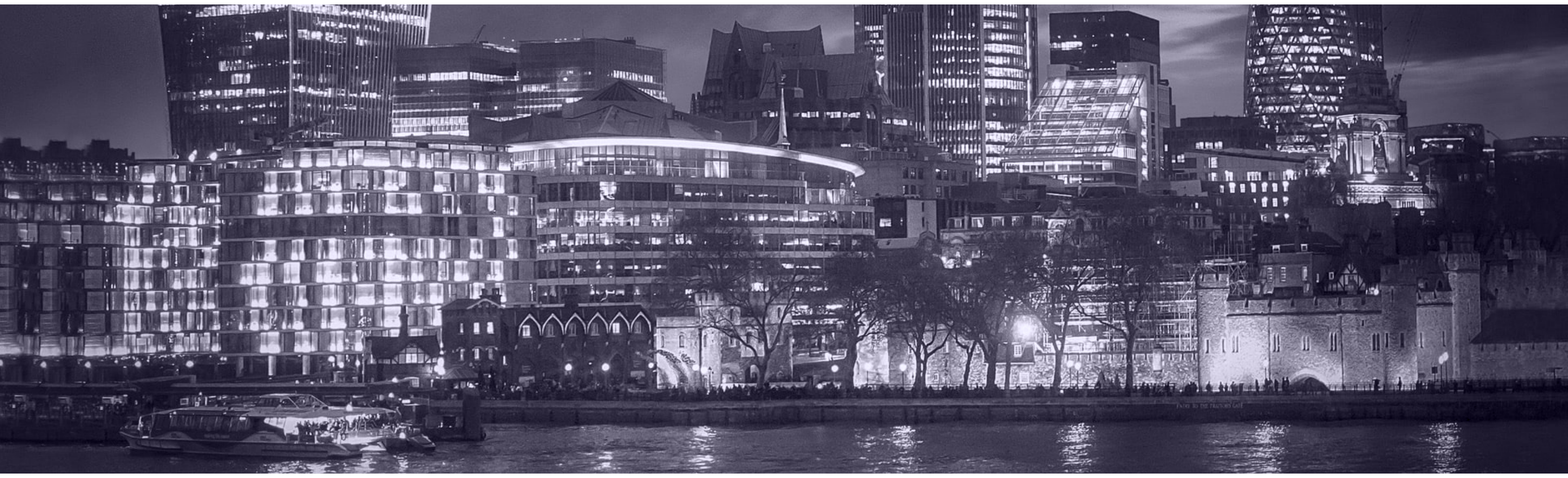
Class' data shows that SuperStream hasn't had a significant effect on rollovers with the FY 22 rollover counts being less than the FY22 rollover counts for both rollover ins and rollover outs.

Rollovers recorded on the Class platform



More money rolled into SMSFs than out of SMSFs





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