ASIC

Australian Securities & Investments Commission

REPORT 575

SMSFs: Improving the quality of advice and member experiences

June 2018

About this report

ASIC has undertaken a large research project to examine:

- member experiences in setting up and running a self-managed superannuation fund (SMSF) (member research); and
- whether advice providers are complying with the law when providing personal advice to retail clients to set up an SMSF (advice review).

This report summarises the findings of our work. It also provides:

- a comprehensive overview of SMSF market characteristics; and
- practical tips that advice providers can use to improve the quality of SMSF advice they provide to clients.

Note: For a comprehensive report on the member research, see Report 576 *Member experiences with self-managed superannuation funds* (REP 576).

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Acknowledgement

ASIC wishes to thank all of the SMSF members who participated in the member research. We are grateful to them for providing their time to give us a richer understanding of the experience of setting up and running an SMSF.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Contents

Executive summary

1 ASIC is keen to ensure that:

(a) consumers make informed decisions about setting up and managing a self-managed superannuation fund (SMSF);

(b) advice providers provide good quality SMSF advice; and

(c) the overall health of the SMSF sector is sound.

2 Achieving these objectives is of significant importance given the size and growth of the SMSF sector.

The SMSF sector

3 Since the official introduction of SMSFs in 1999, they have grown from a niche product to a significant component of the superannuation sector. Today, more than 590,000 SMSFs hold assets worth nearly $697 billion, which is 30% of funds held in superannuation.

4 Gaining control over their investments is a key motivation for consumers to set up an SMSF. In recent years, there has also been a growing interest in using SMSFs as a vehicle for investing in property.

5 The decision to set up an SMSF is one of the most significant steps a consumer can take in relation to their retirement savings.

6 At the very least, consumers need to understand the risks, time, resources and compliance obligations associated with setting up and running an SMSF before deciding to move their superannuation savings out of a prudentially regulated environment.

7 It is therefore essential that, before making the decision to set up an SMSF, consumers have access to good quality, personal advice that is not conflicted. In 2017, 79% of SMSFs had used at least one 'adviser' in the previous 12 months.[1]

8 Section A of this report provides a broad overview of the SMSF sector, including overall market characteristics, member demographics and member experiences.

[1] Investment Trends, *SMSF investor report*, March 2017, p. 34 (base sample: 1,864). 'Adviser' is the term used in the Investment Trends report.

ASIC's focus on SMSFs

9 Unlike larger superannuation funds, SMSFs are not prudentially regulated by the Australian Prudential Regulation Authority (APRA).

10 SMSFs are regulated by the Australian Taxation Office (ATO). The law requires all SMSF trustees to have their financial accounts and their compliance with the *Superannuation Industry (Supervision) Act 1993* (SIS Act) audited annually by an approved auditor.

11 ASIC's role in relation to SMSFs is to regulate the advice providers, SMSF auditors, and providers of products and services to SMSFs. Advice providers have a critically important role to play in ensuring that only those consumers for whom an SMSF is suitable go into the SMSF sector.

12 In response to the steady growth in the SMSF sector, ASIC established an internal SMSF taskforce in September 2012.

13 The taskforce's first major project involved looking at the quality of advice provided to retail clients on SMSFs. This work culminated in the release, in April 2013, of Report 337 *SMSFs: Improving the quality of advice given to investors* (REP 337).

14 REP 337 summarised the findings from our review of over 100 client files, where personal advice was provided on SMSFs. We provided a number of practical tips that advice providers could use to improve the quality of SMSF advice provided to clients.

15 Following the release of REP 337, we issued tailored guidance to advice providers on the types of risks and costs they should be discussing with clients when advising on setting up an SMSF. This guidance is contained in Information Sheet 205 *Advice on self-managed superannuation funds: Disclosure of risks* (INFO 205) and Information Sheet 206 *Advice on self-managed superannuation funds: Disclosure of costs* (INFO 206).

16 We have also been active in:

(a) stopping misleading or deceptive advertising in relation to SMSFs;

(b) taking action to stop unlicensed activity in the SMSF sector; and

(c) stopping the misappropriation of SMSF funds.

17 A summary of the actions we have taken to protect consumers in the SMSF sector is contained in Table 7 at paragraph 415.

Recent legislative reforms

18 In recent years, there has been considerable legislative reform to address concerns about the quality of financial advice, including the following:

(a) The Future of Financial Advice (FOFA) reforms, which commenced in 2012 and became mandatory from 1 July 2013, introduced a number of new requirements (as listed in paragraph 19) designed to improve the quality of financial advice and reduce conflicts of interest in the financial advice industry.

(b) The Australian financial services (AFS) licensing exemption applying to accountants was removed and, from 1 July 2016, all accountants who give advice to clients about acquiring or disposing of an interest in an SMSF must operate under an AFS licence: see Information Sheet 216 *AFS licensing requirements for accountants who provide SMSF services* (INFO 216).

(c) The financial advisers register was introduced on 31 March 2015, and provides key information on all individuals who have, since this date, provided personal advice to retail clients on relevant financial products—that is, all financial products other than basic banking products, general insurance products or consumer credit insurance (or a combination of any of these products).

(d) The *Corporations Amendment (Professional Standards of Financial Advisers) Act 2017*, which commenced on 15 March 2017 and will come into effect between 1 January 2019 and 1 January 2024, seeks to increase the professional, ethical and education standards for financial advisers.

(e) Reforms to the payment of life insurance commissions in 2017, under the *Corporations Amendment (Life Insurance Remuneration Arrangements) Act 2017*, commenced on 1 January 2018 and aim to better align the interests of clients with those providing advice on life insurance products.

Note: See paragraphs 72–95 of Report 515 *Financial advice: Review of how large institutions oversee their advisers* (REP 515) for further details on these and other reforms introduced to address poor conduct and structural problems in the financial advice industry.

19 The FOFA reforms have introduced the changes that are most relevant for this project, including:

(a) an obligation for advice providers to act in the best interests of the client, provide appropriate advice, and place the client's interests ahead of their own when providing advice (together, known as the 'best interests duty and related obligations');

(b) a ban on most conflicted remuneration, including commissions and volume-based payments;

(c) an annual fee disclosure statement requirement;

(d) an opt-in obligation requiring advice providers to renew a client's ongoing fee agreements every two years; and

(e) enhanced powers for ASIC.

Our project and findings

20 Given the continued strong growth of the SMSF sector, and recent regulatory changes, we considered it timely to conduct an in-depth examination of:

(a) member experiences in setting up and running an SMSF (member research); and

(b) whether advice providers are complying with the law when providing personal advice to clients to set up an SMSF (advice review).

Note: For a comprehensive report on the member research, see Report 576 *Member experiences with self-managed superannuation funds* (REP 576).

Methodology and key findings from the member research

21 In March 2017, we commissioned an independent market research agency to explore why members had set up an SMSF and their experiences in running their SMSF. The research was a mix of qualitative research (interviews) and quantitative research (online survey).

22 The market research agency conducted 28 qualitative interviews in Sydney and Melbourne in mid-2017. The participants included:

(a) 10 new members (i.e. members who had set up an SMSF in the preceding 12 months after receiving personal advice); and

(b) 18 established members (i.e. members who had set up an SMSF in the preceding 12 to 36 months after receiving personal advice).

23 The market research agency also conducted an online survey between June and July 2017 with 457 members who had set up an SMSF in the preceding five years. This included:

(a) new members (i.e. members who had set up an SMSF in the preceding 12 months); and

(b) established members (i.e. members who had set up an SMSF in the preceding 12 to 60 months).

24 The member research highlighted these key findings:

(a) Family members and friends or colleagues were collectively the main prompts for setting up an SMSF, followed by advice from financial advisers and accountants. ‘Property one-stop shops’, real estate agents and cold calls were also prompts for setting up an SMSF.

Note: While the online survey used the terms ‘financial planners’ and ‘property group advisers’, in this report, we use the terms ‘financial advisers’ or ‘advice providers’ and ‘property one-stop shops’.

(b) Members had a number of motivations, in some cases overlapping, for setting up an SMSF. For many members, setting up an SMSF allowed them to get out of an APRA-regulated superannuation fund (APRA-regulated fund) and gain control over their superannuation.

(c) A number of members saw an SMSF as a vehicle for investing in property. They were motivated by a fear of being locked out of the property market and/or a desire to help their children enter the property market.

(d) In the online survey:

(i) 32% of members found setting up and running their SMSF to be more costly than expected, compared with 9% of members who found it less costly than expected; and

(ii) 38% of members found running their SMSF to be more time consuming than expected, compared with 15% of members who found it less time consuming than expected.

(e) Many members lacked a basic understanding of their SMSF and their legal obligations as SMSF trustees. For example, in the online survey:

(i) 33% of members did not know that an SMSF must have an investment strategy;

(ii) 30% of members had no arrangements in place for their SMSF if something happened to them;

(iii) 29% of members thought they were entitled to compensation in the event of theft and fraud involving the SMSF; and

(iv) 19% of members did not consider their insurance needs when setting up an SMSF.

25 Section B of this report summarises the methodology and findings from the member research, but for the comprehensive report on the member research see REP 576.

Methodology and key findings from the advice review

26 We engaged an independent expert to review 250 client files where personal advice to set up an SMSF was provided to clients by an advice provider. The client files reviewed were randomly selected by ASIC from data provided by the ATO.

27 The purpose of the advice review was to test whether advice providers had complied with the law when providing advice to clients to set up an SMSF.

28 ASIC staff members with the appropriate skills, training and experience also cross-reviewed 20% of the client files reviewed by the independent expert. The findings of the independent expert and the review by ASIC staff were largely consistent.[2]

[2] In the seven cases where there were minor inconsistencies, the findings of the independent expert were adopted.

29 Where client files were assessed as being non-compliant, we considered whether the client was likely to suffer significant financial detriment as a result of following the advice provided.

30 While it is difficult to assess the long-term financial impact of setting up an SMSF, we considered that, in a total of 26 files (10%), the client risked being significantly worse off in retirement as a result of following the advice. Our concerns were based on the balance size of the SMSF, the age of members, and the level of gearing within the fund—or a combination of these factors.

31 In a further 47 files (19%), we considered that clients were at increased risk of suffering financial detriment as a result of following the advice. Our concerns were based on the fact that the assets of the fund were to be invested in a single asset class (i.e. property), which appeared to pose an unnecessary risk due to the lack of diversification.

32 In an additional 155 files (62%), we found that the advice provider did not demonstrate compliance with the best interests duty and related obligations. The fact that these files were found to be non-compliant does not mean that clients were significantly worse off as a result of following the advice or that the advice, if implemented, would result in negative outcomes. However, these files did not demonstrate that the client would be in a better position following the advice.

33 There were two areas, in particular, that led to a client file being rated as not having demonstrated compliance with the best interests duty and related obligations—that is, where the advice provider had not demonstrated that they had:

(a) sufficiently researched and considered the client's existing financial products; and/or

(b) based all judgements on the client's relevant circumstances.

34 Section C of this report provides further detail on the methodology and findings from the advice review.

Recent draft findings from the Productivity Commission

35 The Productivity Commission recently released a draft report, *Superannuation: Assessing efficiency and competitiveness.*[3] The draft report contains a number of significant draft findings about SMSFs. These draft findings include:

(a) Many smaller SMSFs (those with balances under $1 million) have delivered materially lower returns on average than larger SMSFs. The difference between returns from the smallest SMSFs (with less than

[3] Productivity Commission, *Superannuation: Assessing efficiency and competitiveness*, April 2018.

$50,000) and the largest (with over $2 million) exceeds 10 percentage points per year.

(b) Reported costs for SMSFs have increased over recent years and, for those with over $1 million in assets, are broadly comparable with APRA-regulated funds as a percentage of member account balances. By contrast, costs for low-balance SMSFs are particularly high, and significantly more so than APRA-regulated funds. These high costs are the primary cause of the poor net returns experienced by small SMSFs on average.

(c) The quality of financial advice provided to some members—including those with SMSFs—is questionable.

36 The Productivity Commission also found in its draft report that active monitoring of limited recourse borrowing arrangements (LRBAs) is clearly warranted to ensure that SMSF borrowing does not have the potential to generate systemic risks in the future.

37 The draft findings of the Productivity Commission about fund size for SMSFs highlight the risks for consumers with lower balances. Advice providers should carefully consider the Productivity Commission’s draft findings and discuss these draft findings with clients.

Next steps

38 In a compulsory superannuation contribution environment, it is essential that consumers can choose how to invest their superannuation savings. A healthy and vibrant SMSF sector is a key conduit for exercising this choice. In the right hands, SMSFs can be very effective retirement savings vehicles. In the wrong hands, however, SMSFs can be a high-risk option.

39 Both ASIC and the ATO are committed to the continued development of a healthy and robust SMSF sector. To this end, we have worked closely on SMSF issues, and will continue to do so.

40 Based on the findings of our work, it is clear that:

(a) Many SMSF members do not properly understand the advantages and disadvantages associated with setting up and running an SMSF. ASIC and the ATO are further considering this finding with a view to:

(i) enhancing current consumer and member communication material;

(ii) further encouraging individuals to undertake SMSF trustee education; and

(iii) providing a more tailored response to address specific knowledge gaps, by developing a way to identify individuals setting up SMSFs that may be at risk of being unaware of the obligations that come with being an SMSF trustee.

(b) A large number of advice providers are currently not complying with the best interests duty and related obligations. As such:

  (i) we have included a number of practical tips in Section D of this report to assist advice providers in complying with their obligations in the context of SMSFs and to improve the quality of advice they provide to clients;

  (ii) we have provided these tips to relevant industry associations for circulation to their members (a complete list of tips is provided in Appendix 1);

  (iii) we will be requiring Australian financial services (AFS) licensees to review and remediate clients who received non-compliant advice. As part of this work, licensees may be required to review and remediate a broader sample of SMSF advice than that reviewed as part of this project; and

  (iv) where appropriate, we will also take regulatory action.[4]

(c) The strategy of gearing through an SMSF to invest in property, which is being actively promoted by 'property one-stop shops', is high risk. Our results suggest that, in many cases, this is likely to result in financial detriment to SMSF members. We are particularly concerned about the operation of one-stop shops because of conflicts of interest and, together with the ATO, we will have an increased focus on property one-stop shops in the future. This will include building and sharing data and intelligence, and ASIC taking enforcement action when we see unscrupulous behaviour.

41 Further information on ASIC's work in the SMSF sector is provided in Section E of this report.

[4] A summary of the actions we have taken to protect consumers in the SMSF sector is contained in Table 7.

A Overview of the SMSF sector

Key points

Since their official introduction in 1999, SMSFs have grown from a niche product to a significant component of the superannuation sector in both number and asset size. Today, more than 590,000 SMSFs hold assets worth nearly $697 billion.

Gaining control over their investments is a key motivation for consumers to set up an SMSF. In recent years, there has also been a growing interest in using SMSFs as a vehicle for investing in property. In turn, this has seen a rise in the proportion of property investments that use an LRBA.

While many SMSF members tend to be active in managing their fund, the complexity and compliance obligations associated with running an SMSF mean that many members seek assistance from financial professionals.

SMSFs are not suitable for everyone, as demonstrated by the steady number of wind-ups per year. Most wind-ups occur because members' personal circumstances change, they lose interest in running their SMSF, or running their SMSF becomes too expensive.

Overall SMSF market characteristics

Value of SMSFs and other superannuation funds

42 Based on the value of assets held at 30 June 2017, there was a total of $2.3 trillion held in superannuation funds in Australia, with approximately 30% in SMSFs and the remaining 70% in APRA-regulated funds (including retail, industry and public sector funds): see Figure 1.

Number and value of assets invested in SMSFs

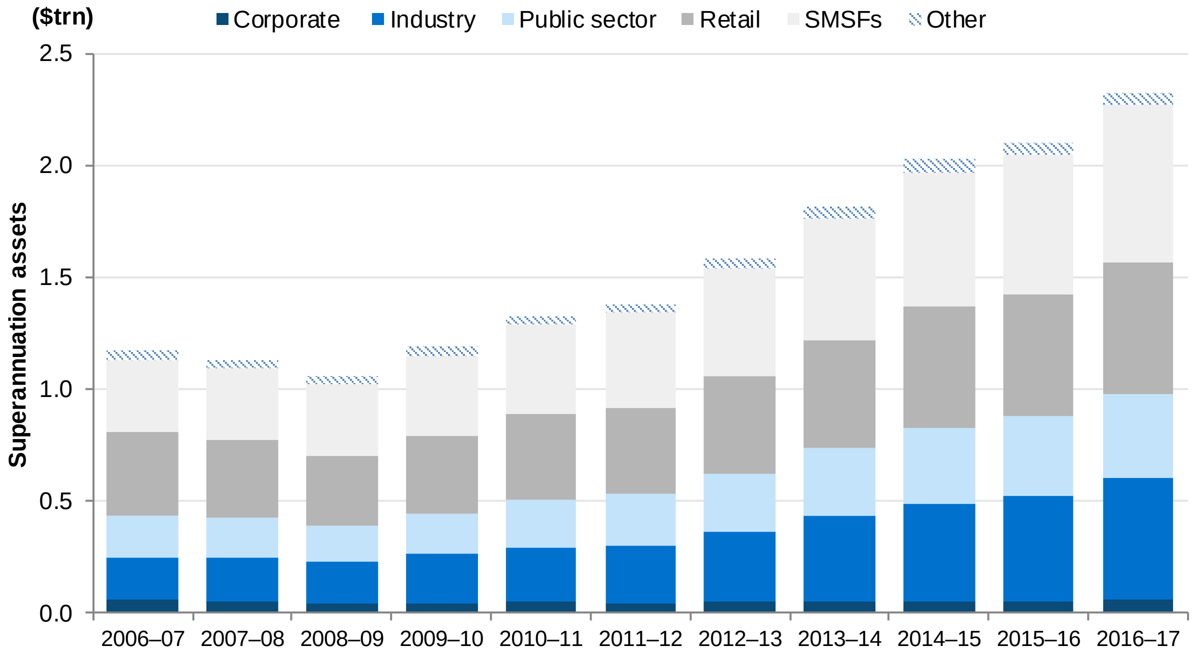
43 As at 30 June 2017, there were more than 590,000 SMSFs holding a total asset pool of nearly $697 billion.[5] In the seven preceding years, growth in the number of SMSFs averaged 5.2% per year, with the average annual value of SMSF assets increasing by 10.1% per year during the same period: see Figure 2.

Note 1: The number of SMSFs and the amount of assets held are estimates based on the annual return form data provided by SMSFs.

Note 2: All figures from ATO sources used in this report are inclusive of debt.

[5] ATO, *Self-managed super fund statistical report: June 2017*.

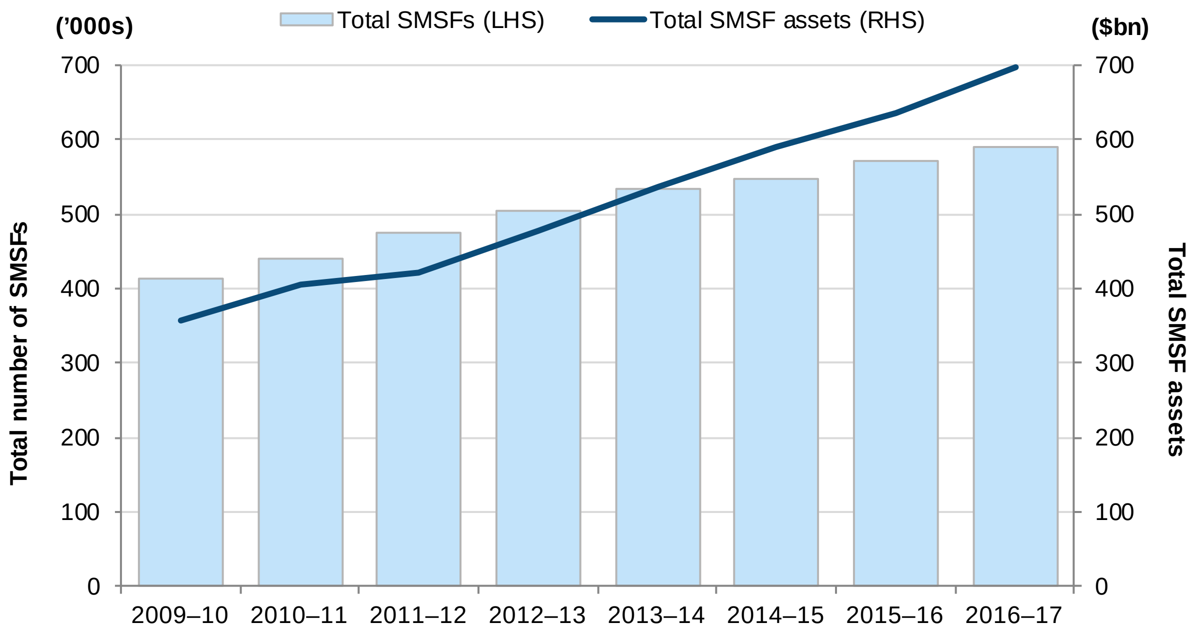
Figure 1: Superannuation assets by type of fund by financial year (as at 30 June)



Note: See Table 8 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: APRA, *Quarterly superannuation performance: June 2017*; APRA, *Annual superannuation bulletin: June 2016*.

Figure 2: Number of SMSFs and value of assets invested in SMSFs by financial year (as at 30 June)



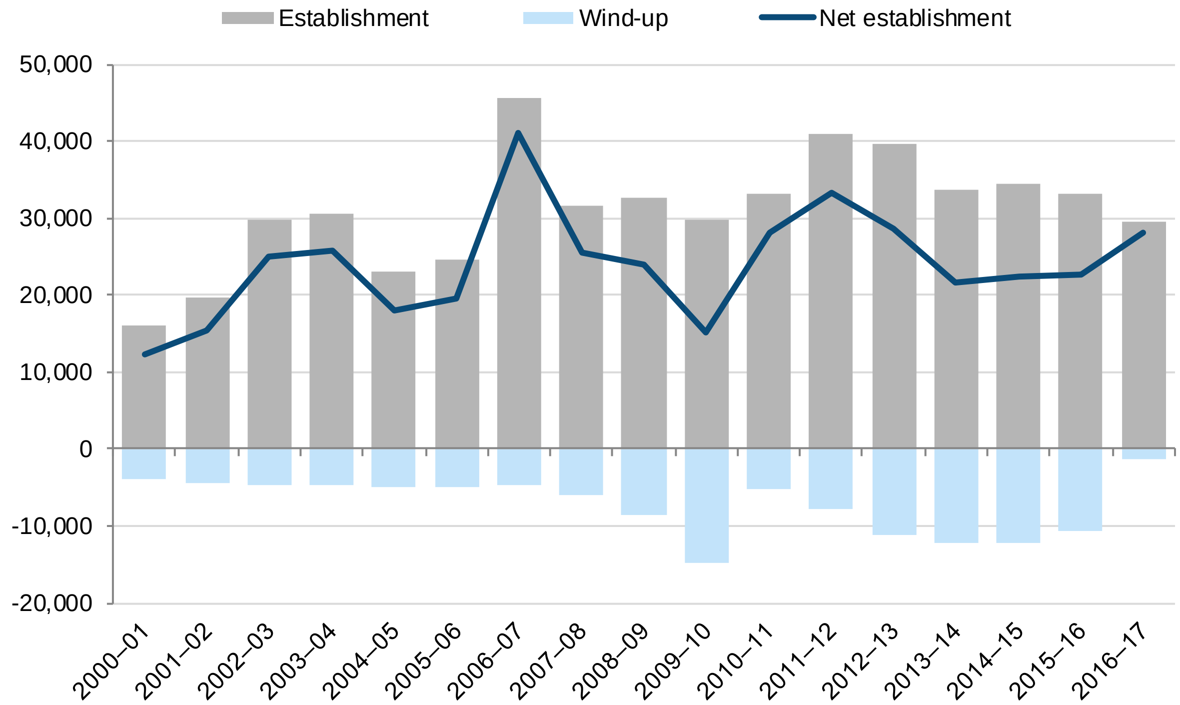
Note: See Table 9 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super fund statistical report: June 2017*; ATO, *Self-managed super fund statistical report: June 2015*; and ATO, *Self-managed super fund statistical report: June 2012*.

Establishments and wind-ups

44 As shown in Figure 3, SMSF net establishments—calculated as establishments less wind-ups—were around 28,000 in 2016–17. This represented an increase from 2015–16, when net establishments were around 22,500.[6] The peak in net establishments in 2006–07 coincided with the announcement of the Australian Government's Superannuation Simplification measures.[7]

Figure 3: SMSF establishments and wind-ups by financial year



Note: See Table 10 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super fund statistical report: June 2017*; ATO, *Self-managed super fund statistical report: June 2015*; and ATO, *Self-managed super fund statistical report: June 2012*.

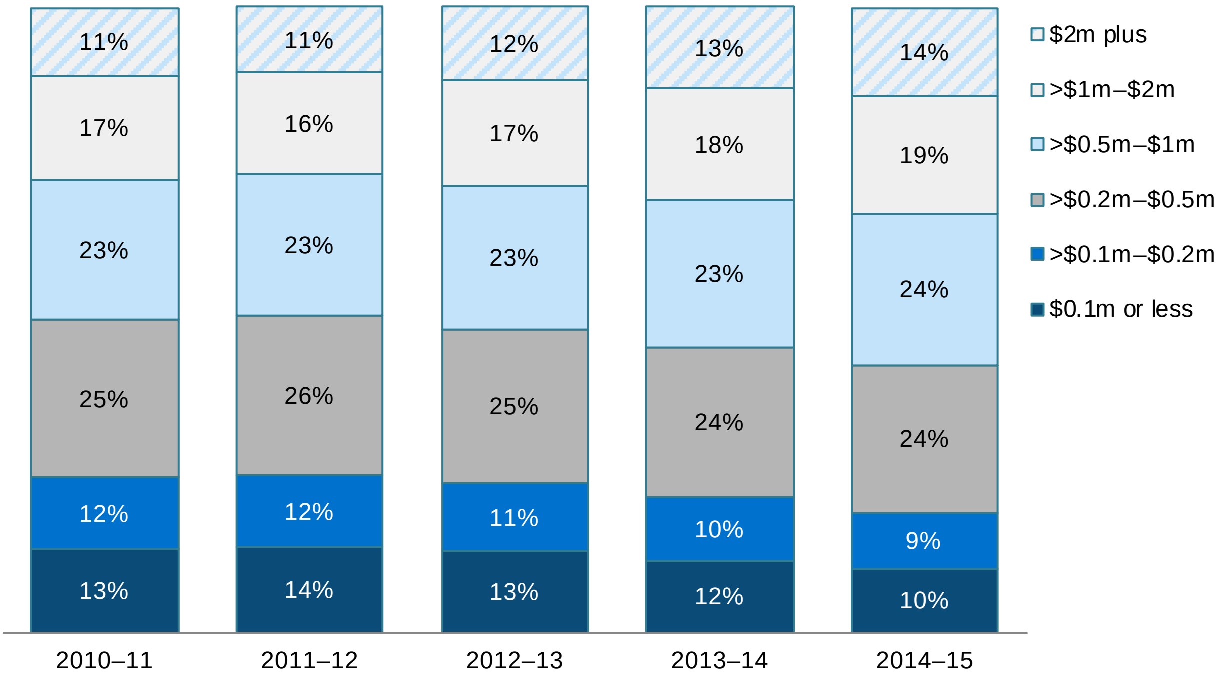
Individual SMSF characteristics

SMSF balance size

45 In line with the growing overall asset value of SMSFs, the value of assets in individual SMSFs has increased. The average SMSF balance was $1.1 million in 2016, compared with $901,000 in 2012. The median balance was $642,000 in 2016, compared with $492,000 in 2012.[8] Figure 4 shows that, in the five years to 30 June 2015, the proportion of SMSFs with a higher balance has increased, while those with a lower balance have decreased.

[6] ATO, *Self-managed super funds: A statistical overview 2014–15*. Note that a time lag of wind-up notifications is a factor in point-in-time differences between income years.
[7] The Hon. Peter Costello MP, Treasurer, Media Release No. 042, *A plan to simplify and streamline superannuation*, 2006.
[8] ATO, *Self-managed super funds: A statistical overview 2015–16*.

Figure 4: Proportion of SMSFs by balance size by financial year (as at 30 June)



Note: See Table 11 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super fund statistical report: June 2017*.

SMSF starting balance size

46 As shown in Figure 5, the size of the starting balance of SMSFs has increased over time. As at 30 June 2016, the average value of assets in the year of establishment was $390,398, compared with $325,388 for funds established in 2012.[9]

Note: These SMSF asset values are estimates based on SMSF annual return form data.

SMSF balance size compared with other funds

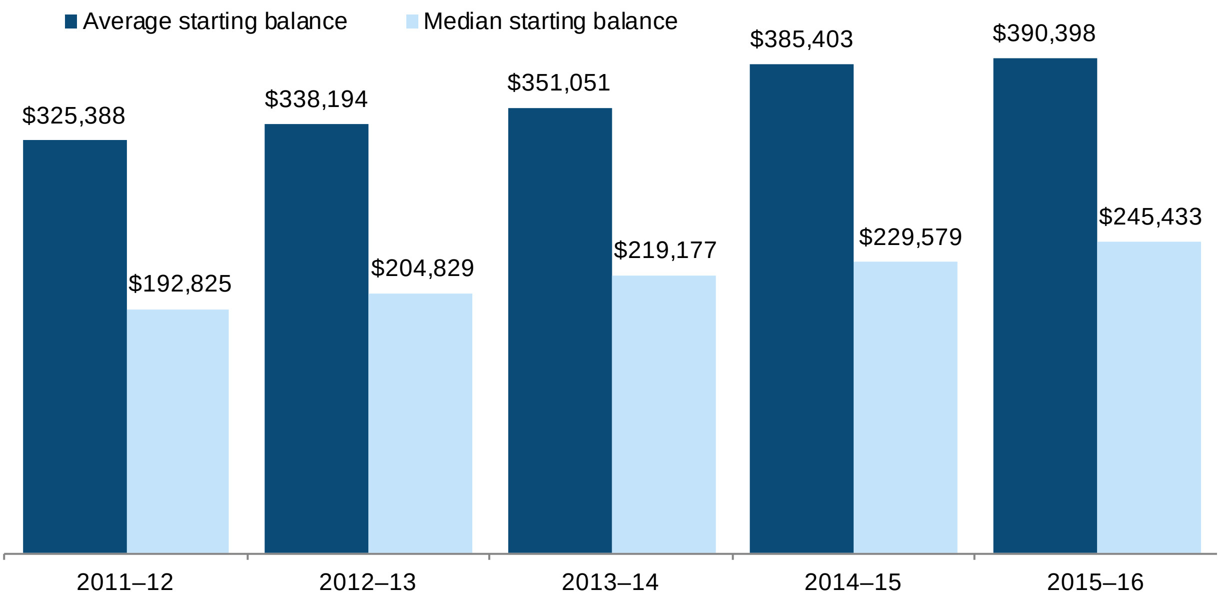
47 As at 30 June 2016, the average member balance of an APRA-regulated fund was $52,000,[10] while the average member balance of an SMSF was $599,000.[11]

48 This variation may be due to a number of factors, such as demographic differences (e.g. age, income), or the fact that SMSF balances are inclusive of debt, and APRA-regulated fund members are more likely to hold multiple superannuation accounts.

[9] ATO, *Self-managed super funds: A statistical overview 2015–16*.
[10] APRA, *Annual superannuation bulletin: June 2016*.
[11] ATO, *Self-managed super fund statistical report: June 2017*.

49 According to Investment Trends, in 2017, there were 330,000 Australians who have both an APRA-regulated fund and an SMSF. For these Australians, the average member balance in their APRA-regulated fund was $180,000, while the average member balance in their SMSF was $500,000 (inclusive of debt).[12]

Figure 5: Average and median SMSF starting balance by financial year (as at 30 June)



Note: See Table 12 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super funds: A statistical overview 2015–16*.

Member contributions

50 While employer contributions to SMSFs remained relatively stable from 2011–12 to 2015–16, member contributions to these funds increased from $19.1 billion to $25.1 billion over the same period: see Figure 6.[13]

51 By comparison, contributions to APRA-regulated funds in the financial year ending 30 June 2015 were $104.1 billion (employer contributions were $79.3 billion, while member contributions were $24.8 billion).[14]

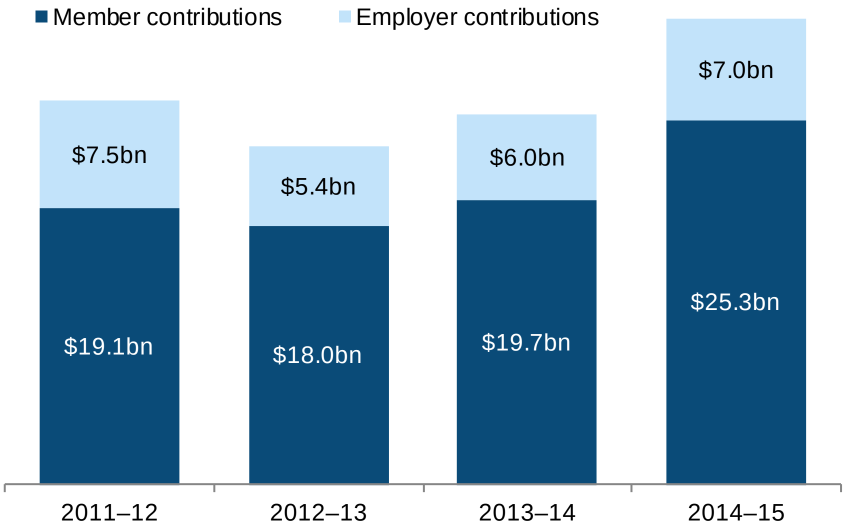
SMSF asset allocation

52 SMSFs have traditionally held equity, cash, term deposits and fixed interest products. Figure 7 shows the value of these assets has increased since 30 June 2013, as has the value invested in property, trusts and managed investment schemes.[15]

---

[12] Investment Trends, *SMSF investor report*, March 2017.
[13] ATO, *Self-managed super fund statistical report: June 2017*.
[14] APRA, *Annual superannuation bulletin: June 2016* (Excel version of report).
[15] ATO, *Self-managed super funds: A statistical overview 2015–16*.

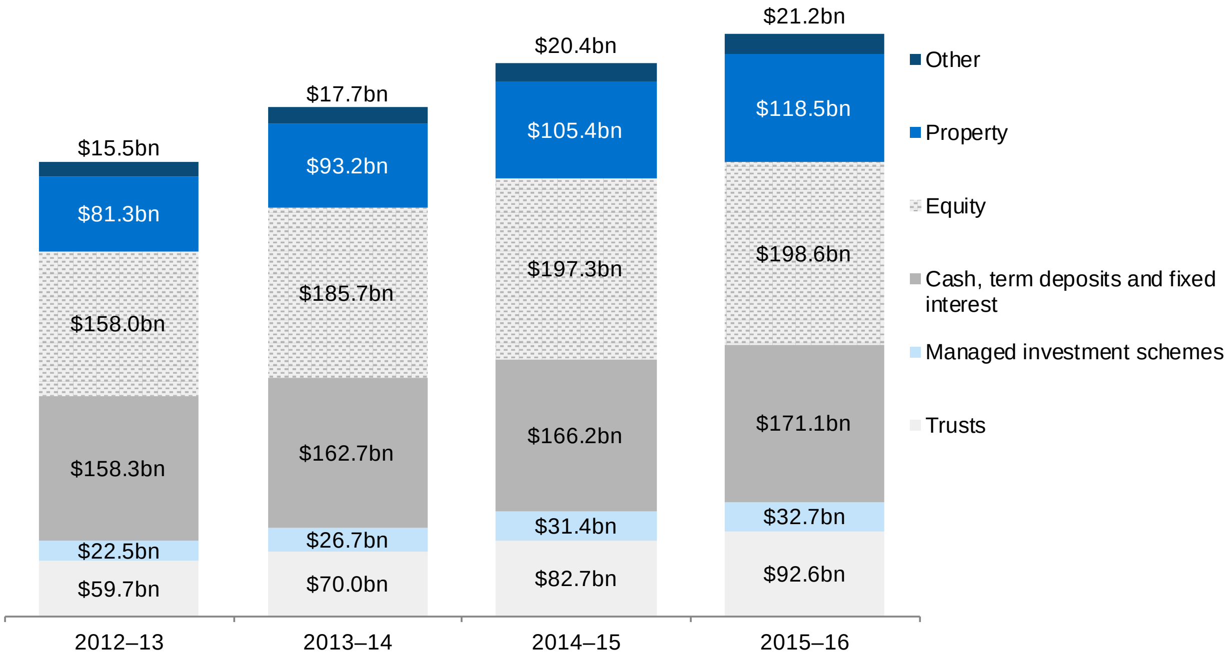
Figure 6: SMSF contributions by financial year (as at 30 June)



Note: See Table 13 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super fund statistical report: June 2017*.

Figure 7: SMSF asset allocation by financial year (as at 30 June)



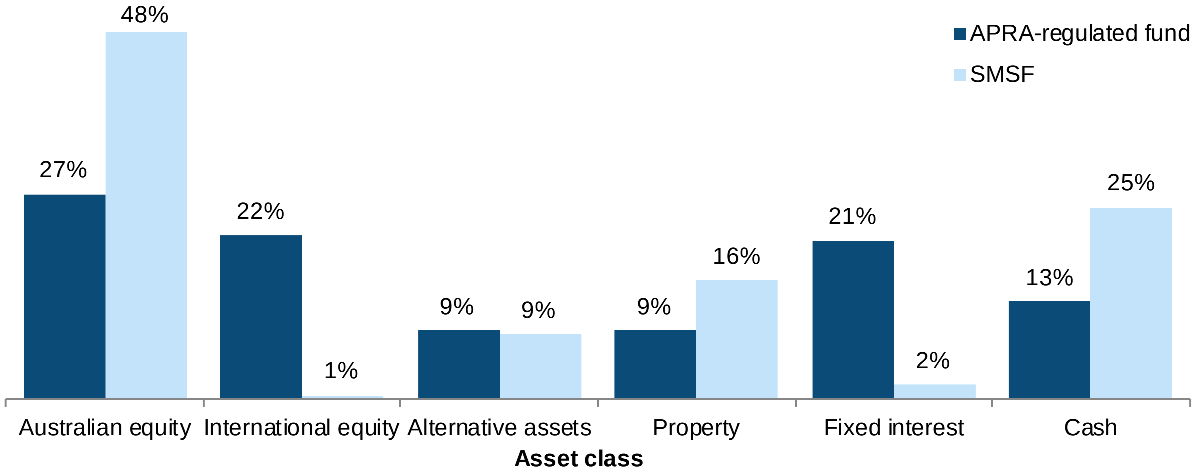
Note 1: 'LRBA' and 'Borrowing' categories have been removed and the data contained within them has been added to these asset categories, meaning this data now includes borrowing.

Note 2: See Table 14 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super funds: A statistical overview 2015–16*; ATO, *Self-managed super funds: A statistical overview 2014–15*; ATO, *Self-managed super funds: A statistical overview 2013–14*; ATO, *Self-managed super funds: A statistical overview 2012–13*.

53 Figure 8 compares the allocation of assets between SMSFs and APRA-regulated funds. SMSFs had a higher allocation to Australian equity, cash and property compared with APRA-regulated funds.

Figure 8: Asset allocation for SMSFs and APRA-regulated funds



Note: See Table 15 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: Rice Warner, *In defence of the SMSF investor*, March 2017, Table 1: Asset allocation.

Investment performance

Return on investment compared with other funds

54 According to Rice Warner, the average return on investment was 3.4% for SMSFs and 3.3% for APRA-regulated funds over a 12-year period from 1 July 2004 to 30 June 2016. The average return on investment was slightly higher for SMSFs than for APRA-regulated funds in the past 10 to 12 years, although the difference has been trending down over this period: see Figure 9.[16]

55 Many members appeared to have inflated growth expectations, expecting that the performance of their SMSF would be higher in 2017 than the S&P/ASX All Ordinaries index. On average, they expected a return of 10.9%, split by 6% capital growth and 4.9% income. By comparison, the total return that SMSF members expected for the S&P/ASX All Ordinaries index was 3.7%.[17]

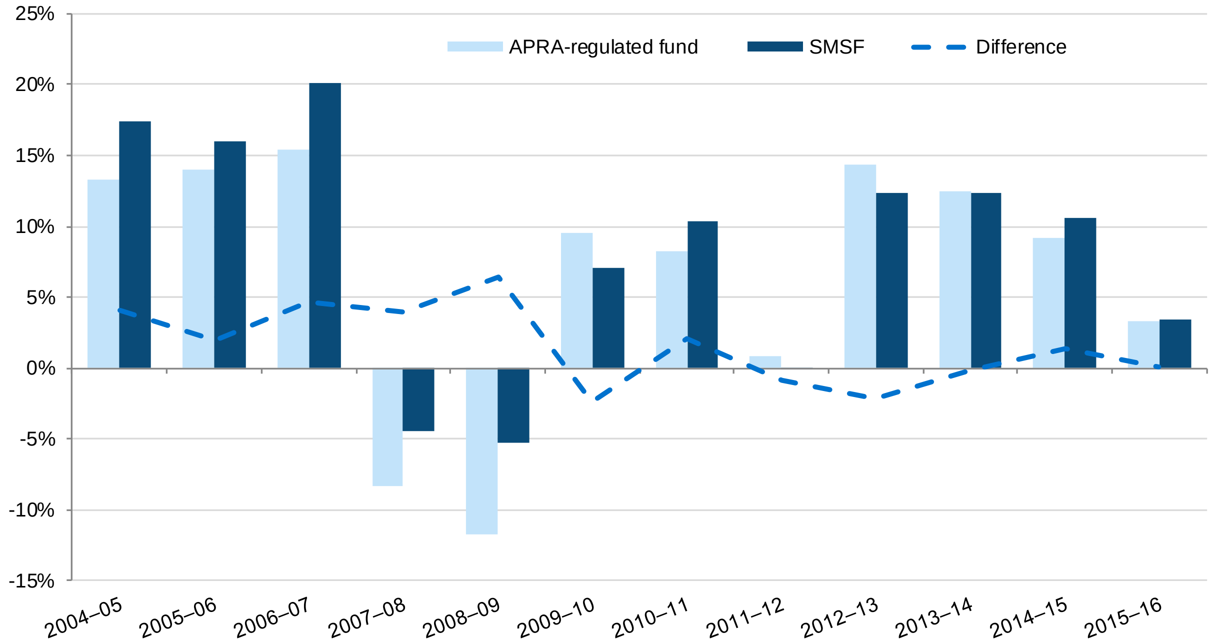
Fund balance: Return on assets and expense ratios

56 The balance of an SMSF can affect fund performance. As shown in Figure 10, since the 2012–13 financial year, SMSFs with assets of more than $200,000 had, on average, a positive return on assets for each financial year—calculated

[16] Rice Warner, *In defence of the SMSF investor*, March 2017.
[17] AMP Capital, *Black sky report*, 2017, p. 5 (online survey conducted in December 2016 among SMSF investors on the AMP Capital database).

as net earnings divided by average total net assets during the period[18]—compared to SMSFs with assets of $200,000 or below, which had, on average, a negative return on assets for each financial year.[19]

Figure 9: Average return on investment for SMSFs and APRA-regulated funds by financial year (as at 30 June)



Note: See Table 16 in Appendix 2 for the underlying data shown in this figure (accessible version).

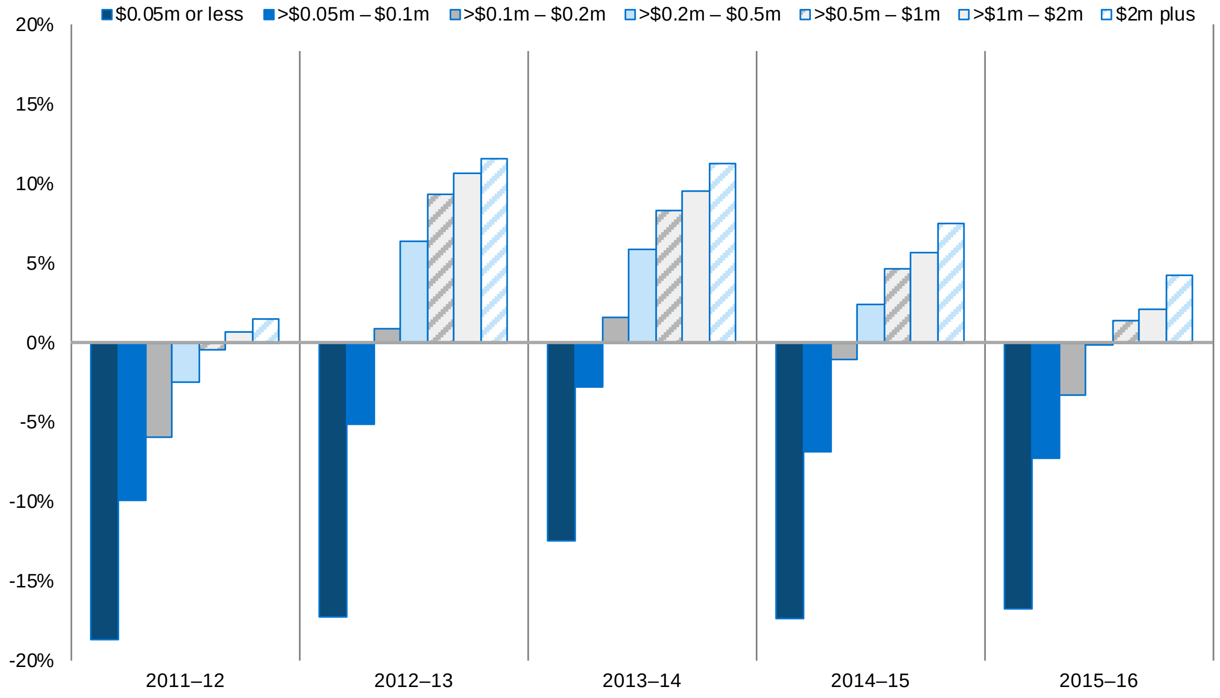
Source: Rice Warner, *In defence of the SMSF investor*, March 2017.

57 SMSFs with a higher balance tend to perform better than SMSFs with a lower balance because they are often more diversified and have lower expense ratios.[20]

58 Total expense ratios of SMSFs generally decline as the fund balance increases. As at 30 June 2016, SMSFs with assets of $50,000 or less had the highest average expense ratio of 14% for total expenses (8.7% for administration and operating expenses, and 5.3% for investment expenses). This compares to SMSFs with assets of more than $500,000, which had an average expense ratio of approximately 1%.[21]

[18] ATO, *Self-managed super funds: A statistical overview 2015–16*.
[19] ATO, *Self-managed super funds: A statistical overview 2015–16*.
[20] SuperConcepts and University of Adelaide, *When size matters: A closer look at SMSF performance* (PDF 353.42 KB), 30 November 2016, p. 8.
[21] ATO, *Self-managed super funds: A statistical overview 2015–16* (figures based on SMSF annual return form data).

Figure 10: SMSF return on assets by balance size by financial year (as at 30 June)



Note: See Table 17 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed superannuation funds: A statistical overview 2015–16*.

59 The Productivity Commission's draft report *Superannuation: Assessing efficiency and competitiveness*,[22] suggests that:

(a) Many smaller SMSFs (those with balances under $1 million) have delivered materially lower returns on average than larger SMSFs. The difference between returns from the smallest SMSFs (with less than $50,000) and the largest (with over $2 million) exceeds 10 percentage points per year.

(b) Reported costs for SMSFs have increased over recent years and, for those with over $1 million in assets, are broadly comparable with APRA-regulated funds as a percentage of member account balances. By contrast, costs for low-balance SMSFs are particularly high, and significantly more so than APRA-regulated funds. These high costs are the primary cause of the poor net returns experienced by small SMSFs on average.

[22] Productivity Commission, *Superannuation: Assessing efficiency and competitiveness*, April 2018.

SMSF member profile

Number of members: Overall market and individual funds

60 In line with the growing number of SMSFs, the number of members has also increased. As at 30 June 2017, there were approximately 1.1 million SMSF members in Australia.[23]

61 SMSFs can have up to four members. In 2015–16, more than two-thirds (69.8%) of SMSFs had two members, just over one in five (22.9%) had one member, 3.6% had three members and 3.7% had four members. Over time, there has been a slight downward trend in SMSFs with three or four members, and a slight increase in SMSFs with only one member.[24]

Member demographics

62 The average age of all SMSF members was 58 years as at 30 June 2016.[25] By comparison, the estimated average age of members of APRA-regulated funds was 41 years.[26]

63 The average age of SMSF members is expected to fall because more people are becoming members at a younger age. Many people who do not currently have an SMSF, but intend to set one up in the future, are younger—with 36% aged under 30 years.[27]

64 The age that members set up an SMSF is falling. For funds established in 2016, the median age at establishment was 47.5 years, compared with 49.6 years for funds established in 2012.[28] Figure 11 shows the changing age of members when they first set up an SMSF.

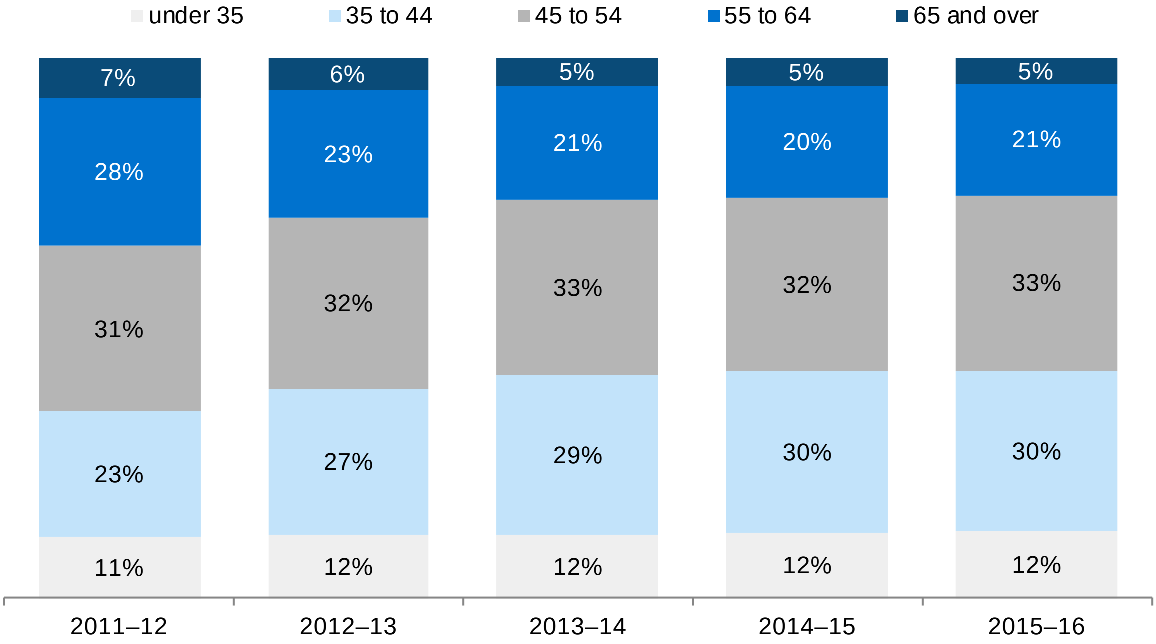
65 As the age of the SMSF member increases, so does their average member balance, as shown in Table 1.[29]

66 In 2017, SMSF members aged under 45 years had a higher allocation to cash within their SMSF portfolio (39% of assets invested in cash), compared with those aged 45 to 54 years (23%), those aged 55 to 64 years (24%) and those aged over 65 (25%).[30]

---

[23] ATO, *Self-managed super fund statistical report: June 2017* (the number of members of SMSFs is estimated based on SMSF annual return form data, with estimates for June 2017 extrapolated from 2015–16 data).
[24] ATO, *Self-managed super fund statistical report: June 2017*.
[25] ATO, *Self-managed super funds: A statistical overview 2014–15*.
[26] APRA, *Annual fund-level superannuation statistics*, June 2016, Table 12: Fund's membership demographics by gender and age segments. The average has been calculated by multiplying the midpoints of each range by the frequencies (i.e. number of member accounts for respective range); this total has then been divided by the total number of member accounts. Note that the midpoints of <25 and >85 were assumed to be 12.5 and 90, respectively.
[27] ASX and Deloitte Access Economics, *ASX Australian investor study 2017*, p. 39.
[28] ATO, *Self-managed super funds: A statistical overview 2015–16*.
[29] ATO, *Self-managed super funds: A statistical overview 2015–16*.
[30] Investment Trends, *SMSF investor report*, March 2017, p. 232 (base sample: 44 and under, 217; 45 to 54, 312; 55 to 64, 399; 65+, 434).

Figure 11: Age of members when they first set up an SMSF by financial year (as at 30 June)



Note: See Table 18 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super funds: A statistical overview 2015–16*.

Table 1: Average member balance by age of member (as at 30 June 2016)

Age range	Proportion of all SMSF members	Average member balance
Under 25	1%	$50,232
25 to 34	3%	$80,165
35 to 44	11%	$149,059
45 to 49	10%	$242,642
50 to 54	12%	$363,855
55 to 59	14%	$574,409
60 to 64	15%	$782,658
65 to 69	15%	$909,823
70 to 74	10%	$977,517
75 to 84	7%	$1,014,838
Over 85	<1%	$893,180
Unknown	<1%	$536,845
Total	**100%**	**$605,903**

Source: ATO, *Self-managed super funds: A statistical overview 2015–16*.

67 SMSF members have higher taxable incomes than members of APRA-regulated funds. As at 30 June 2016, the average taxable income for SMSF members was $108,705, compared with $59,514 for members of APRA-regulated funds.[31]

68 Research indicates that many SMSF members have significant levels of savings and investments. For example, Investment Trends data states that 50% of SMSF members have $250,000 or more in a personal investment portfolio outside their SMSF and excluding their home.[32] This figure is inclusive of debt.

Member financial cognition, attitudes and behaviour

69 SMSF members need to possess a sufficient level of financial literacy to manage their fund and make investment decisions.[33] There are mixed findings on members' financial literacy levels.

70 Some research has found that SMSF members tend to be more engaged and knowledgeable about superannuation compared with other fund members,[34] and that SMSF members have above-average scores for financial knowledge and numeracy.[35] However, other research has found that, while SMSF members are self-confident, they have slightly lower levels of numeracy and financial literacy compared with members of APRA-regulated funds.[36]

71 In relation to openness to risk, many SMSF members are more willing to accept risk in financial matters than APRA-regulated fund members. Over 43% of SMSF members accept high or very high risk, while just under 29% of APRA-regulated fund members accept this level of risk: see Table 2.[37]

Table 2: Risk tolerance of superannuation fund members

Risk	SMSF members who accept this level of risk	APRA-regulated fund members who accept this level of risk
Very low risk	13.9%	21.6%
Low risk	13.7%	19.5%

[31] ATO, *Self-managed super funds: A statistical overview 2015–16*. SMSF income data is based on data from SMSF annual returns (i.e. SARs); APRA member population means those individuals, excluding SMSF members, for whom the ATO received a 2014 member contribution statement and who are members of APRA-regulated funds.
[32] Investment Trends, *SMSF investor report*, March 2017, appendix, p. A18 (base sample: 1,531; these figures are inclusive of debt).
[33] ASIC Report 337 *SMSFs: Improving the quality of advice given to investors* (REP 337), p. 32.
[34] Financial Services Council (FSC)/ING Direct, *Superannuation: Australia's view* (PDF 2.3 MB), 2013, p. 13.
[35] ANZ, *ANZ survey of adult financial literacy in Australia*, May 2015, p. 70.
[36] R Bird, D Foster, J Gray, A Raftery, S Thorp and D Yeung, 'Who starts a self-managed superannuation fund and why' (127/2016/Project No. E220), Working Paper, CIFR, September 2016, p. 8. Note that APRA-regulated fund members are referred to as 'non-SMSF' members in this report.
[37] R Bird, D Foster, J Gray, A Raftery, S Thorp and D Yeung, 'Who starts a self-managed superannuation fund and why' (127/2016/Project No. E220), Working Paper, CIFR, September 2016, pp. 2–3, 'Q: Are you generally a person who is fully prepared to take risks in financial matters or do you try to avoid taking risks?' Note that APRA-regulated fund members are referred to as 'non-SMSF' members in this report.

Risk	SMSF members who accept this level of risk	APRA-regulated fund members who accept this level of risk
Average risk	29.1%	30.0%
High risk	28.7%	22.4%
Very high risk	14.7%	6.4%

Source: R Bird, D Foster, J Gary, A Raftery, S Thorp and D Yeung, *Who starts a self-managed superannuation fund and why* (127/2016/Project No. E220), Working Paper, Centre for International Finance and Regulation (CIFR), September 2016, p. 24.

Motivations for setting up an SMSF

72 Two in five (40%) SMSF members first started thinking about setting up an SMSF because of a financial professional. This was most likely to have been an accountant (28%).[38]

73 Word of mouth and the internet are, however, playing an increasingly important role in prompting people to consider setting up an SMSF. For funds established between 2015 and 2017, family and friends (29%) and internet research (21%) were the key prompts for setting up an SMSF, followed by accountants (17%).[39]

Reasons for setting up an SMSF

74 Gaining control over their investments is consistently found to be the main reason for consumers setting up an SMSF.[40] This includes:

(a) financial control—for example, anticipated control over investment performance; and

(b) emotional control—for example, investing in an asset class that gives a greater feeling of security.[41]

75 Almost one in two (49%) people planning to set up an SMSF would consider staying with their current fund instead of starting an SMSF if they were offered more control over investments in their existing fund.[42]

---

[38] Investment Trends, *SMSF investor report*, March 2017, p. 149 (base sample: 1,956).
[39] Investment Trends, *SMSF investor report*, March 2017, p. 150 (base sample: 229; funds established between 2015 and 2017).
[40] Investment Trends, *SMSF investor report*, March 2017, p. 154 (base sample: 1,964); Commonwealth Bank and SMSF Association, *Women and SMSFs: A study of self-managed super funds (SMSFs)*, February 2016, p. 8; R Bird, D Foster, J Gray, A Raftery, S Thorp and D Yeung, 'Who starts a self-managed superannuation fund and why' (127/2016/Project No. E220), Working Paper, CIFR, September 2016, p. 1; Financial Services Council (FSC)/UBS Asset Management (UBS), *SMSF insights*, December 2015, p. 7; Susan Bell Research, *Do SMSF investors achieve their goals? Report to SMSF member Advisory Panel of ASIC*, January 2014, p. 5; AMP Capital, *Black sky report*, 2017, p. 4,
[41] Susan Bell Research, *Do SMSF investors achieve their goals? Report to SMSF member Advisory Panel of ASIC*, January 2014, pp. 5–6.
[42] Investment Trends, *Self-managed super fund: Investor report addendum*, April 2015, p. 86 (base sample: 2,150).

76 Other reasons for setting up an SMSF were:

(a) desire to choose specific shares to invest in;

(b) achieving better returns;

(c) advice from an accountant;

(d) concern over fees for APRA-regulated funds; and

(e) a perception that SMSFs are tax effective.[43]

77 The reasons why people set up an SMSF have changed over time: see Figure 12. For example, for funds established between 2015 and 2017, compared to between 1999 and 2002:

(a) more members established an SMSF to invest in property (22% compared with 6%);

(b) fewer members established an SMSF because they wanted to choose specific shares to invest in (29% compared with 41%) or because their accountant advised them to (24% compared with 31%); and

(c) more members established an SMSF because of advice from a 'financial planner' (26% compared with 18%), or a friend or family member who had an SMSF (20% compared with 10%).[44]

78 For many SMSF members, their fund provides vital income in retirement. Almost half (49%) of SMSF members believe they will be entirely, or mostly, dependent on their SMSF for income in retirement;[45] and almost one in four (24%) retirees were entirely dependent on it.[46]

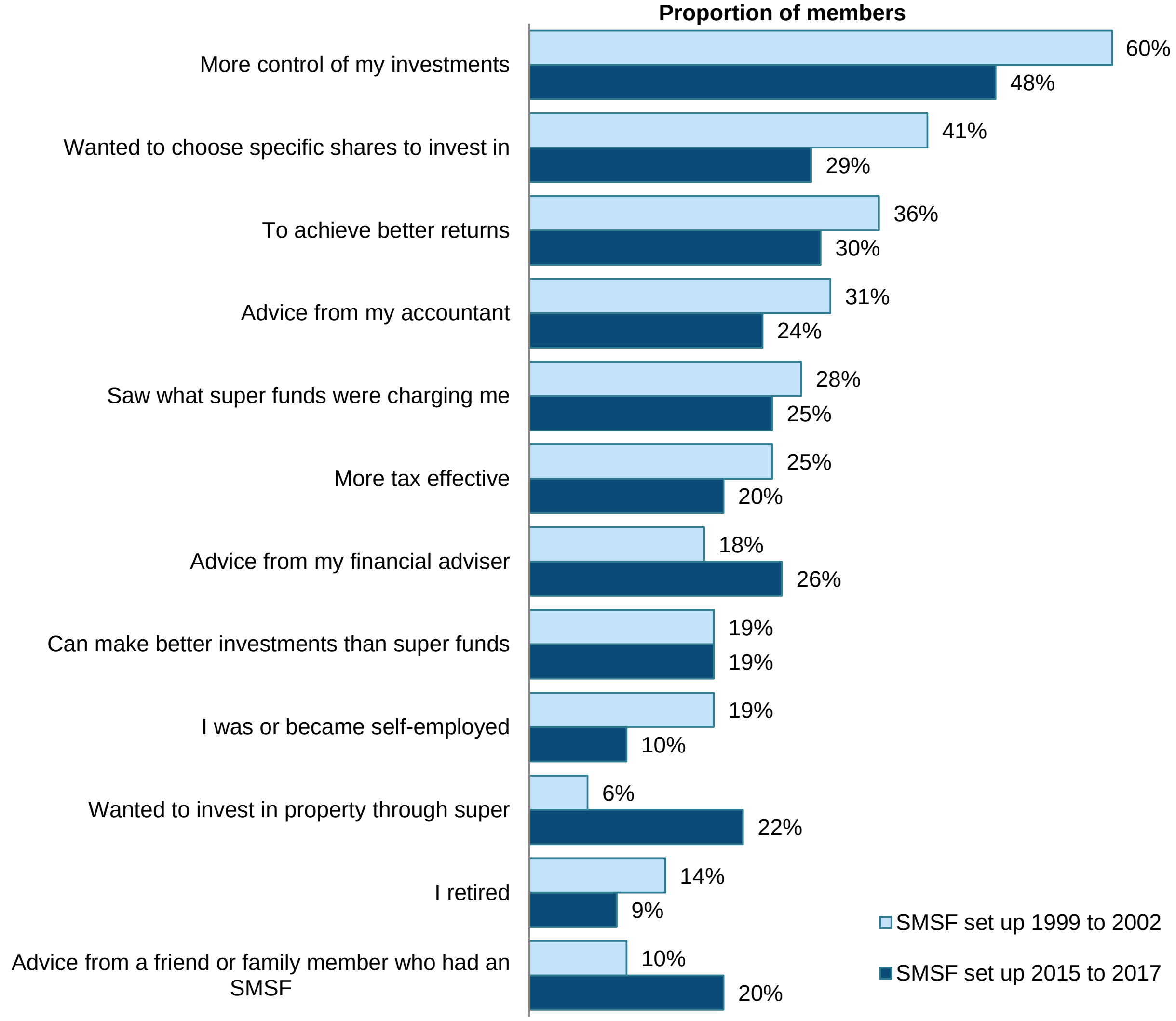
79 In 2017, the main investment performance goal set by SMSF members was to generate an income in retirement (38%). Other performance goals set by members included to achieve a specific return each year (20%), to beat inflation (17%), and to beat returns from other funds (17%).[47]

Property investment

80 Property investment through an SMSF was the reason for 22% of members setting up their fund from 2015 to 2017, which is slightly higher than 19% from 2011 to 2014.[48] SMSF members from 'Generation X' (i.e. born between 1966 and 1980) were more likely to set up an SMSF to invest in property compared with SMSF members from other generations.[49]

[43] Investment Trends, *SMSF investor report*, March 2017, pp. 157–8 (base sample: 228—SMSFs established between 2015 and 2017).
[44] Investment Trends, *SMSF investor report*, March 2017, pp. 157–8 (base sample: 228—SMSFs established between 2015 and 2017; 213—SMSFs established between 1999 and 2002). Investment Trends used the term 'financial planner' in its report.
[45] FSC/UBS, *SMSF insights*, December 2015, p. 23.
[46] FSC/UBS, *SMSF insights*, December 2015, p. 23.
[47] Investment Trends, *SMSF investor report*, March 2017, p. 238 (base sample: 1,677).
[48] Investment Trends, *SMSF investor report*, March 2017, p. 154 (base sample: 1,964 in 2017; 1,078 in 2014).
[49] Commonwealth Bank and SMSF Association, *Women and SMSFs: A study of self-managed super funds (SMSFs)*, February 2016, pp. 18–19.

Figure 12: Main reasons for members setting up an SMSF in 2015 to 2017 compared with 1999 to 2002



Note: See Table 19 in Appendix 2 for the underlying data shown in this figure (accessible version).

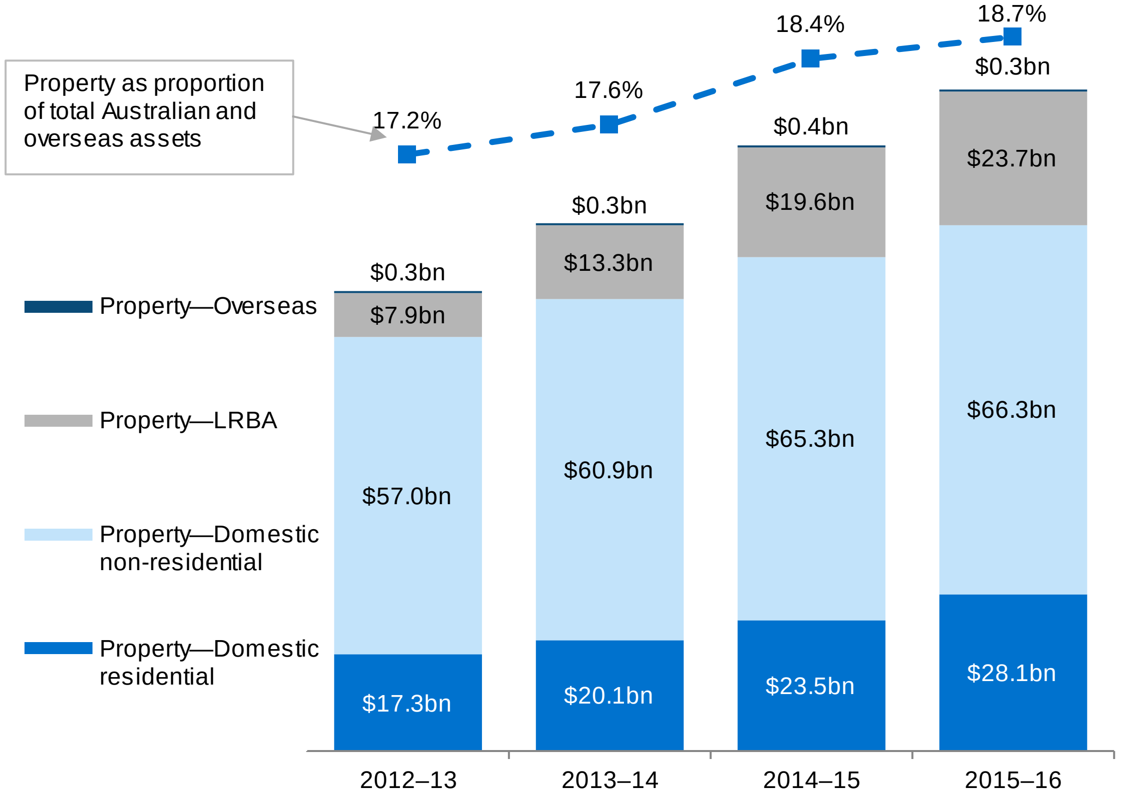
Source: Investment Trends, *SMSF investor report*, March 2017, pp.157–8 (base sample: 228—SMSFs established between 2015 and 2017; 213—SMSFs established between 1999 and 2002).

81 Figure 13 shows that overall property investment, as a proportion of total assets held in SMSFs, has remained relatively unchanged in the past few years (17.2% as at 30 June 2013 compared with 18.7% as at 30 June 2016).

82 However, property investments that include an LRBA have increased from $7.9 billion as at 30 June 2013 to $23.7 billion as at 30 June 2016.[50] As a proportion of total property investments, this is an increase from 9.5% to 20.0%.

[50] ATO, *Self-managed super funds: A statistical overview 2015–16*.

Figure 13: SMSF investments in property by financial year (as at 30 June)



Note: See Table 20 in Appendix 2 for the underlying data shown in this figure (accessible version).

Sources: ATO, *Self-managed super funds: A statistical overview 2015–16*; ATO, *Self-managed superannuation funds: A statistical overview 2014–15*; ATO, *Self-managed superannuation funds: A statistical overview 2013–14*; and ATO, *Self-managed superannuation funds: A statistical overview 2012–13*.

Seeking advice on SMSFs

83 People who set up an SMSF are more likely to use financial advice than other investors. In 2017, the main reasons why SMSF members used financial advice were:

(a) the perceived advantages of tailored advice;

(b) the perceived complexities of tax and administrative procedures; and

(c) to gain access to new or inaccessible investments.[51]

Setting up an SMSF

84 Around half (51%) of SMSFs were established by an accountant—that is, an accountant set up the fund by arranging necessary paperwork (e.g. the trust deed and investment plan).[52] Older members (i.e. those belonging to the 'Baby

[51] ASX and Deloitte Access Economics, *ASX Australian investor study 2017*, p. 38.
[52] Investment Trends, *SMSF investor report*, March 2017, p. 151 (base sample: 1,951).

Boomers' or 'Traditionalist' generations) were more likely to use accountants to set up their SMSFs than younger members (i.e. those belonging to 'Generation X' or 'Generation Y').[53]

85 'Planners' were increasingly being used to help with the administrative function of setting up an SMSF: 23% of SMSFs established between 2015 and 2017 were set up by a 'planner', compared with 17% of those established between 2011 and 2014.[54]

86 Those who used advice from a 'planner' to set up their fund had a higher starting fund balance (an average starting balance of $560,000), compared with an average starting balance across all SMSFs of $430,000.[55]

Running an SMSF

87 Most SMSF members use 'advisers' to help run their fund. In 2017, 79% of SMSFs had used at least one 'adviser' in the previous 12 months. On average, SMSF members using an 'adviser' engaged with two types of 'advisers'.[56]

88 Thirty-one per cent of SMSF members used an accountant for tax advice as their main source of advice: see Figure 14.[57] Those using an accountant tended to have higher value funds than those not using an accountant.[58]

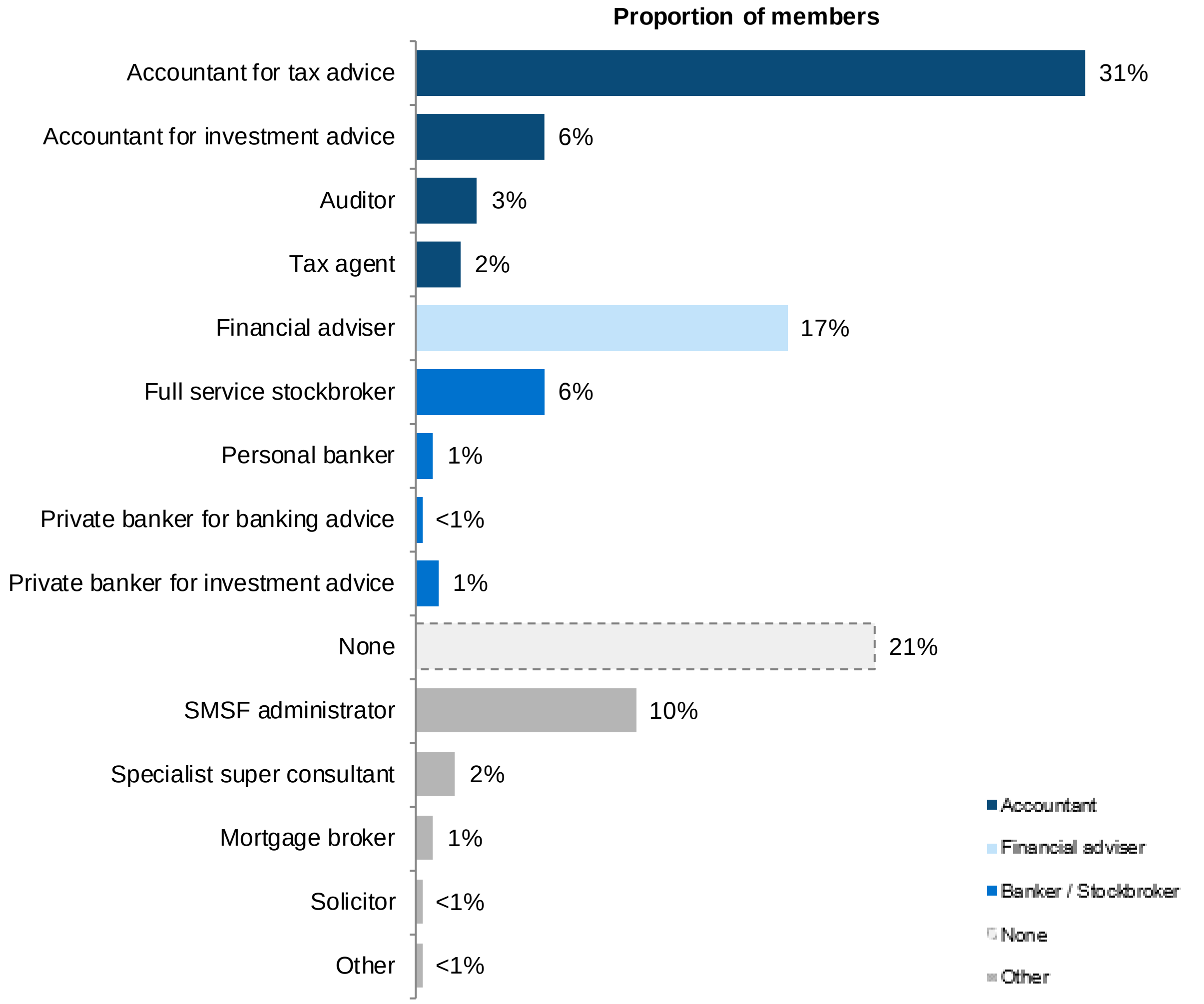
89 Of the people switching superannuation funds, 'professional advisers' were more likely to be used by people switching to an SMSF than those switching to other superannuation funds. Nearly three-quarters (71%) of people switching to an SMSF used a 'professional adviser', compared with 43% of those switching to an APRA-regulated retail fund.[59]

90 Fifty-nine per cent of SMSF members had areas where they would like to receive more financial advice.[60] Of SMSF members with unmet advice needs, 62% would see a 'financial adviser'.[61]

---

[53] Commonwealth Bank and SMSF Association, *Women and SMSFs: A study of self-managed super funds (SMSFs)*, February 2016, p. 18. In this report, Generation Y refers to those born between 1981 and 1997; Generation X refers to those born between 1966 and 1980; 'Baby Boomers' refers to those born between 1951 and 1965; and 'Traditionalist' refers to those born in 1950 and earlier.
[54] Investment Trends, *SMSF investor report*, March 2017, p. 151 (base sample: 226 between 2015 and 2017; 426 between 2011 and 2014). 'Planner' is the term used in the Investment Trends report.
[55] Investment Trends, *SMSF investor report*, March 2017, p. 153 (base sample: 315). 'Planner' is the term used in the Investment Trends report.
[56] Investment Trends, *SMSF investor report*, March 2017, p. 34 (base sample: 1,864). 'Advisers' is the term used in the Investment Trends report.
[57] Investment Trends, *SMSF investor report*, March 2017, p. 35 (base sample: 1,864).
[58] FSC/UBS, *SMSF insights*, December 2015, p. 20.
[59] Roy Morgan Research, *Most seek advice when switching superannuation provider but gaps remain* (Article No. 6331), 9 July 2015, pp. 3–4. 'Professional advisers' is the term used in this article.
[60] AMP Capital, *Black sky report*, 2017, p. 9.
[61] AMP Capital, *Black sky report*, 2017, p. 12. 'Financial adviser' is the term used in this report.

Figure 14: Main source of advice for running an SMSF in 2017



Note: See Table 21 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: Investment Trends, *SMSF investor* report, March 2017, p. 35 (base sample: 1,864).

Leaving an SMSF

91 When winding up an SMSF, people are increasingly turning to an 'adviser' for help (89% in 2017, up from 80% in 2016). 'Financial planners/advisers' were most commonly used (26%), followed by an accountant for investment advice (20%) and an accountant for tax advice (18%).[62]

Member experiences in running an SMSF

92 Despite the average investment returns being relatively similar for SMSFs and APRA-regulated funds, member satisfaction between funds is different.

93 Almost three-quarters (74%) of SMSF members were satisfied with their fund, compared with those satisfied with public sector funds (68%), industry funds

[62] Investment Trends, *Self-managed super fund: Investor report addendum*, April 2017, p. 94 (base sample: 205). 'Advisers' and 'financial planner/adviser' are the terms used in the Investment Trends report.

(59%) and retail funds (56%). For higher fund balances (i.e. more than $700,000), SMSFs only had a narrow lead in satisfaction (83%, compared with 80% for industry funds and 77% for retail funds).[63]

94 While the majority of SMSF members were satisfied with their fund, they highlighted the following key challenges:[64]

(a) choosing what to invest in (31%);

(b) regulatory uncertainty (31%);

(c) accounting fees and charges (16%);

(d) finding time to research investments (16%); and

(e) paperwork and administration (16%).

Costs to set up and run an SMSF

95 The costs involved in running an SMSF can also be higher than expected. People who were contemplating setting up an SMSF expected to pay an average of $1,000 to set up an SMSF[65] and $680 per year for the ongoing administration and advice costs associated with running an SMSF.[66]

96 The actual cost of setting up an SMSF, however, has been estimated to range from $916 to $2,035.[67] The average annual cost per fund of running an SMSF in 2015–16, in terms of administration and operating expenses, was $3,595 and, for investment expenses, was $4,173. This was up from $3,114 and $3,846, respectively, in 2014–15.[68]

97 In the five financial years to 2016–17, approximately 10,000 SMSFs closed each year: see Figure 3.[69] Based on survey data from the Centre for International Finance and Regulation, around 13% of former SMSF members left their fund because it was too expensive to operate. Other reasons for leaving their fund included:

(a) 19% because it required too much time or administration/compliance;

(b) 23% because they lost interest in investing or managing the SMSF;

(c) 9% due to poor investment returns; and

(d) 23% due to changing personal circumstances or poor health.[70]

---

[63] Roy Morgan Research, *Self-managed super popularity linked to sustained satisfaction lead* (Article No. 6113), 12 March 2015, p. 3.
[64] Investment Trends, *SMSF investor report*, March 2017, p. 121 (base sample: 1,798).
[65] Investment Trends, *Self-managed super fund: Investor report addendum*, April 2015, p. 69 (base sample: 1,157).
[66] M Santhebennur, *Gap between expectation and reality in SMSFs*, Money Management, 13 February 2017.
[67] Rice Warner Actuaries, *Cost of operating SMSFs: ASIC*, March 2013, p. 19, Table 16: Range of costs for establishment of SMSF.
[68] ATO, *Self-managed super funds: A statistical overview 2015–16* (average expenses per fund are calculated using the median fund balance multiplied by the expense ratios for the specific period).
[69] ATO, *Self-managed super funds: A statistical overview 2014–15*. Note that a time lag of wind-up notifications is a factor in point-in-time differences between income years.
[70] R Bird, D Foster, J Gray, A Raftery, S Thorp and D Yeung, *Experiences of current and former members of self-managed superannuation funds* (128/2016/Project No. E220), Working Paper, CIFR, October 2016, p. 25.

Time spent on SMSFs

98 Time spent managing an SMSF can be longer than expected. Potential SMSF members expected to spend an average of 2.6 hours per month managing an SMSF.[71] However, research has found that the actual time spent managing an SMSF was 7.9 hours per month, and this was higher among retirees at 9.9 hours per month.[72]

Investment choice

Asset diversification

99 Because choosing what to invest in can be challenging, many SMSF members seek advice or information. Almost a quarter (24%) of SMSF members want more information on asset allocation, including how to diversify their assets.[73]

100 Diversification reduces overall investment risk and volatility of returns. More than four in five SMSF members (83%) agree that it is important for their SMSF to be well diversified across different investment types. However, 14% of SMSF members disagree with this, and therefore may not understand the risks in not diversifying.[74]

101 In 2017, just over one in two (55%) SMSFs had over half their money invested in one asset type, which may have exposed them to portfolio concentration risk.[75] Portfolio concentration risk means these members may face greater risk in reaching their retirement goals.

Maintaining more than one superannuation account

102 Diversification was one of the main reasons why SMSF members kept some money in another superannuation fund (27%).[76] Another reason for keeping some money in another superannuation fund was to obtain cheaper insurance (33%).[77]

---

[71] Investment Trends, *Self-managed super fund: Investor report addendum*, April 2015, p. 71 (base sample: 1,162; the overall time spent includes: 3.2 hours selecting and researching investments, 2.0 hours ongoing monitoring and reporting, 1.5 hours administration and paperwork and 1.1 hours keeping up with legislative regulations).
[72] Investment Trends, *SMSF investor report*, March 2017, p. 118 (base sample: 1,798).
[73] Investment Trends, *SMSF investor report*, March 2017, p. 480 (base sample: 1,543).
[74] Investment Trends, *SMSF investor report*, March 2017, p. 227 (base sample: 1,965).
[75] Investment Trends, *SMSF investor report*, March 2017, p. 228 (base sample: 1,476).
[76] Investment Trends, *SMSF investor report*, March 2017, p. 194 (base sample: 496).
[77] Investment Trends, *SMSF investor report*, March 2017, p. 194 (base sample: 496).

Drawing down and winding up

Accumulation and pension payment phases

103 As at 30 June 2016, just over half (53%) of SMSFs were in the accumulation phase and just under half (47%) were in the pension phase. Within the pension phase, 36% were in full pension phase making payments to all members, and 11% were in partial pension phase making payments to some members.[78]

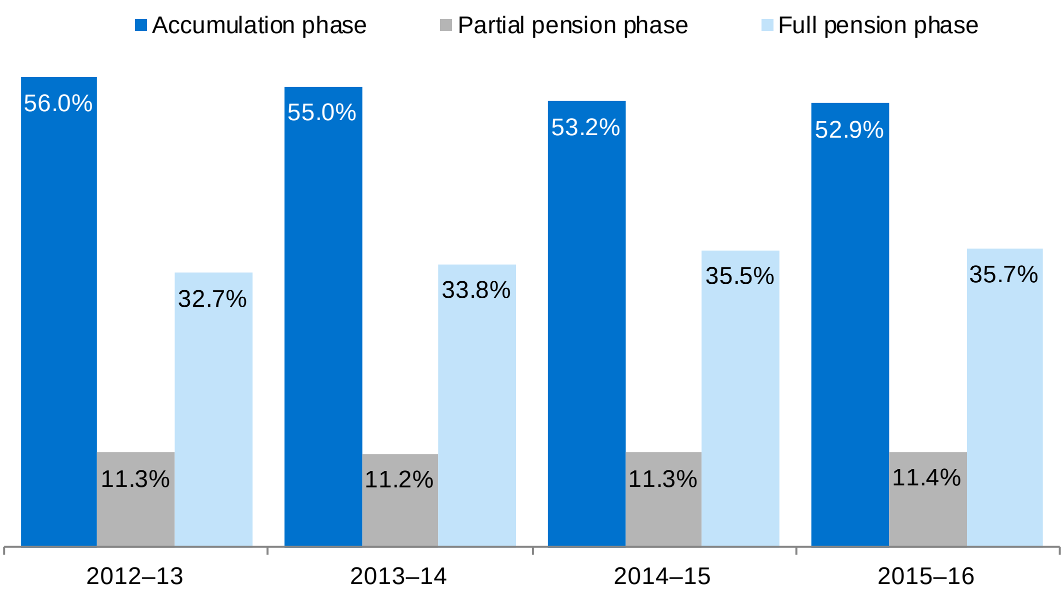
104 In the five years preceding 30 June 2016, there was an increasing number of SMSFs in the pension phase (partial and full) and a decreasing number of SMSFs in the accumulation phase—shown in

105 Figure 15: as a proportion of all SMSFs.

106 The most common age that members plan to change their SMSF from the accumulation phase to the pension phase is between 60 and 64 years (37%), followed by 65 to 69 years (29%) and 55 to 59 years (18%).[79]

107 SMSF members in the pension phase have a higher allocation to equities compared with those in the accumulation phase: see Figure 16.

Figure 15: SMSFs by payment phase by financial year (as at 30 June)

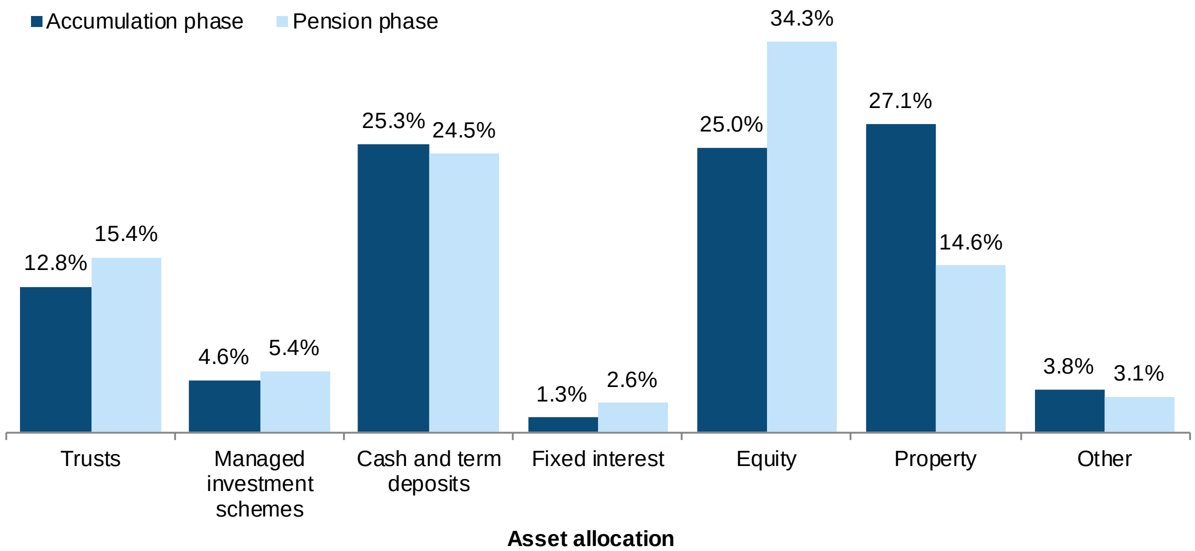


Note: See Table 22 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super fund statistical report: June 2017* (data was back-calculated using the total number of funds and the proportion of funds).

[78] ATO, *Self-managed super funds: A statistical overview 2015–16*.
[79] Investment Trends, *SMSF investor report*, appendix, March 2017, p. A12 (base sample: 745; re-based to exclude those respondents already in the pension phase).

Figure 16: SMSF asset allocation by payment phase (as at 30 June 2016)



Note 1: LRBA assets have been broken into underlying asset classes using the ATO asset allocations.

Note 2: See Table 23 in Appendix 2 for the underlying data shown in this figure (accessible version).

Source: ATO, *Self-managed super funds: A statistical overview 2015–16*.

Benefit payments

108 Member benefit payments have increased over the past five years from $22.6 billion in 2012 to $37 billion in 2016.[80]

109 The increase in payments was influenced by a number of factors, including more members moving into the pension phase, and the pension drawdown relief provided by the Government between 2008–09 and 2012–13, with the minimum payment amount returning to normal in 2013–14.[81]

110 As at 30 June 2016, the average SMSF benefit payment was $127,252, and the median SMSF benefit payment was $62,663.[82]

Drawdown rates

111 Superannuation drawdown rates across all superannuation fund types are reported to be fairly modest, with one study showing that most members are likely to have substantial amounts unspent when they die.[83] This finding is also supported by another study, which shows that only 30% of retirees aged 75 to 79 will outlive their retirement savings.[84]

[80] ATO, *Self-managed super funds: A statistical overview 2015–16*.
[81] ATO, *Pension standards for self-managed super funds*.
[82] ATO, *Self-managed super funds: A statistical overview 2015–16*.
[83] T Sneddon, A Reeson, Z Zhu, A Stephenson, E Hobman and P Toscas, 'Superannuation drawdown behaviour', *JASSA The Finsia Journal of Applied Finance*, Issue 2, 2016, p. 51.
[84] M Dundan, *Is the trend of running out of money in retirement increasing?*, VicSuper, 5 January 2017.

112 For SMSFs specifically, another study showed that, for members aged 55 to 74, about one-half of annual drawings occur at small withdrawal rates up to 6%, and half occur above 6%.[85]

Reasons for leaving an SMSF

113 The reasons why members left their SMSF (by either winding it up or removing assets, but not winding it up) were:[86]

(a) a change in personal circumstances (18.4%);

(b) loss of interest in managing the fund (15.3%);

(c) too expensive to operate (13.4%);

(d) too much administration/compliance required (10.0%);

(e) poor investment performance (9.3%);

(f) too much time required (9.1%);

(g) loss of interest in investing (7.5%);

(h) advice from a professional (no further information provided) (7.3%);

(i) poor health (6.8%); and

(j) other (3.2%).

114 In 2015, 43% of SMSF members who switched back to an APRA-regulated fund did so because their SMSF was too hard to manage.[87] Other general reasons for leaving an SMSF may include death of a trustee, moving overseas, tax benefits no longer being relevant for retirees, or forced closure by the ATO.

115 Among those who had left an SMSF, almost half (49%) said that, looking back, they would not have set up their SMSF in the first place.[88] Those who said this were more likely to cite, as reasons for closing their SMSF, that the SMSF was too hard to manage (45%) and that they preferred a specialist to choose investments for them (35%).[89]

What former SMSF members did with their money

116 A common course of action taken after leaving an SMSF was to put the superannuation in an industry fund (38% of former SMSF members did this), followed by withdrawing a large sum (32%).[90]

[85] P Shevchenko, *Analysis of withdrawals from self-managed super funds using ATO data* (Technical Report number: EP164438), CSIRO, 10 July 2016, p. 1.
[86] R Bird, D Foster, J Gray, A Raftery, S Thorp and D Yeung, *Experiences of current and former members of self-managed superannuation funds* (128/2016/Project No. E220), Working Paper, CIFR, October 2016, p. 25, '% of former trustees'.
[87] Investment Trends, *Self-managed super fund: Investor report addendum*, April 2015, p. 124 (base sample: 252).
[88] Investment Trends, *Self-managed super fund: Investor report addendum*, April 2017, p. 99 (base sample: 216).
[89] Investment Trends, *Self-managed super fund: Investor report addendum*, April 2017, p. 100 (base sample: 87).
[90] R Bird, D Foster, J Gray, A Raftery, S Thorp and D Yeung, *Experiences of current and former members of self-managed superannuation funds* (128/2016/Project No. E220), Working Paper, CIFR, October 2016, p. 25.

B Member experiences with SMSFs

Key points

ASIC commissioned an independent market researcher to explore member experiences when setting up and running an SMSF.

The research involved:

- 28 interviews in Sydney and Melbourne with members who had set up an SMSF in the preceding three years (qualitative research); and
- an online survey with 457 members who had set up an SMSF in the preceding five years (quantitative research).

The research highlighted these key findings:

- Family members and friends or colleagues were collectively the main prompts for setting up an SMSF, followed by advice from financial advisers and accountants. ‘Property one-stop shops’, real estate agents and cold calls were also prompts for setting up an SMSF.
- Many members set up their SMSF to gain control over their superannuation and because they were dissatisfied with an APRA-regulated fund.
- A number of members saw an SMSF as a vehicle for investing in property. This was generally driven by a belief that property was an inherently better investment than other asset classes.
- For some members, running an SMSF was more costly and time consuming than expected, with members often relying on ‘financial experts’ to make investment decisions and meet legal requirements.
- Many members lacked a basic understanding of SMSFs and their legal obligations as SMSF trustees, and of investment principles such as diversification.

Overview of the research

117 In March 2017, ASIC commissioned an independent market researcher to explore member experiences with SMSFs. The research was a mix of qualitative research (interviews) and quantitative research (online survey).

118 The market researchers conducted 28 qualitative interviews in Sydney and Melbourne in mid-2017. The participants were sourced from an independent market research panel and included:

(a) 10 members who had set up an SMSF in the preceding 12 months after receiving personal advice (new members); and

(b) 18 members who had set up an SMSF in the preceding 12 to 36 months after receiving personal advice (established members).

119 The market researcher also conducted an online survey between June and July 2017 with 457 members who had set up an SMSF in the preceding five years (261 participants were sourced through ATO data and 196 participants were sourced through a market research panel). This included:

(a) new members (i.e. members who had set up an SMSF in the preceding 12 months); and

(b) established members (i.e. members who had set up an SMSF in the preceding 12 to 60 months).

120 The research explored the following broad themes:

(a) the motivations to set up an SMSF, including:

(i) the prompts for setting up an SMSF; and

(ii) the reasons members set up an SMSF;

(b) member experiences in seeking advice on SMSFs, including:

(i) sources of information and advice;

(ii) how members chose an advice provider; and

(iii) whether they read and understood the Statement of Advice (SOA) given to them by their advice provider;

(c) member expectations and experiences in running an SMSF, including:

(i) costs to set up and run an SMSF;

(ii) time spent on SMSFs;

(iii) the complexity of running an SMSF; and

(iv) member understanding of SMSFs and their legal responsibilities as SMSF trustees; and

(d) investment choice and performance monitoring.

Note: For more information about the member research, including methodology, research sample and limitations, see REP 576.

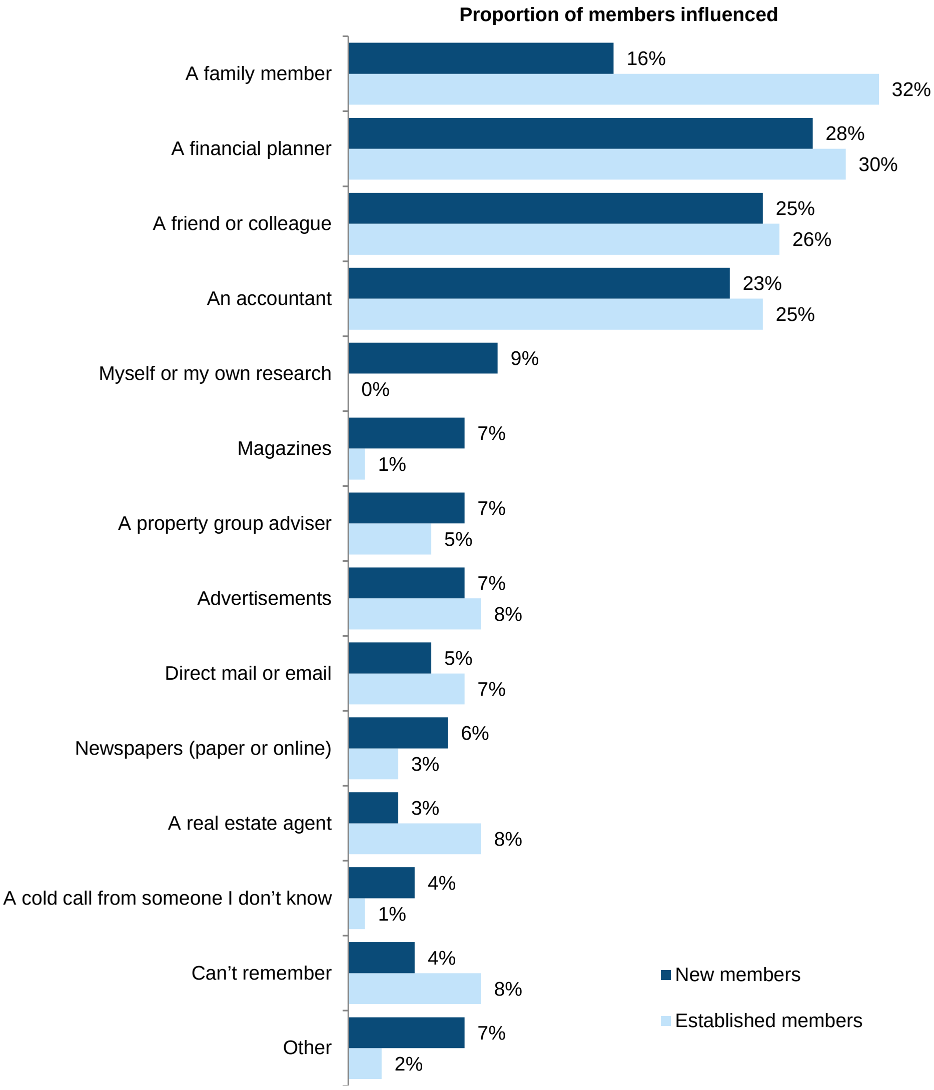
121 The quotes in this report are taken directly from the interviews. Some quotes have been edited for clarity and conciseness. All quotes are anonymised.

Motivations for setting up an SMSF

Prompts for setting up an SMSF

122 In the online survey, when asked what prompted them to set up an SMSF, some members stated there were multiple prompts, while others stated just one: see Figure 17.

Figure 17: Prompts for setting up an SMSF, online survey (%)



Note 1: See Table 24 in Appendix 2 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B1. Did any of the [following] prompt you to think about establishing an SMSF?

Note 3: Totals do not add up to 100% as the question is a multiple response.

Note 4: In Figure 17–Figure 20, 'new members' are members who set up their SMSF in the preceding 12 months and 'established members' are members who set up their SMSF in the preceding 12 to 60 months.

123 In the survey, the most frequently stated prompts were:

(a) family members (16% new members, 32% established members);

(b) financial advisers (28% new members, 30% established members);

(c) friends/colleagues (25% new members, 26% established members); and

(d) accountants (23% new members, 25% established members).

Note: While the online survey used the term 'financial planners' and 'property group advisers', in this report, we use the terms 'financial advisers' or 'advice providers' and 'property one-stop shops'.

124 Magazines and newspapers played a more significant role for new members (7%) compared with established members (1%).

125 Other prompts included:

(a) property one-stop shops (7% new members, 5% established members);

(b) real estate agents (3% new members, 8% established members); and

(c) cold calls (4% new members, 1% established members).

126 These prompts were also commonly reported in the interviews.

127 In the interviews, some members said they knew very little about SMSFs until the idea was mentioned by someone else. However, some members said they were familiar with SMSFs as a result of working in finance, or having discussed SMSFs with friends, family or colleagues over a number of years.

128 Some members reported that they were advised by a property one-stop shop to buy additional properties through an SMSF after having already bought a property in their own name through the same group.

Note: For a further discussion of property one-stop shops, see paragraphs 164–179.

Reasons for setting up an SMSF

129 The desire to have control over investments was a key driver in setting up an SMSF for both new and established members.

> 'You've got more control with [an] SMSF because it's yours. You're the boss and you know exactly where it goes and what you're investing in.'
> (New member, Bernard, Melbourne)

130 For established members in particular, the desire for control was coupled with a dissatisfaction with APRA-regulated funds, including:

(a) fear of not having enough money in retirement;

(b) perceptions that APRA-regulated funds do not prioritise the interests of their members;

(c) dissatisfaction with the investment choices offered by APRA-regulated funds;

(d) concern over the exposure of APRA-regulated funds to the stock market; and

(e) a perceived lack of transparency in APRA-regulated funds.

131 Both new and established members were also motivated by a desire to use an SMSF as a vehicle through which to invest in property. This was driven by factors such as:

(a) a perception that property was a safe and reliable asset class; and

(b) a fear of being locked out of the property market.

Dissatisfaction with APRA-regulated superannuation funds

Fear of not having enough money in retirement

132 Some members set up an SMSF because they wanted to continue their current living standards when they retired and their projected retirement income was perceived to be too low. They left an APRA-regulated fund because they did not expect it to generate enough wealth to live off in retirement.

> 'If I embark on buying a property through [an] SMSF I will have a far greater chance of replacing close to my current income in retirement.' (New member, Rebecca, Sydney)

133 Some members also expressed a fear of having to continue working to retain their lifestyle.

> 'If I didn't do anything … I would probably not be able to retire. I would work until the day I died. I'd work because I have to not because I love it.' (Established member, Robert, Sydney)

Perceptions that APRA-regulated funds do not prioritise members' interests

134 Some members said they left an APRA-regulated fund because they saw these funds as self-serving, putting their own interests above those of members.

> 'You're a very little number for them, they don't care about you.' (Established member, Rick, Sydney)

135 One member expressed frustration that even if an APRA-regulated fund performed poorly, the fund's employees were paid from 'their' money.

> 'They take your money and they do what they want with it and if they lose something, they take their cut anyway.' (Established member, Gregory, Sydney)

Dissatisfaction with investment choices offered by APRA-regulated funds

136 Some members expressed frustration at the inability to customise their superannuation investments in an APRA-regulated fund.

137 Members seemed to be unaware that some APRA-regulated funds offer a 'do-it-yourself' (DIY) option where members can choose to direct part of their retirement savings towards assets such as shares, exchange-traded funds and term deposits.

> '[With an SMSF] you seem to have more control of your investments … with the super fund the only thing you can really agree on is whether you want to go aggressive growth, balanced or safe, safe being cash.' (Established member, Renae, Sydney)

Concern over the exposure of APRA-regulated funds to the stock market

138 Some members were concerned about the exposure of an APRA-regulated fund to the stock market. The stock market was described as 'high risk', 'speculative' and 'difficult to understand'. These members expressed a preference not to have their retirement savings invested in the stock market.

> 'The share market is purely gamble, it is so speculative … You always lose long term. It is just not stable enough.' (Established member, Rick, Sydney)

Perceived lack of transparency in APRA-regulated funds

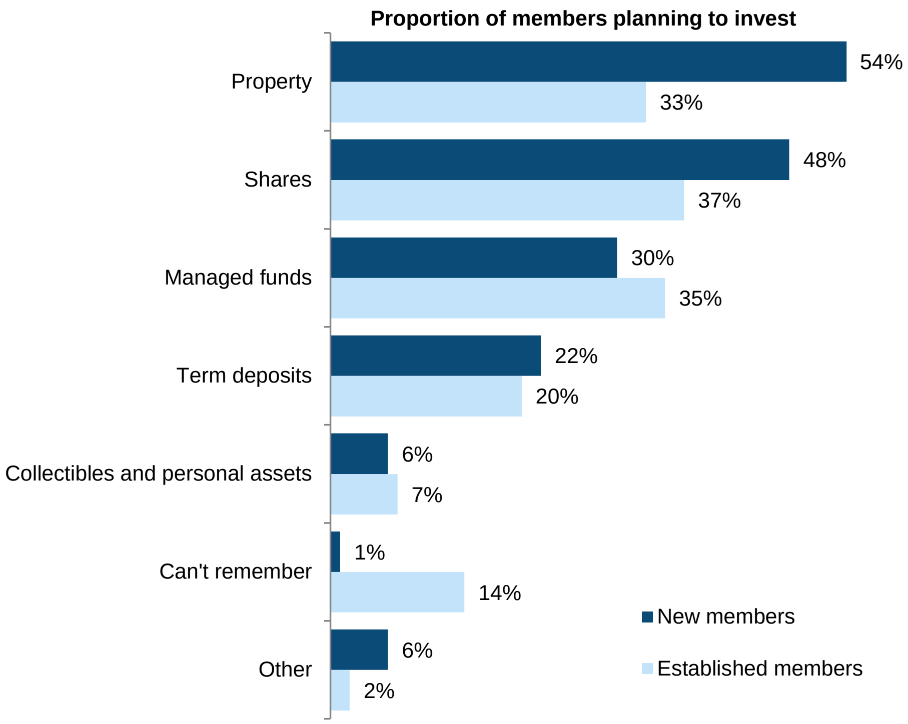
139 Some members thought there was little transparency in APRA-regulated funds, particularly for investment allocation, and that the fund kept them 'in the dark'.

> 'I called them up and said "Can you tell me what shares I have got" and they said "We can't tell you that", "I have a right to know where my money is invested", "No sir, you have money invested in the trust." I couldn't believe it. I wanted a change.' (Established member, Luke, Sydney)

Desire to invest in property

140 In the interviews, both new and established members expressed a strong desire to invest in property. This was also the case in the online survey: see Figure 18.

Figure 18: What members planned to invest in, online survey (%)



Note 1: See Table 25 in Appendix 2 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B6. When you first set up your SMSF, which of the following did you plan to invest in?

Note 3: Totals do not add up to 100% as the question is a multiple response.

141 In the online survey, the most popular assets members planned to invest in were:

(a) property (54% new members, 33% established members);

(b) shares (48% new members, 37% established members); and

(c) managed funds (30% new members, 35% established members).

Property perceived as a safe and reliable asset class

142 Many members considered property investment as a safe investment. They described it as the 'safest bet' and 'rock solid'.

> 'I have never thought of investing my superannuation in any other form other than property because … it is the safest and no one can take it away, especially in this country. If you buy a piece of land, it is your piece of land forever … It never goes down. It is safe.' (New member, Rashpal, Sydney)

143 Other members viewed property as a liquid investment and saw this as one of the strengths of the property market.

> 'If we were in a dire financial position we could certainly sell off an investment property and still make a profit so I guess in my mind that's what makes it a low risk.' (Established member, Nancy, Melbourne)

Fear of being locked out of the property market

144 For members who had seen property prices increase, particularly in Sydney and Melbourne, an SMSF became a vehicle to start investing in the property market. The surge in property prices created a sense of urgency driven by a fear of missing out.

145 This sense of urgency was also felt by members who were parents. Some parents expressed a fear that their children might one day miss out on the opportunity to own their own home. For these members, their anxieties about their own future appeared to be secondary to the stress of being unable to provide a secure future for their children.

> 'We're concerned that the kids are not going to be able to buy a house to live in when they grow up and we thought that if we took the risk and did it that we would be able to set them up for the future, as well as ourselves.' (New member, Lily, Sydney)

Increasing their property portfolio

146 Some members already owned multiple properties in their own name and investing through an SMSF was seen as a good way to grow their portfolio.

147 These experiences are explored in more detail in Case study 1.

Case study 1: New member, Jane, Sydney

Jane and her partner already had two properties, including the one they lived in, and recently started an SMSF to buy another investment property. They had previously tried to buy another investment property without an SMSF but were unable to get a bank loan due to increasing property prices:

> 'We wanted to increase our property portfolio and I heard about the SMSF … We saw a window to increase not only our property portfolio but also our possible superannuation for retirement.'

Like many members, Jane was also motivated to have more control over her superannuation, particularly after she noticed that her investment returns had dropped. She first heard about an SMSF through her brother-in-law.

She thought the main benefit was how quickly a property could be paid off.

> 'You purchase a property for half a million dollars and then not only do you have your superannuation from your work coming in paying off that property but you have also got the rental income paying it off so essentially it means you can pay twice as much off a mortgage. Which means you can pay the property off in less than half the time and from my calculations … you could potentially make half a million dollars in 15 years whereas there is no way you could make that just in super.'

She planned to buy another property or two through the SMSF.

> 'In 15 years, I am still only going to be 50. I will still have another 15 years so I can purchase a second one and maybe even a third one.'

Seeking advice on SMSFs

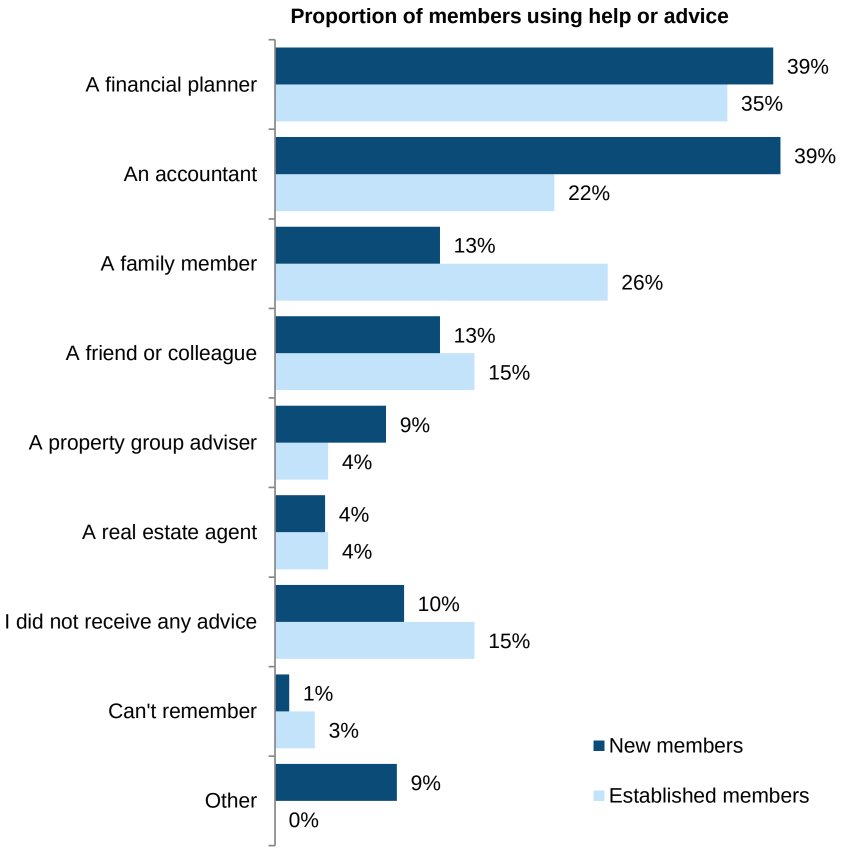
Sources of information and advice

148 Members drew on various sources of advice in setting up their SMSF: see Figure 19.

149 For new members, financial advisers and accountants were the main source of help or advice for setting up an SMSF (39% each). Financial advisers were also the most common source of help or advice for established members (35%), followed by family members (26%) see Figure 19.

150 New members were more likely than established members to report using property one-stop shops when setting up an SMSF. Only 4% of established members stated they received help or advice from a property one-stop shop when setting up their SMSF, compared with 9% of new members.

Figure 19: Use of external help/advice in setting up an SMSF, online survey (%)



Note 1: See Table 26 in Appendix 2 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B2a. Did you receive help or advice from any of the following when setting up your SMSF? (Yes, to establish the SMSF.)

Note 3: Totals do not add up to 100% as the question is a multiple response.

Choosing a 'financial expert'

151 In the interviews, members' choice of a 'financial expert' for help in setting up and/or running an SMSF was often based on a personal recommendation by a family member, friend or colleague.

152 Members also chose their 'financial expert' based on a feeling of trusting them. Trust was generated through the financial expert's communication skills, likeability and apparent financial knowledge.

Recommendation by friend, family or colleague

153 Members who chose a 'financial expert' on the recommendation of a family member, friend or colleague saw the recommendation as a 'stamp of approval'. For some members, this removed the need for them to do any further research or background checks.

> ‘My sister and her husband probably influenced me a lot … They started buying other properties and then my brother-in law started an SMSF as well and that is how I learnt about it … He said it is one of the best things he has ever done and he highly recommended it. His accountant was able to set one up [for me].’ (New member, Jane, Sydney)

Trust in ‘financial experts’

154 Members looked for ‘experts’ they felt they could trust. Trust was often expressed in terms of the expert being ‘real’ and not a ‘salesman’.

> ‘He was very polite. He was answering my questions … I can judge people quite quickly. He didn’t appear to be trying to get money out of me … It is very hard to get a financial planner to come and talk to you for free.’ (New member, Rashpal, Sydney)

Credential checks

155 In the interviews, there were no unprompted mentions of members having checked the credentials of a ‘financial expert’ on ASIC’s register (i.e. the financial advisers register) or of verifying their expertise or qualifications through a third party. In some cases, members did report having looked at the advice provider’s website.

Heavy reliance on ‘financial experts’

156 Many members relied on their ‘financial experts’ in setting up their fund, completing paperwork, making investment decisions and meeting the ATO’s compliance requirements.

> ‘I think some people that do [SMSFs], they do all the investing and selling, they track it all themselves and they do all the changes. I know that’s something that I haven’t got the skills to do, so I guess that’s why we’ve got the finance companies.’ (Established member, Paul, Melbourne)

Understanding of disclosure documents

157 In the interviews, many members reported receiving an SOA from their advice provider; however, most of them did not properly read it.

> ‘I kind of looked at it. I flicked through it and I just couldn’t find anything in there that was worth reading.’ (New member, Lily, Sydney)

158 If members did read the SOA, many said they did not understand it fully or could not remember much about it.

> ‘Yes, it is all there for me. I think I am very smart, savvy, in choosing locations for the houses, but all the technical legal jargon, no I don’t understand it at all and I don’t need to understand it. Maybe I should try to have an understanding of it, I don’t know, but I don’t understand it and that is why I pay my accountant to work for me and that is why I found the process easy.’ (Established member, Felicity, Sydney)

159 One member initially appeared confident about the contents of the SOA, before re-reading it and discovering that their money was invested in a way that they did not expect.

> 'Maybe I didn't read every page. I don't know. I better ask him about that, it looks like they may be investing some of my money in shares, but that can't be right because I have to keep all my money to go towards the property so I will just check with them.' (New member, Rebecca, Sydney)

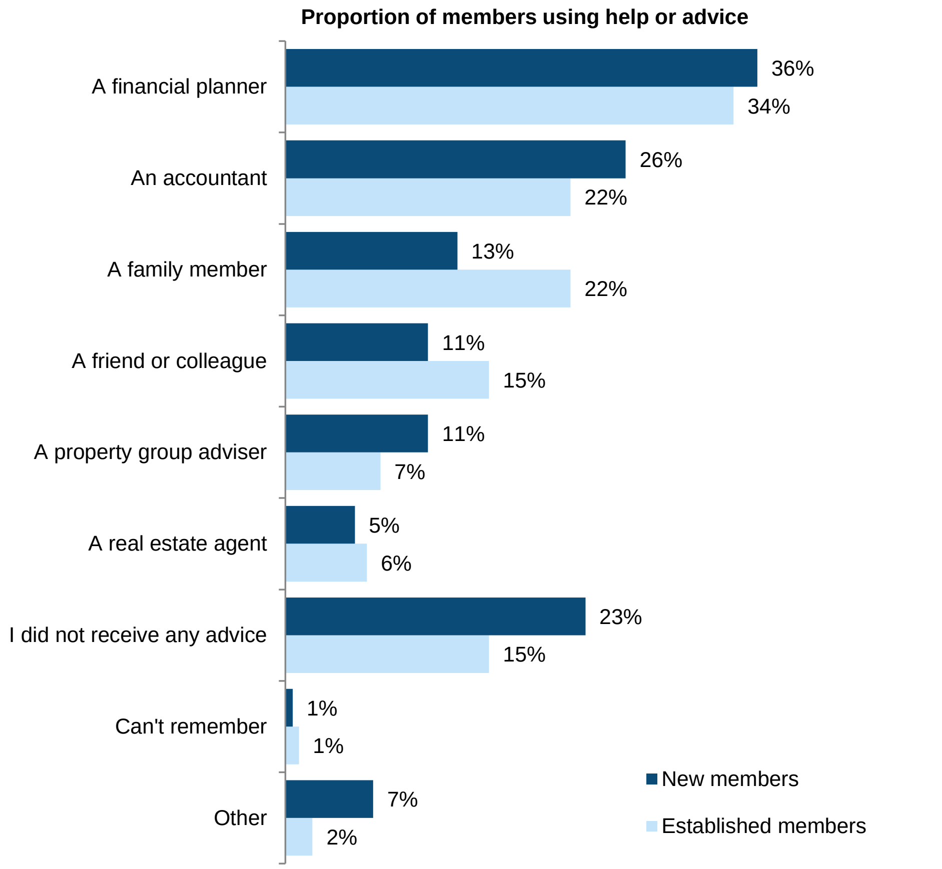
160 Among some members there was a perception that the SOA was merely a tool for limiting liability.

> 'There was the token statement that he had to provide to us, I couldn't tell you if we still have it … Pretty much a requirement of what he has to legally give us, a disclaimer of him acting as a tax agent and adviser.' (Established member, Robert, Sydney)

Advice on investment decisions

161 Members used various sources of advice for investment decisions: see Figure 20.

Figure 20: Use of external help/advice in making investment decisions, online survey (%)



Note 1: See Table 27 in Appendix 2 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B2b. Did you receive help or advice from any of the following when setting up your SMSF? (Yes, to decide where to invest).

Note 3: Totals do not add up to 100% as the question is a multiple response.

162 For both new and established members, the top three sources of advice for making investment decisions in an SMSF were:

(a) financial advisers (36% new members, 34% established members);

(b) accountants (26% new members, 22% established members); and

(c) family members (13% new members, 22% established members).

163 A number of members also received investment advice from a property one-stop shop (11% new members, 7% established members) or a real estate agent (5% new members, 6% established members).

Use of property one-stop shops

164 In the interviews, it became clear that members who had used a property one-stop shop to set up and run their SMSF had quite different experiences to members who used a financial adviser or accountant.

Cold calling as a means of establishing contact

165 A number of members that used a property one-stop shop reported setting up an SMSF after being cold called. While members said they exercised caution during the cold call, they also said that they were curious to know more after the representative mentioned that they could save money, pay off their mortgage sooner or have more money in retirement.

166 For many members, their receptiveness to acting on a cold call came down to timing—that is, they had been thinking about setting themselves up for retirement or getting a foot into the property market.

> ‘It was just like a friendly nudge.’ (Established member, Paul, Melbourne)

167 One member thought she was getting advice from a Government employee.

> ‘She said she was through the Australian Government and she said it was to help and did you want to learn ways of reducing your tax. I thought it was just like a cold call … Every couple of months she would call back … [She asked] where did we want to go, what we wanted to do with our money … and then she was talking to us about investment properties and that is where we come to all this.’ (New member, Claire, Melbourne)

Building legitimacy and trust

168 Members who used a property one-stop shop said that the companies did much to prove they were legitimate. Some members also said the property one-stop shop demonstrated a connection at a human level.

> ‘We just clicked with them. They just seemed genuine, nice people … I think we just had a really good gut feeling about the service that they offered. It was very clear that it was family-based company, successful, but I think their success comes through their client service and that was important to us.’ (Established member, Nancy, Melbourne)

169 Trust was enhanced through the use of testimonials, referral programs and special events (e.g. free lunches and seminars). Members also enjoyed the opportunity to network with like-minded investors at the special events.

> ‘There were other people like us. There were couples of all different sorts of ages and different groups, some starting off.’ (Established member, Paul, Melbourne)

170 Some members noted the lack of pressure made them feel comfortable and created a sense of trust.

> ‘When they talked us through—the fact that we felt comfortable with these people because they covered all our concerns and they seemed so professional in what they were doing. Providing the full service and the fact that there was no pressure along the way to sign up.’ (Established member, Paul, Melbourne)

171 However, in some cases, members said that the property one-stop shop used pressure tactics to encourage them to act, including focusing on house resale values.

> ‘They looked at a property for us in September which was a certain price and it had already gone up by $15,000 and they said to us that’s $15,000 you could have made on your super had you set it up, which makes sense … And we just looked at each other and said you know what, that’s so true, we could have made $15,000 in our super in less than a year, so that’s why we turned around and said we’ve got to do this.’ (New member, Lily, Sydney)

Experiences with inter-related parties

172 After members had made a decision to set up an SMSF with a property one-stop shop, they were introduced to related parties such as mortgage brokers, lawyers, insurance brokers, property management companies and property developers.

> ‘It’s a little club so you deal with all their people.’ (New member, Bernard, Melbourne)

173 Some members seemed unconcerned about potential conflicts of interest of all the parties involved. In fact, they saw these interdependent relationships as beneficial to them, and some said they preferred to only use professionals within the group.

> ‘I’d rather just stay with the main group because they’re together. They can talk to each other.’ (New member, Bernard, Melbourne)

Perceived benefits of using property one-stop shops

174 Many members said they felt property one-stop shops took away the hard work of having to deal with the details of setting up and running the SMSF. These members liked the fact that they were offered end-to-end solutions.

> ‘Absolutely, they’ve done everything for us. We’ve just had to do everything that they tell us to do—come in and sign this or they’ll send this out.’ (Established member, Nancy, Melbourne)

175 These experiences are explored in more detail in Case study 2.

Case study 2: New member, Bernard, Melbourne

Bernard received a phone call from a property one-stop shop that he had previously bought a property through. They offered him a free financial assessment which resulted in a suggestion to buy an off-the-plan property through an SMSF. He was drawn to the property one-stop shop because of the links they had with other professionals.

> '[They] go straight to the builders, so it's off-the-market property … I thought it was pretty good. I think they all work together, they recommend their mortgage brokers.'

Bernard relied on the information provided by a financial adviser connected to the property one-stop shop to set up his SMSF. Bernard thought the property one-stop shop likely received a commission for the referral to the financial adviser, but he did not mind.

> 'I don't care, as long as I get good advice.'

Although Bernard had an established relationship with an accountant who advised him that he could set up the SMSF for him, he preferred the perceived benefits of working with the property one-stop shop.

> 'They're together. They can talk to each other …'

He acknowledged that there were aspects of his SMSF that he found confusing.

> 'At the moment, [I'm] not as knowledgeable as I would want.'

176 Many members in Melbourne and Sydney who had set up their SMSF with a property one-stop shop had not yet finalised the property purchase as they were waiting for off-the-plan properties to be completed.

177 However, all members who had bought an investment property in Sydney or Melbourne through a property one-stop shop stated they had successfully rented their properties. Many of these members also reported that property prices in the area had risen.

178 Generally, members who bought properties in Brisbane and its surrounding areas had a different experience. While these members were told that Brisbane was the new 'promised land', they found the reality to be quite different and reported encountering the following problems:

(a) low rent and oversupply of properties;

(b) unanticipated outgoings such as high council rates;

(c) unanticipated maintenance due to low building quality; and

(d) unexpected ongoing fees that were not part of the original budget (e.g. real estate agent and property management fees).

179 These experiences are explored in more detail in Case study 3.

Case study 3: Established member, Luke, Sydney

Luke acknowledged losing money in his SMSF as a result of a property purchase.

> 'I have made a few mistakes with money especially with my SMSF. I am fairly cautious, but I dropped the ball a few years [ago] when I set this fund up and I am paying for it now.'

After a cold call, a financial adviser met with Luke and his wife and told them they would not reach their target for retirement based on his current salary and superannuation. The financial adviser and a related accountant suggested setting up an SMSF, specifically to invest in property in Queensland.

> 'I set up [an] SMSF through the financial adviser and accountant and to this day, I can't believe I entrusted my money to them. I made some serious mistakes with them.'

Luke initially felt reluctant to invest in property, but was persuaded to do so by the financial adviser and the accountant. He was advised that a mortgage through an SMSF was complicated so he bought a property outright in Queensland.

In retrospect, Luke felt he should have done a lot more research before buying the property.

> 'You just think "superannuation fund, property, you own it outright, you get the tax benefit". If I actually sat down and realised a $400k townhouse has body corporate fees, [with the] $50 a week you only have to invest, your rental return comes down to something like 3%, which is nothing. I could have done a lot better in shares and … it would have been easier to just stick the money in the bank and get interest.'

Luke found that the costs of buying a property were higher than he anticipated.

> 'I didn't look at the cost. Cost of maintenance, I didn't realise it would be so much.'

Luke also found the cost of running an SMSF higher than he expected.

> 'They are quite excessive now I am looking into it more, the accountancy fees plus the audit fees to audit the SMSF for taxation [purposes].'

Luke is attempting to sell his townhouse for $22,000 less than he paid for it. He estimated his overall loss to be $70,000. After Luke has sold his investment property, he will keep his SMSF because he still wants control over his superannuation, but he will buy shares.

> 'The share market you can hold onto and if need be, I can sell them tomorrow. Property is high maintenance.'

Luke's perspective on the SMSF industry is not positive.

> 'I think right now it is a bit of a cowboy industry … you have to be really careful.'

Member experiences in running an SMSF

180 Member experiences in running an SMSF varied significantly. For many members, their experiences were not aligned with their expectations.

181 This was the case across a number of areas, including:

(a) costs to set up and run an SMSF;

(b) time spent on an SMSF;

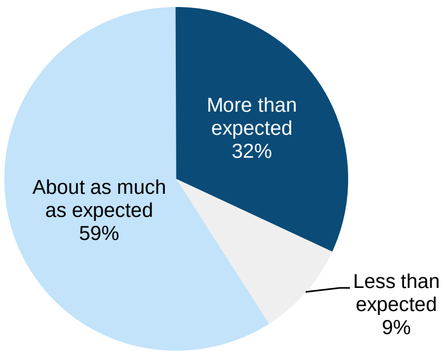
(c) the unexpected complexity of running an SMSF; and

(d) member understanding of SMSFs and their legal responsibilities as SMSF trustees.

Costs to set up and run an SMSF

182 Results of the online survey showed that the cost of setting up and running an SMSF was ‘about as much as expected’ for almost three in five members (59%): see Figure 21. However, these costs were greater than had been expected for nearly one-third of members (32%).

Figure 21: Cost of setting up and running an SMSF, online survey (%)



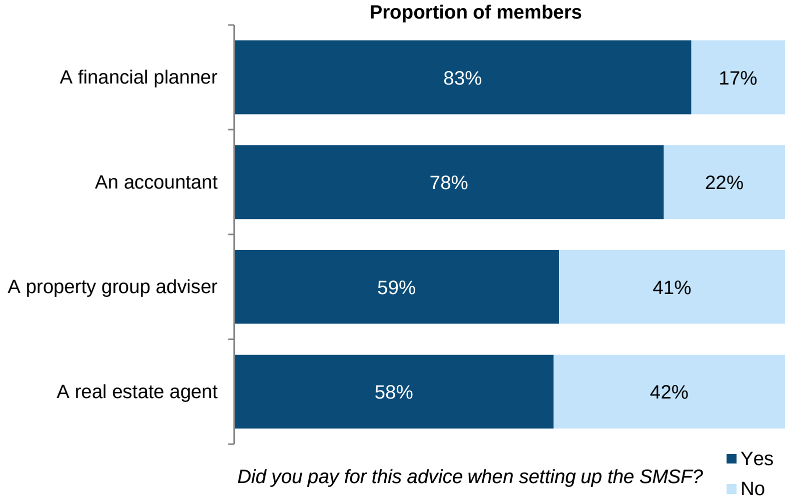
Note 1: See Table 28 in Appendix 2 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question C4. And when it comes to the money required for setting up and running an SMSF, either the costs you have paid, or costs you have paid to someone else to help with your SMSF, such as an accountant or financial adviser, [how much] has it cost?

183 In the online survey, most of the members who used a financial adviser or an accountant when setting up their SMSF reported paying for this advice (83% and 78% respectively): see Figure 22. Those members who said they used a property one-stop shop or a real estate agent reported paying for advice just over half the time (59% and 58% respectively).

184 In the interviews, members indicated that the cost of setting up their SMSF represented the largest proportion of the overall cost.

Figure 22: Fees paid for advice when setting up an SMSF, online survey



Note 1: See Table 29 in Appendix 2 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B3. And did you pay for this advice when setting up the SMSF?

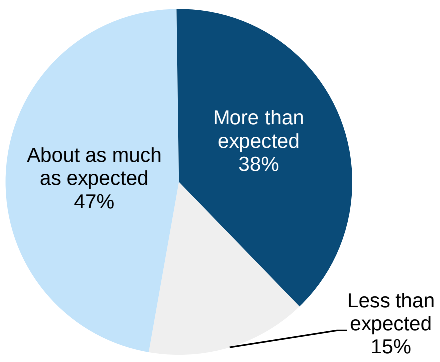
185 The fees for set up and ongoing management of an SMSF varied between members. In a number of cases, members were not entirely sure about what the ongoing fees were.

> 'It was about $12k to set it up. The ongoing fee is something like $250 a month.' (Established member, Jacob, Melbourne)
>
> 'Fees were $5k to set up the SMSF and then $2,500 a year for ongoing fees and $1k for share tracking, so $3,500 a year.' (Established member, Luke, Sydney)

Time spent on SMSFs

186 In the online survey, the amount of time members spent on their SMSF was 'about as much as expected' for almost half (47%) of members: see Figure 23. Almost two-fifths (38%) of members said their SMSF had taken up more time than expected.

Figure 23: Amount of time spent on SMSFs, online survey (%)



Note 1: See Table 30 in Appendix 2 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question C3. When it comes to the time spent on your SMSF, [how much] has it taken up?

187 In the interviews, some members indicated they spent considerable time and effort setting up their SMSF.

> 'It took time because there is a lot of paperwork to do to open up an SMSF. You have to open up the trustee account. It's not an easy exercise. You have to go to the bank a few times to open up the account to set it all up and you need to give the ABN number to the ATO and there's quite a bit to do.' (New member, Natasha, Melbourne)

188 Once the SMSF was set up, many members said they outsourced as much of the running of the SMSF as they could.

> 'It is pretty seamless in terms of what I have to do, they get paid a fee by me to look after my interests in terms of the SMSF which involves them doing the tax return and then arranging the audit every year.' (Established member, Jacob, Melbourne)

189 Other members said the amount of paperwork they had to do took more time and required more effort than they expected.

> 'I had no idea of the amount of paperwork involved. I also started to get these bills, council rates, body corporate rates, real estate agent things.' (Established member, Luke, Sydney)

190 For one member, the amount of time needed to run the SMSF, and the lack of involvement from the advice provider, was unexpected and 'overwhelming'.

> '[I thought] that the accountant and her brother [the financial adviser] would look after absolutely everything and it hasn't really worked out that way … the dishwasher at one stage broke down and I thought they would go through the accountant … but it's [going] through us …' (Established member, Brandon, Melbourne)

Unexpected complexity of running an SMSF

191 A number of members found running an SMSF to be complicated.

> 'You talk to your financial planners, developer or real estate agent. Even a broker, like a mortgage broker. It seems so simple but it is not.' (Established member, Victor, Sydney)

Understanding of SMSFs and legal obligations

192 Some members lacked a basic understanding of SMSFs and their legal obligations as SMSF trustees. In the online survey:

(a) 33% of members did not know that an SMSF must have an investment strategy;

(b) 30% of members did not have arrangements in place for their SMSF if something happened to them;

(c) 29% of members thought that they would be entitled to compensation in the event of theft and fraud involving the SMSF; and

(d) 19% of members did not consider their insurance needs when setting up an SMSF.

193 The interview responses also revealed a lack of awareness by some members of the strict rules that apply to properties held through SMSFs. In particular, a number of members seemed to be unaware that residential properties held in SMSFs must not be lived in or rented by a member or their related parties.

194 Some members believed that their financial team was legally responsible for their SMSF. One member stated that if anything should go wrong their financial adviser would be held accountable.

> ‘That is the obligation of the financial planner, I can sue him in the court if he does something wrong in there so he is more worried than me that he should not do anything wrong. I take him to court the day he does something wrong.’ (New member, Rashpal, Sydney)

Investment choice and performance monitoring

Lack of investment by some SMSFs

195 Some members in the online survey had not made any investments since setting up their SMSF. In the survey, 6% of both new and established members had not made any investments since setting up their SMSF.

196 A common reason given in the interviews for not making any investments was that members were still looking for the right property to buy. One member was unable to get a loan to buy the property, which meant her money had been sitting in a bank account for the past two years. This member’s experience is outlined in Case study 4.

Case study 4: Established member, Monica, Melbourne

Monica and her partner set up their SMSF for the sole purpose of buying a third investment property on the recommendation of a property one-stop shop.

She bought her first and second investment properties with the same property one-stop shop before the group recommended setting up an SMSF to buy the third one during an annual review ‘health check’ of their existing properties.

After paying $12,000 to set up their SMSF, they were rejected for a loan on the third property that they had intended to buy through their SMSF.

> ‘[The bank] pretty much said based on your debts outside and your income and serviceability … you don’t actually have enough money to cover the loan.’

This was after they had placed an additional $50,000 into their SMSF to have a large enough deposit to buy the third investment property.

After the loan was rejected, she went back to the property one-stop shop.

> 'You guys [the property one-stop shop] sort it out, you're the ones who said we can do this, between them and the accountant … you've convinced us to do this and it's not working, you sort it out and get our deposit back, and they did.'

While Monica got the deposit money back, the $12,000 set-up cost was not returned and the SMSF was still running with $250,000 that had been sitting in a bank account for the past two years.

> 'It's not doing anything … we have to get back to dealing with it because it just left a not-so-great taste in our mouths … we've been so busy recently that I just haven't been thinking about it.'

She said she was considering closing the SMSF.

> 'I'm just tempted to close the thing and just put it in an industry super fund and be done with it because it [the SMSF] is a lot more work.'

197 Another member chose to keep her money in cash as her purpose for setting up an SMSF was to remove her money from an APRA-regulated fund and what she considered to be the 'risky' stock market.

> 'It's just sitting there as cash in a savings account at the moment, maybe in three or four years we might look at that [using SMSF for property] and utilising it if we need to … it's purely based on the property market with the over inflated prices'. (Established member, Cleo, Melbourne)

Lack of awareness of SMSF investment performance

198 In the interviews, many members admitted to not knowing how their SMSF was performing.

> 'I'd like to think we're outperforming our previous super, I'd be very disappointed if I wasn't, put it that way.' (Established member, Nancy, Melbourne)
>
> 'I don't really pay attention to it actually.' (Established member, Gregory, Sydney)

Diversification

199 In the interviews, members' demonstrated understanding of diversification was mixed. Many members understood that having a diverse portfolio meant not having all their money invested in one type of asset.

> 'It's best not to have all your money in the same place.' (New member, Bernard, Melbourne)

200 However, other members expressed a different understanding, thinking they could have a diverse portfolio consisting only of property if they had multiple properties, properties in different locations, or both commercial and residential properties.

> 'I would like to try not to have all my eggs in one basket. This is why I have many properties.' (New member, Beth, Melbourne)

C Review of the quality of advice on SMSFs

Key points

In 2017, ASIC engaged an independent expert to review 250 client files where personal advice to set up an SMSF was provided to clients by an advice provider. The files reviewed were randomly selected by ASIC from data provided by the ATO.

The purpose of the advice review was to test whether advice providers were complying with the law when providing advice to clients to set up an SMSF.

ASIC staff independently reviewed 20% of the client files reviewed by the independent expert. The findings of the independent expert and the review by ASIC staff were largely consistent.

In an unacceptably high proportion of the files reviewed, advice providers did not demonstrate compliance with the best interests duty and related obligations. The non-compliant advice ranged from process failures through to failures that were likely to lead to financial loss.

We observed some particularly concerning examples of advice where we considered that clients were likely to suffer significant financial detriment as a result of following the advice. A total of 10% of client files reviewed fell into this category. Our concerns were based on the balance size of the SMSF, the age of members and the level of gearing within the fund—or a combination of these factors.

In a further 19% of files, we considered that clients were at increased risk of suffering financial detriment as a result of following the advice. Our concerns were based on the fact that the assets of the fund were to be invested in a single asset class (i.e. property), which appeared to pose an unnecessary risk due to the lack of diversification.

Our methodology

201 In 2017, ASIC engaged an independent expert to review 250 client files where personal advice to set up an SMSF was provided to the client by an advice provider.

202 The independent expert was selected through a tender process. The successful bidder demonstrated that they had the capability and the capacity to undertake the reviews in a reasonable timeframe, and did not have any conflicts of interest.

203 The client files to be reviewed by the independent expert were randomly selected by ASIC using data provided by the ATO. Under the memorandum of understanding between ASIC and the ATO, the ATO provided the contact details for 2,370 SMSFs that were established in September 2016.

204 ASIC staff used the details provided by the ATO to contact SMSF trustees and/or their nominated tax agents to ask whether personal advice to set up an SMSF had been provided and, if so, who provided the advice.

205 Where the advice provider was identified, we used our compulsory information-gathering powers to obtain the full client file. We requested the full client file because we consider that, without the complete record, it is very difficult to determine whether an advice provider has complied with the law.

206 To meet our target of 250 client files, which we deemed to be a statistically significant and representative sample size, we served notices on 135 different AFS licensees authorised to provide personal advice to retail clients.

207 We assessed the client files provided to ensure that:

(a) the advice provided was personal advice that related to setting up an SMSF; and

(b) the advice was provided after 30 June 2016.

208 The files were then provided to the independent expert for review.

Assessment of compliance

209 We provided the independent expert with a template to assess the client files. The template considered compliance by the advice provider with:

(a) the best interests duty and related obligations in Div 2 of Pt 7.7A of the *Corporations Act 2001* (Corporations Act); and

(b) the ‘switching advice’ requirements in s947D of the Corporations Act.

210 The best interests duty and related obligations in Div 2 of Pt 7.7A require advice providers, when providing personal advice to clients, to:

(a) act in the best interests of their clients (see s961B and RG 175.242–RG 175.361 in Regulatory Guide 175 *Licensing: Financial product advisers—Conduct and disclosure* (RG 175));

(b) provide appropriate advice (see s961G and RG 175.362–RG 175.385 in RG 175); and

(c) prioritise the client’s interests (see s961J and RG 175.390–RG 175.411 in RG 175).

211 Section 961B(2) provides a ‘safe harbour’ that advice providers may rely on to prove they have complied with the best interests duty in s961B. If an advice provider shows they have taken the steps in s961B(2), they have met their obligation in s961B(1) to act in the best interests of the client.

212 Under s947D, when an advice provider recommends that a client replace one financial product with another, in full or in part (known as ‘switching advice’), the advice provider must compare the ‘from’ fund (i.e. the APRA-regulated fund) with the ‘to’ fund (i.e. the SMSF) and disclose this information in the SOA.

213 The template also required additional information to be collected, including:

(a) personal information about the clients (i.e. age and income);

(b) whether the advice provider had recommended specific investments to the client and, if so, whether an in-house or related party product was recommended;

(c) whether the advice provider had recommended gearing in the SMSF;

(d) whether the advice provider had recommended a corporate trustee or individual trustees; and

(e) whether the risks and costs set out in INFO 205 and INFO 206 were communicated to the client.

214 The files reviewed by the independent expert were subject to internal quality assurance checks. ASIC staff members—with the appropriate skills, training and experience—also independently reviewed 20% of the files. The findings of the independent expert review and the review by ASIC staff were largely consistent. In the seven cases where there were minor inconsistencies, the findings of the independent expert were adopted.

215 If the review of the full client file demonstrated that the advice provider had complied with the law, the file was assessed as being compliant; but if, on reviewing the full file, the advice provider was considered not to have demonstrated that they had met the relevant legal standard, the file was assessed as being non-compliant.

216 The reviews were based on the contents of the client file. No supplementary investigations or requests for information were made to validate or otherwise support the advice provided.

Snapshot of client files

217 We collated the data included in the template, including the additional information described in paragraph 213. The key data on SMSF characteristics, client objectives, investment recommendations and gearing recommendations is summarised below.

Note: Percentages shown in this section are rounded to the nearest unit. This means the sum of individual values may not equal 100% because of rounding.

SMSF characteristics

Structure

218 We found that:

(a) 182 files (73%) had two members;

(b) 63 files (25%) had one member; and

(c) the remaining five files (2%) had three or four members.

219 In 228 files (91%), the advice provider recommended that the fund be set up using a corporate trustee structure; in six files (2%), the advice provider recommended using an individual trustee structure. In 16 files (6%), there was insufficient information to determine which trustee structure was recommended.

Age of members

220 The age of members varied widely from 29 to 77—with a median age of 48. The majority of funds had members aged between 43 and 55.

Starting balance

221 The fund's starting balance was less than $200,000 in 77 files (32%), and less than $300,000 in 143 files (60%). Table 3 shows the distribution of the starting balance for the SMSF files reviewed.[91]

Table 3: Distribution (%) of SMSFs by starting balance

SMSF starting balance	Percentage of files	Percentage of files (cumulative)
$1 up to $50,000	1%	1%
$50,000 up to $100,000	6%	7%
$100,000 up to $150,000	7%	14%
$150,000 up to $200,000	18%	32%
$200,000 up to $250,000	19%	51%
$250,000 up to $300,000	9%	60%
$300,000 up to $350,000	5%	66%
$350,000 up to $400,000	6%	72%
$400,000 up to $500,000	8%	80%

[91] Valid data was unavailable for 12 files; as such, the sample size in this instance is 238.

SMSF starting balance	Percentage of files	Percentage of files (cumulative)
$500,000 up to $750,000	8%	88%
$750,000 up to $1 million	5%	93%
$1 million up to $1.5 million	5%	97%
$1.5 million plus	3%	100%

Note: By ‘up to’, we mean ‘up to but not including’. Due to rounding the ‘Percentage of files (cumulative)’ dos not reconcile to the ‘Percentage of files’.

222 The median SMSF starting balance was $247,136 for files that were assessed as non-compliant, compared with $335,042 for files where advice providers demonstrated compliance with the best interests duty and related obligations.

Rollover advice

223 We found that:

(a) in 125 files (50%), advice providers recommended that the client roll over (i.e. transfer) all of their existing superannuation funds into the SMSF;

(b) in 107 files (43%), advice providers recommended that the client roll over at least part of one existing superannuation fund into the SMSF; and

(c) in 18 files (7%), no recommendation was made to roll over any part of the client’s existing superannuation fund into the SMSF.

224 In 79 (74%) of the files where advice providers recommended a partial rollover, retaining existing insurance cover was the primary reason for the recommendation.

Client objectives

225 The primary reason for clients seeking advice was:

(a) to set up an SMSF—146 files (58%);

(b) to obtain a general review of their superannuation arrangements—53 files (21%);

(c) to obtain a broader financial review—35 files (14%); and

(d) a range of other reasons—16 files (6%).

226 Where clients were specifically seeking to set up an SMSF:

(a) in 112 files (77%), they were primarily doing so to acquire property;

(b) in 11 files (8%), they were seeking greater investment control; and

(c) in 23 files (16%), they had a range of other reasons.

Investment recommendations

227 In 166 files (66%), the advice provider made a specific investment recommendation. In 58 (35%) of these, the advice provider recommended that SMSF assets be invested in a single asset class.

228 Table 4 shows that property was the recommended investment in 55 (95%) of the files where a single asset class was recommended.

Table 4: Type of investment recommendation for files where advice providers recommended investing SMSF assets in a single asset class

Type of investment recommendation	Percentage of files
Property—Residential	64%
Property—Commercial	28%
Property—Unit trust	3%
Cash	3%
Equities	2%

229 In 199 files (80%), the advice provider recommended one or more in-house or related party products and services. In 107 (54%) of these files, the advice provider recommended a related party to the client for the provision of SMSF administration services.

Gearing recommendations

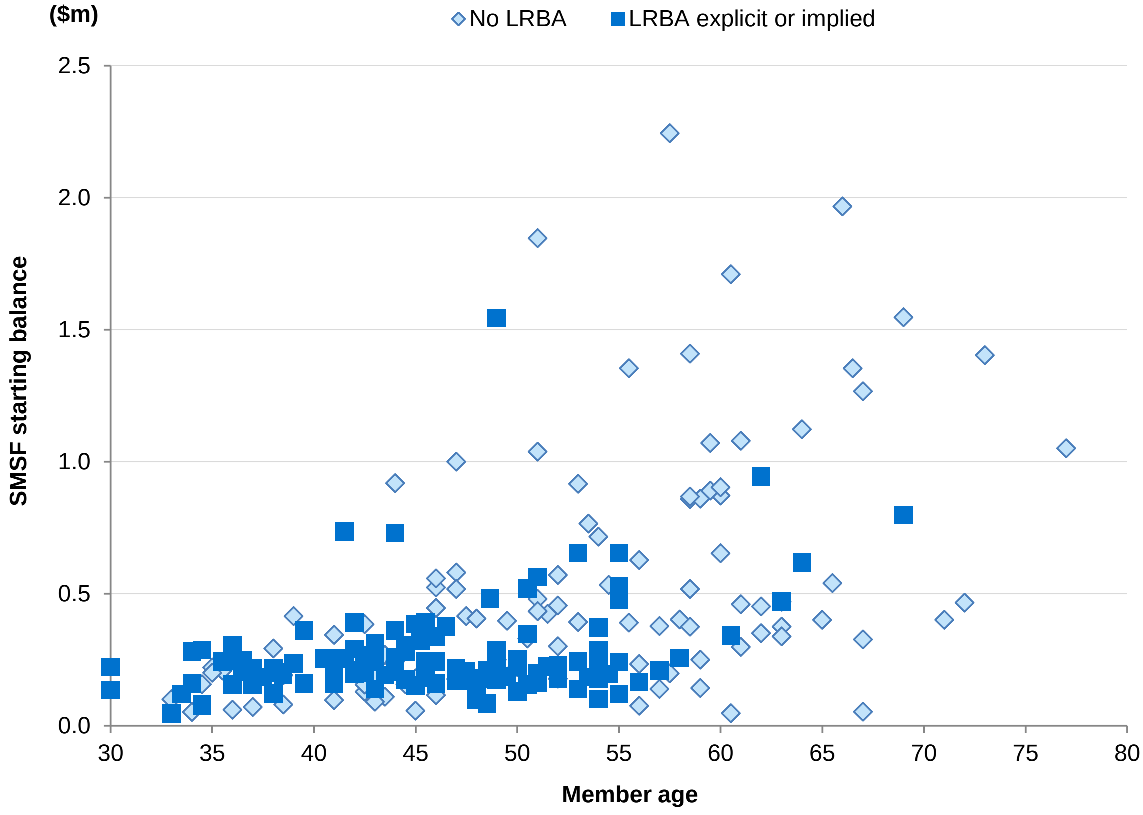
230 In 102 files (41%), the advice provider explicitly recommended an LRBA, and in a further 25 files (10%) the advice provided implied the use of such a loan (e.g. borrowings associated with direct property investment).

231 Figure 24 shows that funds where the advice provider recommended an LRBA, either explicitly or implicitly, tended to have younger members and a lower starting balance.

232 Of the files where an LRBA was recommended, either explicitly or implicitly, the starting balance for the fund ranged from $74,136 to $1,542,701—with a median starting balance of $222,555. The median age for members of these funds was 46.

233 This contrasts with files where there was no LRBA recommendation. In these files, the fund starting balance ranged from $45,387 to $2,243,047—with a median starting balance of $380,684. The median age for members of these funds was 51.

Figure 24: Member age and starting balance for funds with and without a limited recourse borrowing arrangement (LRBA) recommended (explicit or implied)



Note 1: See paragraphs 232–233 for a description of the trends shown in this figure (accessible version).

Note 2: This graph excludes 12 of the 250 files reviewed, where the starting balance was unclear or not recorded on file.

234 The median recommended loan amount was $292,500 across the files where an LRBA was explicitly or implicitly recommended, and where there was sufficient information on file to determine the recommended loan amount.

235 Of the 127 files (51%) where an LRBA was explicitly or implicitly recommended:

(a) in 104 files (82%), the loan was intended for property investments;

(b) in 4 files (3%), the loan was intended for equity investments; and

(c) in 19 files (15%), it was unclear—or the files had insufficient information to determine—whether the asset was to be acquired under an LRBA.

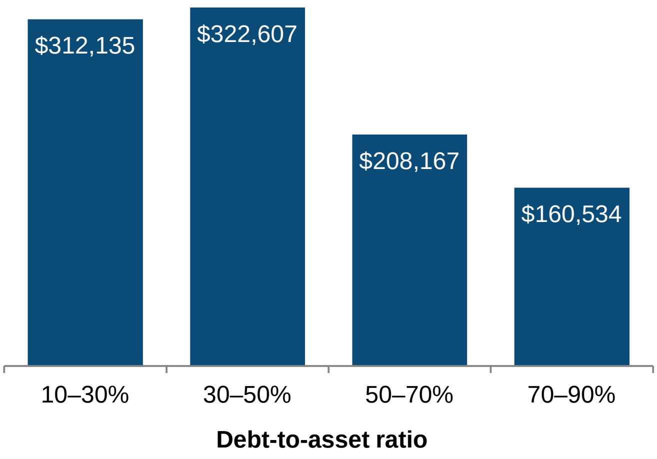
236 In 153 files (61%), the advice provider recommended, or the SMSF members intended, to invest in direct property. Of these, 99 (65%) planned to invest in residential property, and 54 (35%) in commercial property.

237 We calculated the level of gearing using a debt-to-asset ratio. In 87 files (85%) with an explicit LRBA recommendation (total 102 files), there was sufficient information to calculate a debt-to-asset ratio.

Note: The debt-to-asset ratio has been calculated by dividing the loan amount by the sum of the SMSF starting balance and the loan amount.

238 The debt-to-asset ratio varied widely from 11% to 86%—with a median of 57%. Figure 25 shows the median starting balance for funds as the level of debt to assets for those funds increases.

Figure 25: Median starting balance by debt-to-asset ratio



Note: See Table 31 in Appendix 2 for the underlying data shown in this figure (accessible version).

239 Funds with a higher debt-to-asset ratio tended to have a lower starting balance, with the median starting balance decreasing from $312,135 for files with the lowest debt-to-asset ratio (between 10% and 30%) to $160,534 for files with the highest debt-to-asset ratio (between 70% and 90%).

Results of the client file reviews

Overall findings

240 The 250 client files selected were reviewed for compliance with the best interests duty and related obligations, and for compliance with the 'switching advice' requirements in s947D of the Corporations Act.

241 While it is difficult to assess the long-term financial impact of setting up an SMSF, we considered that, in 26 files (10%), the client risked being significantly worse off in retirement as a result of following the advice. Our concerns were based on the balance size of the SMSF, the age of members and the level of gearing within the fund—or a combination of these factors: see paragraph 247.

242 In a further 47 files (19%), we considered that clients were at increased risk of suffering financial detriment as a result of following the advice: see paragraph 248.

243 In an additional 155 files (62%), we found that the advice provider did not demonstrate compliance with the best interests duty and related obligations.

The fact that these files were found to be non-compliant does not mean that clients were significantly worse off as a result of following the advice or that the advice, if implemented, would result in negative outcomes. However, these files did not demonstrate that the client would be in a better position following the advice.

244 The two main causes of files being assessed as non-compliant were:

(a) the advice provider did not demonstrate that they had conducted sufficient research into, and properly considered, the client's existing superannuation products before recommending the establishment of an SMSF; and

(b) the advice provider did not demonstrate that they had adequately considered the client's objectives, financial situation and needs before recommending the establishment of an SMSF.

245 We also found that:

(a) in 227 files (91%), the advice provider did not demonstrate compliance with the requirement to provide appropriate advice under s961G;

(b) in 214 files (86%), the advice provider did not demonstrate that they had prioritised the client's interests under s961J; and

(c) where advice was provided to replace a superannuation product (234 files), information on the product replacement was inadequate or absent in 158 files (68%).

Assessing financial detriment

246 Where client files were assessed as being non-compliant, we considered whether the client was likely to suffer significant financial detriment as a result of following the advice provided.

247 While it is difficult to assess the long-term financial impact of setting up an SMSF, we considered that clients who received non-compliant advice and who fell into the following categories were likely to be significantly worse off in retirement as a result of following the advice:

(a) In 14 files (6%), the oldest member was aged 55 or older and had established an SMSF with a starting balance of $200,000 or below. In these cases, we assessed the SMSF as being unviable. This is because the costs of setting up and operating an SMSF with a balance of $200,000 or below are unlikely to be competitive with an APRA-regulated fund and clients aged 55 or older have limited opportunity to significantly grow their retirement savings before retirement.

(b) In one file (less than 1%), the oldest member was aged over 55, had established an SMSF with a starting balance of between $200,000 and $300,000 (excluding borrowings), and had borrowed money in their

SMSF with a debt-to-asset ratio of more than 60%. In this case, we considered that the use of gearing recommended by the advice provider, when coupled with the client's age and SMSF balance, was inappropriate and exposed the client to a high level of financial risk.

(c) In 11 files (4%), the oldest member was aged under 55 and had borrowed money in their SMSF with a debt-to-asset ratio of 65% or more. In these cases, we considered the use of gearing recommended by the advice provider was inappropriate and exposed the client to a high level of financial risk.

248 In a further 47 files (19%), we considered that clients were at increased risk of suffering financial detriment as a result of following the advice. Our concerns were based on the fact that the assets of the fund were to be invested in a single asset class (i.e. property), which appeared to pose an unnecessary risk due to the lack of diversification.

249 In the remaining non-compliant files, we considered that either:

(a) the likelihood of financial detriment was low; or

(b) there was insufficient information on the file to assess the risk of financial detriment.

250 It is worth noting that we saw:

(a) three examples of client files that were assessed as complying with the law, but where the advice provided was to invest in a single asset class; and

(b) one example where the client had borrowed money in their SMSF with a debt-to-asset ratio of more than 65%.

251 In each of these cases there was a reasonable explanation for the advice provided and this was clearly documented on the client file.

The need to conduct product research when providing switching advice

252 'Switching advice' is personal advice where the advice provider recommends that a client replace (in full or in part) one financial product with another.

253 In 234 (94%) of the client files reviewed, the advice provider recommended that the client switch from their existing superannuation product to an SMSF. In 204 of these files (87%), the advice provider did not comply with s961B(2)(e) of the safe harbour for the best interests duty.

254 Under s961B(2)(e), when giving switching advice, an advice provider must consider and investigate:

(a) the client's existing product (and, if applicable, the relevant option) to see if it is a financial product that might meet the client's relevant circumstances;

Note: A client's 'relevant circumstances' are the objectives, financial situation and needs of a client that would reasonably be considered relevant to the subject matter of advice sought by the client.

(b) the new financial product (and, if applicable, the options available under the financial product) that the client could potentially acquire or invest in; and

(c) the new product (or options) recommended to the client.

255 An advice provider's assessment of the results of their investigation under s961B(2)(e) must be informed by the other requirements in s961B(2). This includes basing all judgements on the client's relevant circumstances: s961B(2)(f).

256 In addition, under s947D, an advice provider must disclose certain information in the SOA about any costs to the client, or benefits the client may lose, as a result of replacing (in full or in part) one financial product with another.

257 The two examples below highlight the differences between two client files, with the first example demonstrating compliant advice and the second example demonstrating non-compliant advice.

Example 1: Advice provider shows they have properly considered the client's existing superannuation fund

Personal circumstances	The clients were a couple in their early 50s and had two children. They each had a retail superannuation fund, with a combined balance of $900,000. The clients held some life insurance policies outside of superannuation, but stated that they did not require a review of their insurance arrangements because of their strong asset position.
Reason for seeking advice	The clients had received a large inheritance and were seeking advice on investing the inheritance in a tax-effective manner.
Advice	The advice provider recommended that the clients: • set up an SMSF with a corporate trustee; • make the maximum concessional and non-concessional contributions to the SMSF each year using their inheritance; • fully roll over their existing superannuation funds into the SMSF; and • invest the rollover proceeds within the SMSF to a diversified portfolio of investments.
Commentary	The advice provider adequately demonstrated that they had conducted a reasonable investigation and assessment of the financial products that may have met the objectives and needs of the client. The file contained analysis showing the impact on the clients' ongoing superannuation fees, based on the recommended contributions. This revealed that the SMSF was projected to be approximately $5,000 per year cheaper than their existing superannuation funds, and $4,800 cheaper than another retail superannuation fund that the advice provider considered. The advice provider identified that the switches would result in capital gains tax implications, which would offset the fee saving in the first year, but thereafter would provide the clients with a cost-effective solution. The advice provider also recorded, in a file note, that they considered that the clients had the necessary experience to be trustees of an SMSF.

Example 2: Advice provider fails to show they have properly considered the client's existing superannuation fund

Personal circumstances	The clients were a couple in their mid-50s and had no financial dependants. The clients owned their home, but had an outstanding mortgage of $260,000. They also owned an investment property, but the value of the property was less than the debt owing on it. The clients both had a retail superannuation fund with a combined balance of $166,000. The husband's existing superannuation fund contained personal insurances; however, the wife's superannuation did not.
Reason for seeking advice	The clients were seeking to: • pay off the debt owing on their primary residence; • grow their superannuation balances; • grow their property portfolio; and • build a passive income stream.
Advice	The advice provider recommended that the clients: • set up an SMSF with a corporate trustee; • partially roll over the husband's superannuation fund and fully roll over the wife's superannuation fund into the SMSF; • use the entire SMSF balance as a deposit to purchase a residential property and finance the shortfall with an LRBA; and • establish new life insurances.
Commentary	The advice provider did not properly address the clients' reason for seeking advice and also did not document any consideration of retaining the existing superannuation funds, or reviewing other investment options available within these superannuation funds. The advice provider did not accurately disclose the relevant implications of the superannuation switches in the SOA, as required by s947D. The SOA noted that the SMSF would be more expensive, but there were no details about the actual costs or any comparative analysis. Without evidence that the advice provider had conducted a reasonable investigation into, and assessment of, the financial products that may have met the objectives and needs of the client, the file was assessed as non-compliant.

Basing all judgements on the client's relevant circumstances

258 In 210 files (92%) that were assessed as non-compliant, we found that the advice provider had not investigated all of the client's relevant circumstances, or had not demonstrated how they had considered them in the final advice provided to the client.

259 Section 961B(2)(f) of the safe harbour for the best interests duty requires the advice provider to base all judgements, in advising the client, on the client's relevant circumstances, as identified in the advice process. This is set out in greater detail in our guidance in RG 175 at RG 175.353.

260 It is essential that the advice provided to the client clearly sets out how the client's needs and objectives have been addressed. This is not possible if insufficient inquiries have been made by the advice provider during the advice process.

261 Where an advice provider recommends that a client replace an existing superannuation product with an SMSF, the advice provider must clearly articulate and provide genuine reasons why the client's existing superannuation product was not able to meet the client's needs and objectives. The advice should also explain how the SMSF will leave the client in a better position.

262 The two examples below highlight the differences between two client files, with the first example demonstrating compliant advice and the second example demonstrating non-compliant advice.

Example 3: Advice provider shows they have properly considered the client's relevant circumstances

Personal circumstances	The clients were a couple, aged 44 and 34. They had two young children. They were in a strong financial position because they owned their home outright and they had property and share investments, in their personal names, with an estimated value of $1.53 million, net of borrowings. They each had a superannuation fund, with a combined value of $430,000. The existing superannuation funds contained insurance. The advice provider identified that they had an 'aggressive' investor profile and had previously borrowed to invest.
Reason for seeking advice	The clients were looking for a review of their superannuation, including advice on whether an SMSF would be appropriate for them. They were unhappy with their existing arrangements, and wanted more active investment management and access to direct investments. They were also looking to review their existing life insurance arrangements to ensure that they had adequate insurance in place.
Advice	The advice provider recommended that the clients: • set up an SMSF with a corporate trustee; • roll over most of their existing superannuation funds into the SMSF, but leave a sufficient balance in the existing superannuation fund to retain insurance; and • invest the rollover proceeds within the SMSF to a diversified portfolio of shares, bonds and exchange-traded options.
Commentary	The file contained evidence that the advice provider had considered the clients' relevant circumstances. The advice provider: • clearly discussed the scope of the advice with the clients and explained the limitations associated with the agreed scope; • took steps to understand the clients' broader financial situation, including that they were planning to sell a property and one of the couple was planning on returning to work in the near future; • recommended that the clients retain existing insurance; • identified that the clients would be capable of being trustees of an SMSF on the basis of their past investment experience, and wanted to, with full knowledge of what was involved in running an SMSF; • recommended an investment portfolio that included direct investments, not available in the clients' existing funds, and that would require active management; • set out the process involved in setting up an SMSF; and • clearly set out that the clients would achieve a cost saving by setting up the SMSF.

Example 4: Advice provider did not show they have properly considered the client's relevant circumstances

Personal circumstances	The clients were 62 and 59 years of age, and each earned $60,000 per year. They owned their home outright, and held superannuation funds with a combined value of $340,000. Their existing superannuation funds contained small levels of insurance, including life, total and permanent disability (TPD) and salary continuance. The clients confirmed that they could contribute $1,000 per month towards their investment savings. They intended to retire in eight years time, but planned to reduce their working hours some time before their retirement.
Reason for seeking advice	They were seeking a review of their superannuation and had a goal to minimise tax. They were keen to have a comfortable, self-funded retirement.
Advice	The advice provider recommended that the clients: • use the equity in their home to borrow $600,000, on interest-only terms, to purchase an investment property in their joint names; • review their estate planning arrangements; • set up an SMSF with a corporate trustee; • roll over their existing superannuation funds into the SMSF; • establish new life insurance policies within the SMSF for $600,000 to cover the new personal debt, with a stepped premium of $7,400 in the first year. Given their respective ages, the advice provider considered that TPD, income protection and trauma insurance would be too expensive; • arrange an LRBA within the SMSF for $190,000 to enable a property to be purchased up to the value of $420,000. The loan repayments were to be structured as principal and interest over a 10-year term; • invest $60,000 of the rollover proceeds within the SMSF to a diversified portfolio; • retain the balance of the rollover proceeds in cash to allow for the property deposit, purchasing costs and a buffer for any unexpected expenses; and • salary sacrifice $5,000 per year (one client only) to the SMSF. The SOA stated that the advice did not specifically address whether the clients would have sufficient assets to meet their retirement objectives, but this could be addressed after the current advice was implemented.
Commentary	The advice provider did not base all judgements on the clients' relevant circumstances. The advice provider excluded retirement planning and transition-to-retirement pensions from the scope of the advice, even though it was clear that this advice was being sought by the clients. Given that the clients were looking to reduce their working hours before retirement, it was unclear how this could be achieved, taking into account the new debt of nearly $800,000. The proposed strategy would restrict the clients' ability to start drawing down a pension from their SMSF in the next 10 years because of the outstanding loan. It was unclear how the clients would be able to retire in eight years, in line with their goals. The advice provider anticipated/calculated that the SMSF would have a surplus cash flow of $3,000 in the first year. However, the stepped insurance premiums were projected to double over the next five years, which indicated that the SMSF would have a cash flow deficit within a short period of time. There was no evidence in the file that demonstrated that the clients had the capacity to be trustees of an SMSF, or specifically sought such a structure. The advice provider did not demonstrate that the recommended strategy would improve the clients' financial position in retirement relative to what their existing fund may achieve, yet exposed them to greater risk.

Appropriate advice: s961G

263 We assessed whether the advice was appropriate for the client: see s961G. We found that, in 227 (91%) of the files reviewed, the advice provider did not demonstrate compliance with the appropriate advice requirement in s961G.

264 Often, the reasons why a file was assessed as being non-compliant with s961G were associated with a failure by the advice provider to show they had taken each of the safe harbour steps in s961B(2). For example, if an advice provider did not demonstrate that they had properly investigated and considered the client's existing superannuation product that would have been appropriate for a client to retain, the file would also be assessed as not being compliant with s961G because the advice provider would not have been able to demonstrate that the advice to dispose of the existing product was appropriate.

Conflicts priority rule: s961J

265 In addition to reviewing each file to check whether the advice provider acted in the client's best interests (s961B(1)) and whether the advice was appropriate for the client (s961G), we assessed the advice to see whether the advice provider had prioritised the needs of the client: see s961J.

266 Under s961J, an advice provider must prioritise the client's interests over their own interests or those of a related party of the advice provider.

267 In complying with s961J, advice providers need to consider what a reasonable adviser without a conflict of interest would do: see RG 175.392 in RG 175. To demonstrate compliance with s961J, an advice provider must identify what interests they or their related parties have: see RG 175.390.

268 If an advice provider recommends that a client switch from their existing superannuation product to a new product, such as an SMSF, the advice provider must prioritise the client's interests in accordance with s961J.

269 Given the number of files that were assessed as not complying with the best interests duty (s961B(1)) and the appropriateness of advice (s961G), it was perhaps not unexpected that, in a large number of files, advice providers did not demonstrate how they had prioritised the needs of the client.

270 In 214 files (86%), we found that the advice provider appeared to have prioritised their own interests, or those of a related party of the advice provider, over the client's interests in breach of s961J. In general, the conflict of interest arose because the advice provider, or a related party of the advice provider, obtained fees or other benefits as a result of the advice provided (e.g. fees for auditing the SMSF, arranging finance for the SMSF and sourcing a property for the SMSF).

Example 5: Advice provider did not prioritise the interests of the client over their own interests

Personal circumstances	The clients were a couple aged in their late 30s with four financially dependent children. They owned their home, but had an outstanding mortgage of $420,000. The clients both had retail superannuation funds with a combined balance of $197,000. The advice provider identified that they had a 'growth' investor profile.
Reason for seeking advice	The clients were seeking advice on buying a bigger home.
Advice	The advice provider recommended that the clients: • direct surplus cashflow to their existing home loan; • set up an SMSF with a corporate trustee; • roll over a majority of their superannuation into the SMSF; • make superannuation contributions into the SMSF; • purchase an investment property in the SMSF through a related party business; and • fund the property purchase using cash and borrowings that resulted in a 65% debt-to-asset ratio.
Commentary	The advice provider did not prioritise the needs of the clients. Specifically: • the advice provider did not address the clients' reason for seeking advice; • there was no evidence on the file indicating that the clients wanted to establish an SMSF; • the clients' SMSF purchased the property through a related party realty business; and • the strategy was high risk—there was a lack of diversification and the majority of the superannuation balance was invested in an illiquid asset with a 65% debt-to-asset ratio.

D Areas for improvement and practical tips for the sector

Key points

The findings from our review of SMSF advice, coupled with the results from the member research, show that the advice-giving process needs significant improvement in some areas.

Running an SMSF is not for everyone. It is important that potential trustees understand the advantages and disadvantages of running an SMSF before deciding to set up an SMSF.

In 2015, we published INFO 205 and INFO 206 to assist advice providers when providing personal advice about SMSFs. These information sheets contain important information about the risks and costs associated with SMSFs. Disappointingly, this information is still not routinely discussed with clients.

In this section, we outline some practical tips that advice providers can use to improve the quality of SMSF advice they provide to clients. These are based on the problems we saw in both the member research and our advice review, and relate to:

- the role and obligations of SMSF trustees;
- the suitability of an SMSF structure;
- risks of an SMSF structure;
- the investment strategy;
- switching from an APRA-regulated fund to an SMSF;
- alternatives to an SMSF structure; and
- record keeping.

The examples in this section are real and represent a mix of good and poor advice practices.

Role and obligations of SMSF trustees

271 Deciding to become a trustee of an SMSF is not a decision to be taken lightly. Being a trustee of an SMSF carries duties and responsibilities that are serious and wide ranging. While many potential SMSF trustees are aware that setting up an SMSF will require them to take control of the fund's investment decisions, they need to understand that there are a number of other responsibilities and obligations that they must meet on an ongoing basis.

272 From the results of both our advice review and the member research, it is clear that:

(a) advice providers discuss to varying degrees with their clients the duties and obligations of an SMSF trustee; and

(b) a large number of SMSF trustees are not fully aware of what they are required to do as trustee.

273 We expect that advice providers who recommend that clients set up an SMSF will explain the duties and obligations that trustees must meet.

274 Advice providers should remind clients that it is illegal to use an SMSF to allow SMSF members to gain early access to their superannuation savings. Advice providers should refer clients to the ATO's guidance on accessing superannuation.[92]

275 Advice providers should also explain that each trustee is liable for managing the SMSF, and that there are serious consequences if trustees do not properly fulfil their duties as trustees.

Tips for advice providers: Role and obligations of SMSF trustees

1. The ATO regulates SMSFs and provides useful information on its website about the obligations and duties of trustees in managing an SMSF.[93] As good practice, you should:
   (a) direct clients to the relevant pages on the ATO website;
   (b) provide clients with a copy of key ATO publications with their SOA to ensure that they understand their obligations; or
   (c) encourage clients to complete one of the ATO's free approved online education courses.[94]
2. You should explain to clients the duties and obligations that each trustee has to comply with under the law.
3. You should explain to clients that, within 21 days of becoming an SMSF trustee, they will need to complete the ATO's trustee declaration.
4. You should discuss with clients the ATO's trustee declaration, explain each obligation and duty, and allow clients to ask any questions about their obligations.
5. If you do not adequately understand the role and obligations of SMSF trustees, it is inappropriate for you to advise clients about SMSFs.

Suitability of an SMSF structure

276 It is important to remember that SMSFs are not a suitable retirement savings structure for every client. In the majority of cases, an APRA-regulated fund will be an appropriate retirement savings vehicle.

[92] ATO, *Accessing your super.*
[93] ATO, *Self-managed super funds.*
[94] ATO, *Approved education courses.*

277 If the main reason for setting up an SMSF is to obtain greater investment control, many APRA-regulated funds offer members a DIY investment option where members are able to self-direct part of their retirement savings towards shares, exchange-traded funds and term deposits.

278 Before setting up an SMSF, advice providers should discuss the following in detail with their clients:

(a) the client's reasons for setting up an SMSF;

(b) whether the client's superannuation balance is enough to justify setting up an SMSF;

(c) the costs of setting up and running an SMSF;

(d) the time and commitment associated with running an SMSF, and whether the client possesses any special characteristics that may make an SMSF structure inappropriate; and

(e) the financial literacy skills required to run an SMSF.

(f) succession planning.

Reasons for setting up an SMSF

279 We know, from our advice review, that many clients approach an advice provider thinking that they want to set up an SMSF.

280 Two common reasons clients have for wanting to set up an SMSF are to:

(a) have more control over their investments; and

(b) invest in property.

281 When a client approaches an advice provider for help in setting up an SMSF, the advice provider might provide the following financial services:

(a) financial product advice about the SMSF (e.g. whether the client should set up an SMSF or how the SMSF should be structured); or

Note: Under the Corporations Act, all financial product advice is either 'personal advice' or 'general advice'. In most cases, advice about SMSFs will be personal advice.

(b) arranging to deal in an interest in an SMSF (this involves taking practical steps to assist the client to set up the SMSF).

282 We expect that, when a client approaches an advice provider to discuss setting up an SMSF, the client would, in most cases, be receiving financial product advice. This is because:

(a) the client is choosing to see an advice provider in the expectation of obtaining an expert recommendation or statement of opinion about the course of action they are thinking of taking in relation to the SMSF; and

(b) the definition of 'financial product advice' is broad enough to cover a wide range of discussions about SMSFs, and not solely discussions about whether the client should set up an SMSF. Other examples of financial product advice that might be provided include advice about whether the trustee of the SMSF should be a corporate entity or individuals, and advice about who should be members of the SMSF.

283 Before providing personal advice, an advice provider should critically probe the reasons why a client wants to set up an SMSF, to ensure that setting up an SMSF is appropriate for the client. This will involve discussion about a variety of issues, including:

(a) why the client is dissatisfied with their current superannuation arrangements;

(b) what the client hopes to achieve by setting up an SMSF;

(c) what 'control' means to the client; and

(d) where relevant, why the client is interested in investing in property through their SMSF.

284 By taking the time to really understand the client's objectives, the advice provider can appropriately tailor their advice to the client.

285 For example, we saw a number of scenarios where a client wanted to set up an SMSF to gain 'control' over their superannuation. In many of these cases, however, the client went on to say that they wanted to completely outsource every aspect of managing an SMSF to the advice provider. Such a response is clearly contradictory to the notion of 'control' and should be further explored with the client.

286 In some limited cases, a person who is authorised to give financial product advice might assist their clients to set up an SMSF without providing financial product advice. This might occur if a client has already decided to set up an SMSF and merely wants assistance with the practical steps required to set up an SMSF.

287 If, in the course of providing these services, the person makes no recommendation or statement of opinion that might influence the client's decision about an SMSF, these services would not involve the provision of financial product advice.

288 However, even if no financial product advice is provided, the service of establishing an SMSF for a client (which may include sourcing a trust deed for the SMSF, applying for an Australian Business Number and Tax File Number for the SMSF, setting up a company for use as trustee of the SMSF and registration of the SMSF with the ATO) would constitute the financial service of arranging to deal in an interest in an SMSF. Taking practical steps to add new trustees and members to an existing SMSF would also constitute this financial service.

289 While these activities would be likely to constitute the financial service of arranging to deal in an SMSF, it is also possible that the person providing these services might provide financial product advice while carrying them out.

290 For example, it would not constitute financial product advice to set up a company for use as a corporate trustee of the SMSF if that is what the client has asked for and the advice provider clarifies at the outset that they are not providing financial product advice. However, if an advice provider makes a recommendation to a client about whether the trustee of their SMSF should be a corporate entity or an individual, we would consider this to be financial product advice because it would be intended to influence the client's decision about how the SMSF is structured.

Fund balance size

291 One of the key issues that advice providers should discuss with clients interested in an SMSF is the appropriate level of resources required before setting up the SMSF. In particular, clients need to understand the very real disadvantages associated with setting up a low-balance fund.

292 If the fund balance is so low that it makes the SMSF unviable, we expect the advice provider to refuse to set up the SMSF. In INFO 206, we identify an SMSF with a starting balance of $200,000 or below as unlikely to be appropriate for the client. More recently, the Productivity Commission in its draft report has highlighted that SMSFs with less than $1 million are generally not cost-competitive with APRA-regulated funds. SMSFs with very low balances perform particularly poorly.

293 The costs of setting up and operating an SMSF with a balance of $200,000 or below are unlikely to be competitive compared with a fund regulated by APRA. Therefore, the client may not be in a better position if they set up an SMSF than if they were to use an APRA-regulated fund.

294 There may, however, be limited circumstances where setting up an SMSF with a starting balance below $200,000 may be appropriate for the client—for example:

(a) where the trustee is willing to undertake much of the administration of the SMSF and the management of the investments to make the fund more cost-effective; or

(b) where a large asset or funds in another superannuation account will be transferred into the SMSF shortly after the fund is set up.

295 In our advice review, we found that 32% of SMSFs were set up with a balance of below $200,000. There was often no reasonable explanation recorded in the client file for setting up a lower balance SMSF.

296 There will also be circumstances where an SMSF with a starting balance of more than $200,000 is not appropriate for the client because it does not meet the client's objectives, financial situation or needs. For example, the client may not have the skills, time or experience to adequately carry out the duties of a trustee.

297 For older clients, it will often be appropriate for the advice provider to revisit the issue of fund balance size. SMSFs will generally have a reduced balance size as clients progress through retirement. This is because, as clients age, they

are required to make minimum pension drawdowns.[95] It may be beneficial for these clients to move out of the SMSF sector.

Example 6: Clients with a low superannuation balance

Scenario	A couple decided to see an advice provider after hearing that they could use their superannuation savings to buy a property. The husband was aged 54 and earned $30,000 a year, and the wife was aged 48 and earned $90,000 a year. The couple had a combined superannuation balance of $160,000.
Advice	The advice provider considered the clients' relevant circumstances, and recommended that they not set up an SMSF on the basis that: • their combined superannuation balance was low and, as such, an SMSF would not be cost-effective; and • they did not have the financial means to boost their superannuation balance in the short to medium term.
Commentary	An advice provider should use their skills, expertise and judgement in determining whether an SMSF is appropriate. In this example, the advice provider gave appropriate advice. The SOA clearly set out the reasons why such a strategy was not appropriate.

Costs of setting up and running an SMSF

298 There are a number of costs associated with setting up and running an SMSF. Advice providers should discuss these costs with their clients before setting up an SMSF.

299 INFO 206 provides guidance to advice providers on the need to provide clients with advice on:

(a) the cost-effectiveness of an SMSF—in particular, if the starting balance is $200,000 or below;

(b) the costs of setting up, operating and winding up an SMSF; and

(c) the continued suitability of an SMSF for the client.

300 Some examples of unavoidable costs that advice providers should discuss with the client include:

(a) the annual SMSF supervisory levy collected by the ATO;

(b) the cost of producing an annual financial statement and tax return;

(c) annual independent audit fees;

(d) costs relating to setting up the SMSF; and

(e) the fee for the annual actuarial certification (when required).

301 Some examples of optional costs that an advice provider may need to discuss with the client include:

[95] ATO, *Pension standards for self-managed super funds.*

(a) the costs of establishing a corporate trustee, including ASIC’s fees to establish a corporate entity and the annual corporate trustee fee;

(b) ongoing SMSF administration costs;

(c) professional investment advice fees;

(d) accounting and bookkeeping fees;

(e) investment management fees;

(f) the cost of obtaining insurance cover; and

(g) costs relating to winding up an SMSF, including compliance costs and transaction costs related to realising assets.

302 We assessed the client files against INFO 206 to determine whether the advice provider had adequately communicated the costs of an SMSF to the client.

303 Table 5 shows the proportion of client files where we assessed that the advice provider had not adequately disclosed the specific costs of an SMSF in accordance with INFO 206. The most common costs not adequately disclosed were the types of costs associated with winding up an SMSF, followed by the ‘opportunity cost’ associated with managing an SMSF.

Table 5: Client files demonstrating inadequate disclosure of costs

Cost category	Proportion of files with inadequate disclosure
Types of costs associated with winding up an SMSF	54%
‘Opportunity cost’ associated with managing an SMSF	48%
Investment costs	16%
Insurance costs	14%
Ongoing costs associated with operating an SMSF	12%
Costs associated with setting up an SMSF	8%

304 Advice providers should have regard to the content of INFO 206 when discussing setting up an SMSF with clients.

Time and commitment

305 Of course, cost is just one of the many factors that advice providers should consider when deciding whether an SMSF is an appropriate retirement savings vehicle for a client. Other factors that are equally relevant include whether the client has the ability and willingness to take on the responsibility, time commitment and risks associated with managing their own superannuation.

306 For many clients, including those with a high superannuation balance, an APRA-regulated fund may be a more attractive superannuation vehicle than an SMSF.

Example 7: Client with a high superannuation balance, but little time

Scenario	A client approached an advice provider because they were unhappy with the performance, or transparency, of their existing APRA-regulated fund. The client's superannuation balance was over $2 million. The client was not seeking a DIY option, and had neither the time nor the interest in managing their superannuation.
Advice	The advice provider recommended that the client set up an SMSF and invest the rollover proceeds in a diversified portfolio of direct investments. The advice provider recommended that a related party administer the SMSF. The client's ongoing superannuation fees were projected to increase from $13,600 per year to $23,000 per year. In addition, the cost of setting up the SMSF was $11,000.
Commentary	It is important for an advice provider to obtain a complete understanding of a client's relevant circumstances and identify a substantive reason for setting up an SMSF. Setting up an SMSF is a big decision, and an advice provider should consider whether the client wants the responsibilities associated with being a trustee of an SMSF. If the running of an SMSF is to be completely outsourced, it is unlikely that an SMSF will be appropriate for the client. In this scenario, moving to another APRA-regulated fund may have enabled the client to hold a similar portfolio without the cost and time commitment associated with running an SMSF.

Financial literacy skills

307 The risks associated with a trustee's lack of financial literacy are magnified in an SMSF.

308 SMSF trustees have a duty to exercise skill, care and diligence in managing an SMSF, and therefore need to possess a sufficient level of financial literacy to manage the fund and make investment decisions in line with the fund's investment strategy. While SMSF trustees can use external research and advice to develop their financial knowledge over time, they remain responsible for ensuring that investment decisions are made and implemented in line with the fund's investment strategy.

309 In our advice review, we saw a number of examples of advice providers recommending that clients set up an SMSF, even though the clients had asked for a simple and low-maintenance superannuation solution. On the face of it, we consider this to be inappropriate advice.

310 We also saw several examples of advice providers recommending an SMSF although it was clear that the clients were not adequately managing their personal financial affairs.

311 If a client is struggling with their personal financial affairs, it will not be appropriate to recommend that they set up an SMSF.

Example 8: Clients with a low level of financial literacy

Scenario	A couple in their late 50s went to see an advice provider. The clients were concerned about their financial position and had the following objectives: • to reduce or eliminate their debts; • to pay off their mortgage more quickly; and • to save for a holiday to England. The clients' combined income was less than $80,000, and their combined superannuation balance was $150,000. The clients' outstanding mortgage was $210,000 on a home worth $390,000. They also had four unsecured loans totalling $55,000.
Advice	The advice provider recommended that the clients set up an SMSF, roll over their existing superannuation funds, and purchase units in a property trust.
Commentary	It should have been obvious to the advice provider that the clients did not have the requisite financial skills to manage an SMSF. The clients were struggling to manage their personal financial affairs, had a low combined superannuation balance and had no capacity to significantly increase their superannuation balance. The advice provided was not appropriate for the clients and did not meet the clients' needs or objectives.

SMSF succession planning

312 An important consideration for clients when considering whether to set up an SMSF is the issue of succession planning.

313 An SMSF is a long-term retirement savings vehicle. However, unexpected events such as illness, loss of employment or death can occur. Trustees should think about the steps for succession planning they need to put in place to deal with these situations.

314 If one trustee is more heavily involved in the day-to-day running of an SMSF (e.g. a husband or wife managing the SMSF on behalf of a married couple), we expect the less active trustee to have considered and planned for what they will do if the controlling trustee becomes unable to manage the SMSF.

315 In our online survey, we found that a third of SMSF trustees had no existing arrangements in place for their SMSF in the event that something should happen to them—for example, ill health or cognitive decline.

Tips for advice providers: Suitability of an SMSF structure

6 You should discuss the client's superannuation balance and whether it is likely to be cost-effective for the client to set up an SMSF.

7 You should discuss the likely costs associated with running an SMSF—including the set-up costs, the cost of winding up, and the ongoing costs of investment management, compliance and advice—and explain these to the client before making a recommendation to set up an SMSF. This information is contained in INFO 206.

8 Before recommending an SMSF, you should consider the client's ability and willingness to manage the fund and meet their trustee obligations on an ongoing basis.

9 Be aware of 'red flag' indicators that may suggest an SMSF will not be suitable for a client—including, but not limited to the following:

(a) the client has a low superannuation balance, and would have a limited ability to make future contributions;

(b) the client wants a simple superannuation solution;

(c) the client wants to delegate all of the running of the SMSF to a paid advice provider;

(d) the client wants to delegate all of the investment decision making to someone else;

(e) the client does not have a lot of time to devote to managing their financial affairs;

(f) the client has little experience making investment decisions;

(g) the client, or suggested trustee, is an undischarged bankrupt or has been convicted of an offence involving dishonesty (as such, persons are prohibited from acting as a trustee); and

(h) the client has a low level of financial literacy.

10 You should explain to clients approaching the pension phase that there may be a point at which the SMSF may cease to be cost-effective because fixed costs will remain constant or increase while the balance of the fund diminishes.

11 Where appropriate, you should discuss SMSF succession planning issues with clients (this will be more relevant for older clients). Some key questions to discuss include the following:

(a) For clients who are individual trustees, what will happen if one of the trustees dies?

(b) If one trustee (the controlling trustee) is more actively involved in the day-to-day management of the SMSF, what will the less active trustee do if the controlling trustee is unable to manage the SMSF?

Risks of an SMSF structure

316 There are a number of risks associated with setting up an SMSF. Advice providers and their clients should discuss and consider these risks before setting up an SMSF.

317 INFO 205 provides guidance on the risks that should be considered by the advice provider and disclosed to the client when providing personal advice about SMSFs. These risks include:

(a) the lack of statutory compensation for theft or fraud;

(b) the impact on insurance;

(c) reduced access to dispute resolution bodies;

(d) the appropriateness of different SMSF structures;

(e) the trustee's obligations, and the time and skills necessary to operate an SMSF;

(f) the trustee's obligation to develop an investment strategy; and

(g) the need to consider an exit strategy.

318 There may be additional risks that advice providers should discuss with the client, depending on their individual circumstances.

319 Despite our guidance in INFO 205, we found significant deficiencies in the disclosure of risks by advice providers to their clients.

320 We assessed the client files against INFO 205 to determine whether the advice provider had adequately communicated the risks of an SMSF to the client.

321 Table 6 shows the proportion of client files where we assessed that the advice provider had not adequately disclosed the specific risks of an SMSF in accordance with INFO 205. The most common risks not adequately disclosed were the need to consider an exit strategy, followed by the lack of statutory compensation.

Table 6: Client files demonstrating inadequate disclosure of risks

Risk category	Proportion of files with inadequate disclosure
Need to consider an exit strategy	54%
Lack of statutory compensation	38%
Access to complaints mechanisms	35%
Impact on insurance	22%
Appropriateness of different SMSF structures	22%
Trustee obligation to develop an investment strategy	12%

322 Advice providers should have regard to the content of INFO 205 when discussing setting up an SMSF with clients.

Lack of statutory compensation for theft or fraud

323 Unlike members of APRA-regulated funds, SMSF trustees are not entitled to receive compensation under the SIS Act in the event of theft or fraud. Part 23 of the SIS Act makes provision for financial assistance to superannuation funds regulated by APRA that suffer loss as a result of theft or fraud—however, this does not extend to SMSFs.

324 We examined this issue in our advice review and found that, when advising clients to set up an SMSF, 38% of advice providers did not warn their clients about the lack of compensation available. It is of concern that clients were not warned about the very real risk of not having access to a statutory compensation scheme in the event of theft or fraud. We expect to see advice providers warning clients about this risk.

325 Clients need to consider this risk when determining whether or not an SMSF is the right superannuation vehicle for them. SMSF trustees should be alert to the risk of theft or fraud when making investment decisions for the fund.

Access to dispute resolution

326 Unlike members of APRA-regulated funds, SMSF members do not have access to the Superannuation Complaints Tribunal (SCT) to deal with complaints about the decisions and conduct of trustees. This is because members of SMSFs are the trustees of the fund and cannot complain about decisions they have made as trustees of their own fund.

327 If issues or disagreements arise about how the SMSF is being managed, it is up to SMSF trustees to sort these issues out between themselves or seek legal advice (which can be costly).

328 In 35% of the client files reviewed, the advice provider did not discuss with their clients that moving from an APRA-regulated fund to an SMSF would affect their access to dispute resolution.

329 If an SMSF member suffers financial loss as a result of fraudulent conduct, theft or inappropriate advice given by their advice provider, they can make a complaint to an external dispute resolution (EDR) scheme.

> Note: From 1 November 2018, a new single EDR scheme for consumers and small business complaints, the Australian Financial Complaints Authority (AFCA), will replace the two existing ASIC-approved EDR schemes—the Financial Ombudsman Service and the Credit and Investments Ombudsman—and the SCT.

Corporate trustee or individual trustees

330 Before setting up an SMSF, advice providers should discuss with their clients the advantages and disadvantages of having a corporate trustee structure compared with individual trustees.

331 There are a number of benefits associated with having a corporate trustee, including:

(a) limited liability for directors;

(b) simpler segregation of SMSF assets;

(c) administration efficiencies for changes in members;

(d) simpler trustee succession (i.e. a corporate trustee will continue in the event of a member's death); and

(e) access to limited recourse borrowing because lenders often insist an SMSF has a corporate trustee.

332 The ATO has published information on this issue, and we suggest that advice providers draw this information to the attention of clients.[96]

333 In our advice review, it was pleasing to see that some attention has been paid to this issue, with 91% of client files reviewed containing a recommendation to use a corporate trustee structure.

Relationship breakdown

334 Most SMSFs are established as two-member funds. Typically, they are husband and wife funds.

335 In our advice review, we saw some atypical examples of SMSF member relationships, including:

(a) two unrelated couples;

(b) business partners; and

(c) adult siblings.

336 While no relationship is risk free, we think that certain relationships, such as those listed above, are at higher risk of failing.

337 Where the membership structure of an SMSF is unusual, advice providers may need to spend more time discussing the risks of relationship breakdown with clients, and whether it is better to mitigate, manage or avoid those risks.

Inappropriate insurance cover

Getting insurance wrong

338 The potential loss of insurance benefits is an important issue that advice providers should discuss with clients before setting up an SMSF. Clients who switch all of their superannuation savings out of an APRA-regulated fund and

[96] ATO, *Choose individual trustees or a corporate trustee*.

into an SMSF need to understand that they will be uninsured unless they purchase a new insurance policy.

339 Our experience is that life and TPD insurance is generally more expensive and harder to obtain for SMSFs than for larger APRA-regulated funds, which can often offer default levels of cover without a medical assessment.

340 Advice providers should also note that trustees of an SMSF must consider insurance for fund members as part of the fund's investment strategy.[97]

341 In our advice review, we identified a number of areas where advice about insurance could be improved. Problem areas included:

(a) discussing insurance after, and not before, an SMSF had been set up;

(b) inappropriately excluding insurance from the scope of advice; and

(c) keeping some money in an APRA-regulated fund for insurance purposes without discussing the advantages and disadvantages of this approach.

342 When discussing an SMSF with a client, we expect advice providers to consider, at a minimum, the costs and benefits of the following options:

(a) not fully closing down the client's existing APRA-regulated fund to maintain their existing insurance cover; and

(b) replacing existing cover with a new insurance policy taken out by the SMSF on behalf of the members.

Discussing insurance before setting up an SMSF

343 Advice providers should discuss insurance issues with clients before setting up an SMSF. This is because insurance considerations may affect a client's decision to set up an SMSF.

344 Before setting up an SMSF, advice providers should discuss with their clients:

(a) the client's existing level of insurance;

(b) the level of insurance the client will require in the future; and

(c) how best to implement the right insurance strategy. Where this involves a change to the client's existing insurance arrangements, this will involve comparing the costs and benefits or disadvantages of changing the client's insurance.

Note: If an advice provider is operating under a limited AFS licence, there are restrictions on the extent to which they can give advice about life insurance: see Information Sheet 228 *Limited AFS licensees: Advice conduct and disclosure obligations* (INFO 228).

[97] See reg 4.09(2)(e) of the Superannuation Industry (Supervision) Regulations 1994, as amended by the Superannuation Industry (Supervision) Amendment Regulation 2012 (No. 2).

Inappropriately excluding insurance from the scope of advice

345 In our advice review, we saw examples of advice providers identifying a client's insurance needs, but inappropriately excluding insurance from the scope of advice.

346 If an advice provider identifies insurance as an advice need, they must deal adequately with the client's insurance needs before setting up an SMSF.

Appropriately excluding insurance from the scope of advice

347 In some situations, it may not be necessary for an advice provider to discuss insurance issues with a client. For example, a client may inform the advice provider that they have insurance outside their superannuation and do not require any additional insurance.

348 Where insurance is excluded from the scope of SMSF advice, the advice provider must make it clear to the client that no insurance advice is being provided and explain the potential downside, if any, to the client by choosing not to receive advice on this aspect of their personal circumstances.

Note: See Regulatory Guide 244 *Giving information, general advice and scaled advice* (RG 244), Example 3 (A retirement savings health check).

Keeping some insurance in an APRA-regulated fund

349 Because of their size, most APRA-regulated funds are able to access competitive insurance premium rates. Retaining insurance through an APRA-regulated fund may therefore be appropriate in some circumstances.

350 Before considering this approach, however, the advice provider should:

(a) consider the client's insurance needs and circumstances;

(b) discuss with the client the costs and disadvantages associated with having membership of more than one superannuation fund (i.e. an SMSF and an APRA-regulated fund);

(c) explain the risk that the balance in the APRA-regulated fund may reduce to a point where there is no member benefit left to pay the insurance premium, requiring the member to make arrangements to cover the shortfall; and

(d) explain that the insurance in the APRA-regulated fund may have eligibility requirements that may be compromised by moving money to an SMSF.

Tips for advice providers: Risks of an SMSF structure

12 You should be familiar with the risks of an SMSF structure, as set out in INFO 205.

13 You should warn clients looking to set up an SMSF about the lack of Government compensation available to SMSFs. This information will help clients properly weigh up whether an SMSF structure is right for them.

14 You should warn clients that SMSF trustees and members do not have access to the SCT to resolve complaints.

15 You should explain the advantages and disadvantages of setting up an SMSF with a corporate trustee versus individual trustees, and provide clients with relevant ATO publications via hard copy or web links.

16 If the client's proposed membership structure of an SMSF is unusual, you may need to spend more time discussing the duties and obligations of trustees, the risks associated with the membership structure, and the importance of having a well-documented, specific investment strategy, and a trust deed that contains dispute resolution clauses.

17 You should reiterate the role and responsibilities of trustees, and explain that, even if one trustee is less actively involved, they are equally liable for complying with the trustee obligations under superannuation and tax laws.

18 When you recommend an SMSF to a client, you should discuss their insurance needs. This will often involve discussing:

(a) their existing insurance cover;

(b) the level of insurance cover they will need in the future;

(c) the costs and options of maintaining, increasing or decreasing (as appropriate) their existing insurance cover through an SMSF;

(d) whether they have any health issues that may affect their ability to get insurance cover;

(e) the advantages and disadvantages of retaining a portion of their APRA-regulated superannuation for insurance purposes (if considered appropriate); and

(f) the impact of the insurance recommendation on their SMSF balance.

19 If you identify that a client needs advice on insurance, you must consider and advise the client on their insurance needs before recommending an SMSF be set up. If you do not have the necessary expertise to provide insurance advice, you should notify the client and refer the client to an advice provider who has the expertise to provide the advice.

20 If you are operating under a limited AFS licence, you should carefully check what advice you are or are not able to provide: see Information Sheet 227 *What can limited AFS licensees do* (INFO 227).

Investment strategy

351 The most common reason cited by existing trustees for setting up an SMSF is to have more control over their investments. The benefits of control can include the ability to:

(a) develop a tailored investment strategy;

(b) be directly involved in making the investment decisions; and

(c) invest in some investments that may not be available in an APRA-regulated fund.

352 While these advantages of SMSFs appeal to many potential trustees, formulating and implementing an appropriate investment strategy is a serious responsibility.

353 SMSF trustees have an obligation to ensure the fund's money is invested appropriately and for the sole purpose of saving for retirement. To achieve this, the law requires that trustees prepare, implement and regularly review the SMSF's investment strategy. In our member survey, we found that 33% of members did not know that an SMSF must have an investment strategy.

354 The investment strategy should be designed to deliver the level of returns required to adequately fund members' retirement, taking into account:

(a) the members' financial situation, needs and circumstances (e.g. their age and retirement needs);

(b) diversification by investing in a range of assets and asset classes;

(c) the risk and likely return from investments, to maximise member returns;

(d) the liquidity of the fund's assets (i.e. how easily they can be converted to cash to meet fund expenses); and

(e) the fund's ability to pay benefits when members retire and any other costs the fund incurs.[98]

355 Some SMSF trustees will seek investment advice from an advice provider. When a trustee receives advice on an investment strategy for an SMSF, it is important to remember that the trustee remains ultimately responsible for the investment strategy. SMSF trustees will therefore need to possess a reasonable level of financial literacy (i.e. financial skills and expertise) to understand the investment decisions they are making on behalf of the members of the fund.

Developing an investment strategy

356 When developing an investment strategy for an SMSF, advice providers and trustees should give consideration to:

(a) the needs of all members;

(b) the need for regular investment income to cover the expected costs and benefit payments for the fund;

(c) the preservation of trust assets required by members;

[98] ATO, *Your investment strategy*.

(d) the capital growth required by members;

(e) the need for liquidity above the provision of regular income;

(f) the need for fund assets to be diversified;

(g) the individual investment and behavioural biases of members; and

(h) excluding certain investments considered outside the risk tolerance of members.

Investment diversification

357 Diversification is an important consideration for an SMSF investment strategy because it can improve the risk and return profile of the fund. A diversified investment strategy can help reduce risk, while an undiversified investment strategy magnifies risk. We expect advice providers to explain the importance of a diversified SMSF investment strategy to clients.

358 Responses to the interviews conducted as part of our member research indicate that the concept of diversification is not well understood by SMSF members. Advice providers should be mindful of this when discussing investment diversification with clients.

359 If a client specifically requests advice on a single asset class, advice providers should provide a clear and unambiguous warning to the client about the risks associated with an undiversified investment portfolio. If advice on a single asset class would be inappropriate for the client, the advice provider should refrain from providing advice.

360 Clients need to be aware that, if setting up an SMSF with a lower balance, it can be more difficult to achieve investment diversification because there is less money to invest.

361 Our advice review found that, in 153 files (61%), the advice provider recommended, or the SMSF members intended, to invest in direct property, of which 55 files (22%) were advised to invest in a property alone. Having an undiversified investment strategy poses a significant risk for clients if there is a reduction in the performance of their investment.

Investing in property

362 In our advice review, we found that members of 112 funds (45%) approached an advice provider about setting up an SMSF because they wanted to invest in real property.

363 In 104 (42%) of these client files, the advice provider recommended setting up an SMSF, entering into an LRBA, and purchasing a property.

364 In many cases, the desire to invest in property seemed to be driven by a fear of being locked out of the property market due to rising property prices.

365 Borrowing money to purchase a property is not risk free. While it may be a suitable investment approach for some SMSFs, it will be a very high risk option in a number of circumstances: see paragraphs 246–248.

366 If a client is considering investing in property through an SMSF, we expect an advice provider to discuss with the client, and clearly document in the SOA, the advantages, disadvantages and special characteristics associated with the investment. These include:

(a) the impact (benefits and risks) of leveraging a client's superannuation savings to purchase an asset that a client's fund could not ordinarily afford;

(b) the concessional tax rate available to income received from an SMSF holding a beneficial interest in an asset acquired under an LRBA;

(c) the high upfront costs of purchasing the property (e.g. stamp duty, loan fees, estate agent fees);

(d) the ongoing costs of managing and maintaining the property (e.g. repairs, improvements, agent costs, rates, insurance);

(e) that the property may be illiquid and difficult to sell quickly if the client needs it to be converted to cash, or requires liquid funds to pay a retirement pension or death benefit;

(f) the risk that the property may become untenanted or suffer damage; and

(g) the risk that the value of the property may decrease.

367 The client should also be made aware of the rules applying to property and SMSFs, including that the property:

(a) must meet the 'sole purpose test' of solely providing retirement benefits to members;

(b) must not be acquired from a related party of a member (exemptions apply to business real property);

(c) must not be lived in by a member or any related party of a member; and

(d) must not be rented by a member or any related party of a member (exemptions apply to business real property).

Preparing for retirement

368 As members of an SMSF grow older, their financial situation, needs and objectives will change. At establishment, and through the accumulation phase, a high-growth investment strategy may be in the best interests of some members. However, as these members get older and move towards retirement,

their investment strategy is likely to vary and will generally become more conservative.

369 At retirement, the SMSF investments will need to be realisable to allow members to make their minimum pension drawdown. Members with undiversified SMSF investments, or single asset investments (e.g. a property), face a risk that their investments will not be realisable for their retirement.

Tips for advice providers: Investment strategy

21 You should explain to clients the ‘sole purpose’ test and the requirement for investments to be made and maintained on an arm’s length basis.

22 When you are advising clients on their SMSF investment strategy, you should explain the benefits of asset diversification and investing across a number of asset classes (e.g. shares, real property and fixed interest products) in a long-term investment strategy.

23 You should explain to clients that some investments are restricted and that it is the trustee’s obligation to ensure that the SMSF does not make restricted investments.

24 You should explain to trustees that they must regularly review the fund’s documented investment strategy to ensure that it suits the needs of members.

25 If you are recommending that an SMSF be set up to invest in a single asset class, you should ensure that the SOA adequately documents the basis for the advice in light of the client’s financial situation, needs and objectives. In particular, you should set out why the investment is appropriate (rather than a diversified investment portfolio), and whether the investment will generate a sufficient return to fund the client’s retirement needs (and, if not, what the exit strategy is and any costs or risks associated with this exit strategy).

26 You should explain to clients that the SMSF investment strategy is likely to change as members approach the retirement phase and their needs and circumstances change.

27 If a client has a preference for a property investment, you should consider whether the property investment is appropriate.

28 If you are recommending a property investment, you should discuss with the client:

(a) the needs and circumstances of the fund’s members (e.g. their age and retirement needs);

(b) if the recommendation involves an investment loan, how long it will take for the client to repay the loan;

(c) the high upfront costs of purchasing the property (e.g. stamp duty, loan fees, estate agent fees);

(d) the client's ability to repay the loan if an unexpected event occurs (e.g. the client becomes unemployed for a period of time);

(e) how the client's retirement will be funded by the property investment (i.e. through sale of the property or through rental income);

(f) how likely it is that the property can be sold quickly (i.e. whether it is in a high demand area); and

(g) what the client will do if the property is not rented for a period of time.

Note: If the investment property is not the SMSF's sole asset, you may need to spend less time discussing the above issues.

Switching from an APRA-regulated fund to an SMSF

370 Our advice review found a significant lack of compliance with the replacement product obligations set out in s947D of the Corporations Act. Where advice was provided to replace a superannuation product, information on the product replacement was inadequate or absent in 158 files (68%).

371 When an advice provider recommends that a client replace one financial product with another—in full or in part—the advice provider must compare the 'from' fund (i.e. the APRA-regulated fund) with the 'to' fund (i.e. the SMSF): see s947D.

372 When an advice provider recommends switching from an APRA-regulated fund to an SMSF, they must explain in the SOA, in clear and simple terms, the following information (where it is known or could reasonably be found out):

(a) information about the exit fees or any other charges applying to the withdrawal from the APRA-regulated fund;

(b) the loss of access to rights or benefits (e.g. insurance cover and compensation);

(c) the loss of other opportunities, including incidental opportunities associated with the existing product (e.g. rights or opportunities not presently available to the client, but which may become available in the future);

(d) the set-up costs and ongoing fees for the SMSF; and

(e) any other significant consequences for the client in changing their superannuation fund to an SMSF.

Alternatives to an SMSF structure

373 If the main reason for setting up an SMSF is to obtain greater investment control, a number of APRA-regulated superannuation vehicles may facilitate

this without the need for the client to take on all the responsibilities and obligations of running an SMSF.

374 For example, a number of APRA-regulated funds are now offering members a DIY investment option, where members are able to self-direct part of their retirement savings towards assets such as shares, exchange-traded funds and term deposits.

375 In our advice review, we saw very little discussion about alternative DIY investment options.

Tips for advice providers: Alternatives to an SMSF structure

29 Before recommending an SMSF to a client, you should consider whether an APRA-regulated fund will meet the financial situation, needs and objectives of the client. Many APRA-regulated funds now offer a DIY investment option.

30 APRA-regulated funds may be more cost-effective for clients than an SMSF, depending on the size of the client's superannuation balance, and the extent to which the SMSF trustee(s) would engage external professionals to undertake administrative or other functions.

31 Setting up an SMSF, which then invests through an investment platform, may not be as cost-effective for clients as becoming a member of a public offer investment platform directly.

Record keeping

376 We observed record keeping problems in all of the client files where the advice was assessed as non-compliant. The common problems we saw included that:

(a) there was no evidence in the client file that the advice provider had considered and investigated the client's existing funds;

(b) there was no evidence in the client file that the advice provider had considered and investigated alternative APRA-regulated funds that may have met the client's needs and objectives;

(c) the client file did not demonstrate that the client had adequate financial literacy or was likely to understand their obligations as trustee of the SMSF; and

(d) the client file did not contain file notes documenting discussions relevant to the advice, such as conversations between the advice provider and the client about the client's relevant circumstances and their reasons for seeking advice.

377 Record keeping is a requirement of the Corporations Act*:* see RG 175.417–RG 175.422 in RG 175. The benefits of good record keeping are that:

(a) the advice provider can demonstrate that they are meeting the best interests duty and related obligations;

(b) creating contemporaneous client file records at the time of the event (i.e. client meeting or phone call) assists with ensuring that records are accurate;

Note: In appropriate cases, we will take action when client records have been altered: see Media Release (16-239MR) *ASIC bans North Queensland financial adviser* (26 July 2016).

(c) the advice provider and the AFS licensee can demonstrate professionalism; and

(d) in the event of a client complaint, a complete client file is available and accessible, allowing the advice provider and the AFS licensee to respond to the client in a timely and client-focused way.

Note: Section 912G of the Corporations Act, as notionally inserted by Class Order [CO 14/923] *Record keeping obligations for Australian financial services licensees when giving personal advice*, requires AFS licensees to ensure that records are kept of the information relied on and the action taken by an advice provider to demonstrate they have complied with the best interests duty and related obligations: see also Media Release (16-362MR) *ASIC clarifies record keeping obligations for financial services licensees* (27 October 2016).

Example 9: Inadequate record keeping

Scenario	A 71-year-old married man consulted an advice provider. The client owned his home and had personal investments worth $200,000. His superannuation was worth $52,750, which was invested in an APRA-regulated fund in a defensive option. The client's objectives were to: • establish an income-bearing investment for $200,000; • have a retirement income of $60,000 per year; and • explore the option of setting up an SMSF to take advantage of the flexibility and tax advantages he had heard about.
Advice	The client was advised to roll over his existing $52,750 superannuation to set up an SMSF with an individual trustee structure. No explicit investment recommendation was made—however, a capital projection was included in the SOA which showed the SMSF assets invested in a 'balanced' investment. The client's ongoing annual superannuation fund fees increased from $305 to $1,800 as a result of setting up the SMSF.
Commentary	The client file was inadequate for a number of reasons, including that: • the file notes did not refer to the client's ability to make further contributions to superannuation. Without extra contributions, the SMSF was not economically viable; • the risk profile on file was incomplete, and there were no file notes of discussions between the client and the advice provider about decisions on investments and asset allocation; and • the file notes did not demonstrate whether the client had the time, skills and knowledge to operate an SMSF.

Tips for advice providers: Record keeping

32 You should clearly demonstrate in the client file the reasons or objectives that prompted the client to seek advice, and the outcomes the client wants to achieve. This should be clear and recorded in the client's own words in the client file and in the SOA.

33 You should ensure that, together, the client file and the SOA demonstrate:

(a) the subject matter of the advice sought by the client (both explicit and implicit);

(b) the subject matter and scope of the advice being provided; and

(c) why the subject matter and scope are suitable for the client and consistent with the client's objectives, financial situation and needs.

34 You must not reduce the scope of advice to exclude critical issues that are relevant to the subject matter of the advice sought. Where the subject matter of the advice is limited in scope at the request of the client, you should record this carefully in the client file, including the client's reasons for the request. This should also be detailed in the SOA.

35 If the advice is relatively complex, you may need to make inquiries that are additional to those you would normally make, and demonstrate evidence of this in the client file. We consider these issues are particularly relevant to SMSF advice.

36 You must conduct a reasonable investigation into products that will meet the client's needs and objectives. The level of inquiries you need to make will vary according to the complexity of the advice, including the financial products and strategies recommended. Complex financial products and strategies necessitate more extensive inquiries. The decision to move from an APRA-regulated fund to an SMSF is a significant decision for clients. Therefore, you should demonstrate in the client file that you have undertaken reasonable inquiries into the financial products and strategies that could meet the client's needs and objectives.

37 When recommending a financial product, you should demonstrate in the client file:

(a) whether it is reasonable to recommend a financial product, taking into account the reasons why the client sought advice;

(b) that you have considered strategic advice that may form the basis of the financial product recommendations;

(c) that you have considered and investigated financial products, taking into account:

(i) the client's existing financial products;

(ii) financial products that might meet the client's needs and objectives (including the recommended financial products);

(iii) why the recommended financial products meet the client's needs and objectives when compared with other products considered (including the client's existing products); and

(iv) any research you have used.

38 Superannuation switching advice must be appropriate for the client. In addition, a superannuation fund often contains insurance cover that should always be considered and investigated when you provide switching advice. The client file should demonstrate that you have taken the steps described above.

E Other SMSF work and next steps

Key points

This section summarises some of ASIC's other work related to SMSFs, and our planned future work to address the issues we are seeing in the sector.

Much of our planned future work involves working collaboratively with the ATO on SMSF issues.

Our particular areas of focus include:

- *consumer education*—continuing to build on our financial literacy work to provide SMSF members with useful and reliable information about SMSFs;
- *policy work*—developing guidance for accountants and promoting an increase in qualifications and training for those who provide SMSF advice; and
- *surveillance and enforcement*—looking at unlicensed financial product advice, the advice provided by property one-stop shops, and misleading or deceptive advertising in relation to SMSFs.

This section also summarises key actions taken by ASIC in relation to SMSFs: see Table 7.

Consumer education

378 A lot of information is publicly available for those who are interested in having an SMSF. ASIC provides simple, plain language information to consumers about SMSFs on our MoneySmart website. The ATO also provides comprehensive information about SMSFs on its website, which includes a range of helpful videos.

379 However, results from the online survey as part of the member research indicate that many SMSF trustees do not understand the risks, costs and responsibilities of setting up and running an SMSF. In addition, very few participants had looked at either MoneySmart or the ATO website before setting up an SMSF.

380 ASIC and the ATO are looking at how we can better communicate information about SMSFs to consumers. This will include careful consideration of the types of messages we want to convey, as well as the ways in which we can better convey our messages to people who are most at risk of inappropriately setting up an SMSF.

381 Free online courses are available through the ATO website as part of the ATO's power to direct a trustee, or a director of a corporate trustee, of an

SMSF to undertake an education course if they have contravened superannuation law.

382 We are working with the ATO on how we can encourage consumers to undertake the free online education courses on SMSFs, even without being directed to do so.

383 We will also explore the development of other online tools that may assist consumers with making a decision about setting up an SMSF.

Policy work

Guidance for accountants

384 From 1 July 2016, all accountants who give advice to their clients about acquiring or disposing of an interest in an SMSF must be covered by an AFS licence.

385 This is a newly regulated population with little previous knowledge and experience of the obligations and responsibilities associated with being an AFS licensee.

386 During 2016–17, we visited 20 accountants who had recently obtained limited AFS licences. We found that there was confusion about the following issues:

(a) what documents need to be given to clients when giving financial product advice, the content of those documents, and the timing of when to provide those documents;

(b) what information AFS licensees need to upload to the financial advisers register; and

(c) what resources are required to monitor compliance with the regulatory requirements.

387 We have previously produced guidance for accountants, and have engaged closely with the Joint Accounting Bodies to reach this regulated population. Despite this, we now know that accountants are either not aware of this guidance, or do not understand whether and how it applies to them.

388 We have now prepared new guidance that summarises, links to and highlights existing information in a way that is tailored specifically to accountants:

(a) Information Sheet 227 *What can limited AFS licensees do* (INFO 227);

(b) Information Sheet 228 *Limited AFS licensees: Advice conduct and disclosure obligations* (INFO 228); and

(c) Information Sheet 229 *Limited AFS licences: Complying with your licensing obligation* (INFO 229).

389 We recognise that there are some issues that are unique to accountants, and the new guidance covers these issues.

390 We will continue to assess whether the new guidance is effective and if there are further gaps in understanding.

391 This does not mean that non-compliant behaviour will be ignored. We will be taking appropriate enforcement action if necessary.

SMSF qualifications

392 Through this project, we have seen an unacceptable level of poor quality advice despite the information and guidance that we have already provided to the sector. We believe these results indicate a need to increase the education and training requirements for advice providers who provide personal advice on SMSFs.

393 The Financial Adviser Standards and Ethics Authority (FASEA) is the new standards-setting body that will determine these education and training requirements. To improve the quality of SMSF advice, we will be engaging in discussions with FASEA about a specific SMSF qualification for advice providers wishing to provide SMSF advice.

Surveillance and enforcement

Findings from our advice review

394 As part of our advice review, we received 250 client files—where advice was provided to set up an SMSF—from 102 different AFS licensees. Of these 102 AFS licensees, advisers from 97 licensees were assessed as providing non-compliant advice.

395 We will be requiring AFS licensees to review and remediate clients who received non-compliant advice. As part of this work, licensees may be required to review and remediate a broader sample of SMSF advice than that reviewed as part of this project. Where appropriate we will also take regulatory action.

396 As part of this project, we also identified several limited AFS licensees, and advice providers operating under a limited licence authorisation, where the advice provided was deficient. We will provide appropriate messaging to licensees and advice providers in relation to their obligations.

SMSF property one-stop shops

397 The use of property one-stop shops is an area of significant concern. These models tend to promote the purchase of geared residential property through an

SMSF, arranged by groups of related real estate agents, developers, mortgage brokers, accountants and financial advisers.

398 The one-stop shop model creates inherent conflicts of interest that may affect the advice given to a client to set up an SMSF, make subsequent investments, or use specific services. These conflicts can arise from direct or indirect commissions, referral payment arrangements, representative remuneration structures or even management pressures.

399 We have previously achieved enforcement outcomes against operators of property one-stop shops involving SMSFs—such as Park Trent Properties Group Limited and Anne Street Partners. In light of the findings from this project, we will continue to conduct surveillance on these property one-stop shop operators and take enforcement action where appropriate.

400 We will also work with other regulators, including the ATO and APRA, to develop a holistic approach to addressing problems that we are seeing with property one-stop shops.

Surveillance of unlicensed accountants

401 While some accountants have chosen to obtain an AFS licence following legislative change, or have changed their business model so that they are not providing advice that requires a licence, there has been concern that others may be continuing to provide financial product advice without being covered by a licence.

402 ASIC has conducted a surveillance to identify any unlicensed accountants who may be acting in breach of the new licensing requirements. We used a broad range of sources to identify accountants who may be providing unlicensed SMSF advice, including:

(a) responding to reports of misconduct;

(b) working with the ATO; and

(c) using a regulatory technology (or ‘regtech’) tool to canvass online material for content that suggests that unlicensed financial product advice is being provided.

403 The surveillance found no systemic concerns around the provision of unlicensed SMSF advice. However, we have kept surveillance activities open on five accountants whose services we have concerns about and will take regulatory action as necessary. See Media Release (18-127MR) *ASIC reviews accountant compliance with changes to SMSF advice licensing* (3 May 2018).

SMSF auditors

404 SMSF trustees must ensure that the fund is audited annually by a registered SMSF auditor. An SMSF auditor examines and provides opinions about the fund's financial statements and the fund's compliance with superannuation rules.

405 ASIC's responsibilities in relation to SMSF auditors include:

(a) assessing registration applications and registering eligible SMSF auditors;

(b) maintaining a competency examination, which applicants must pass to be eligible for registration as an SMSF auditor;

(c) setting competency standards;

(d) receiving and monitoring annual statements from SMSF auditors; and

(e) working with the ATO as co-regulators, and taking enforcement action where appropriate.

406 In 2016–17, we approved 178 SMSF auditor registrations. As at 30 June 2017, there were 6,341 SMSF auditors registered with ASIC.

407 Enforcement action taken by ASIC against SMSF auditors who have not met their ongoing obligations include disqualification, suspension or cancellation of registration, or imposing further conditions on registration.

408 Not providing ASIC with an annual statement may lead to the cancellation of an auditor's registration. In 2016–17, we cancelled the registration of 287 SMSF auditors for not lodging their annual statements.

409 Other actions we took in 2016–17 included:

(a) the cancellation of three registrations of company auditors as a result of surveillance; and

(b) removing 407 auditors from the SMSF auditor register. Of these:

  (i) 287 were removed for failing to lodge annual statements;

  (ii) 15 were removed (based on referrals from the ATO and others) for failing to comply with auditing standards, breaching independence requirements, or other fitness and propriety matters; and

  (iii) 105 were removed following requests for voluntary cancellation.

410 We are not limited in terms of the nature or type of conditions that we may place on a person's registration, and we determine the appropriate conditions on a case-by-case basis.

411 Examples of the types of conditions we have imposed include requirements for auditors to:

(a) undertake specific additional training, including on SMSF auditing, compliance with the SIS Act, and ethics;

(b) have a number of their SMSF audits reviewed by another independent SMSF auditor, with the results being reported to ASIC;

(c) pass the SMSF auditor competency examination;

(d) respond to formal requests for information from ASIC or the ATO within the timeframes specified in the requests;

(e) limit the number or type of SMSF audits they conduct; and

(f) provide their professional association with notice of the conditions of their registration.

412 Failing to comply with these conditions may result in disqualification, or suspension or cancellation of registration.

413 As more complex independence and audit quality matters arise, we will continue to focus on the use of our powers—including, where appropriate, the innovative use of our broad power to impose conditions.

414 We will also further expand our use of media releases to highlight the actions we are taking, and our expectations of SMSF auditors.

Summary of ASIC actions

415 Table 7 outlines the key actions taken by ASIC in relation to SMSFs.

Table 7: Summary of key ASIC actions relating to SMSFs

Action	Media release
ASIC commenced proceedings in the Federal Court against NSW financial adviser Graeme Walter Miller and three related companies.	18-132MR *ASIC takes action against NSW financial adviser* (8 May 2018)
ASIC completed a review designed to identify unlicensed accountants recommending clients set up SMSFs.	18-127MR *ASIC reviews accountant compliance with changes to SMSF advice licensing* (3 May 2018)
ASIC disqualified Paul Tattersall of Western Australia from being an approved auditor of SMSFs for breaching independence requirements.	18-121MR *ASIC disqualifies Western Australian SMSF auditor* (1 May 2018)
ASIC cancelled the registration of 117 approved SMSF auditors who did not lodge their annual statements.	18-120MR *ASIC cancels the registration of 117 SMSF auditors* (1 May 2018)
ASIC disqualified John Tretola of South Australia from being an approved SMSF auditor for breaching independence requirements and not reporting legislative contraventions.	18-097MR *ASIC disqualifies South Australian SMSF auditor* (9 April 2018)

Action	Media release
ASIC disqualified Lindsay Malcolm Wells of Victoria from being an approved SMSF auditor for breaching independence requirements.	18-080MR *ASIC disqualifies Victorian SMSF auditor* (22 March 2018)
ASIC disqualified Nayanaka Arjuna Samarakoon of Victoria from being an approved SMSF auditor.	18-076MR *ASIC disqualifies Victorian SMSF auditor* (16 March 2018)
ASIC disqualified Robert Mark Taylor of New South Wales from being an approved SMSF auditor for breaching independence requirements.	18-055MR *ASIC disqualifies NSW SMSF auditor* (28 February 2018)
ASIC banned Ramana Rao of South Australia from providing financial services for three years because he was not adequately trained or competent and demonstrated a lack of professionalism, judgement and integrity when advising some of his SMSF clients.	17-408MR *ASIC bans South Australian financial adviser for three years* (28 November 2017)
ASIC found that financial adviser Drew Grosskreutz of Queensland advised clients to establish SMSFs to purchase properties using an LRBA without considering if this was in their best interests. ASIC banned Mr Grosskreutz from providing financial services for three years.	17-346MR *Queensland financial adviser banned for failing to act in clients' best interests* (13 October 2017)
ASIC permanently banned John Dimitropoulos of New South Wales from providing financial services or engaging in credit activity.	17-322MR *John Dimitropoulos permanently banned by ASIC from financial services and credit in connection with property and SMSF spruiking* (22 September 2017)
ASIC disqualified John Evennett of New South Wales from being an approved SMSF auditor for breaching independence and audit requirements.	17-271MR *ASIC disqualifies NSW SMSF auditor* (15 August 2017)
The County Court of Victoria convicted and sentenced Barry Patrick to six years and three months imprisonment after he pleaded guilty to six charges relating to carrying on a financial services business without a licence and obtaining property and a financial advantage by deception.	16-306MR *Sunbury man sentenced to 6 years and 3 months imprisonment for fraud* (13 September 2016)
ASIC accepted an enforceable undertaking from Ascentiv Group Pty Ltd and its sole director, Chris Pappas, after an ASIC surveillance identified concerns about the appropriateness of Ascentiv's advice to clients to set up or use an SMSF.	16-149MR *ASIC accepts enforceable undertaking from Ascentiv Group Pty Ltd relating to SMSF advice* (18 May 2016)
George John Nowak was charged with 31 counts of deception and one count of dishonest dealings with documents relating to his conduct in dealing with members of SMSFs who were undertaking property purchases offered by companies of which he was a director, including EJ Property Developments Pty Ltd.	16-135MR *South Australian director charged with misappropriating $1.8 million in SMSF property investments* (12 May 2016)
ASIC accepted an enforceable undertaking from CMH Financial Group Pty Ltd and the sole director, Daniel White, after an ASIC surveillance found CMH had failed to provide advice about SMSFs that was appropriate and in the best interests of clients.	16-097MR *ASIC accepts enforceable undertaking from SMSF advice provider CMH Financial Group* (30 March 2016)

Action	Media release
Sarah Jane Busteed was charged with three counts of dishonestly obtaining a financial advantage by deception and one count of dealing with over $100,000 that was the proceeds of crime.	16-040MR *New South Wales woman charged in relation to SMSF property investments* (18 February 2016)
The Federal Court ordered Superannuation Warehouse Australia Pty Ltd to pay a penalty of $25,000 for false and misleading 'Free SMSF Set-Up' advertising.	15-322MR *Court orders penalty for false and misleading 'Free SMSF Setup' advertising* (4 November 2015)
The Supreme Court of New South Wales found that Park Trent Properties Group Pty Ltd had been unlawfully carrying on a financial services business for over five years by providing advice to clients to purchase investment properties through an SMSF.	15-300MR *Property spruiker found to have provided unlawful advice* (20 October 2015)
Dixon Advisory Group Limited complied with two ASIC infringement notices, paying two $10,200 penalties after including potentially misleading claims on its website.	15-207MR *Dixon Advisory Group pays an infringement notice for potentially misleading advertising* (4 August 2015)
ASIC cancelled the credit licence of Queensland-based Smithson & Baye following an investigation into a property and SMSF promoting group.	15-228MR *ASIC cancels Australian credit licence of Queensland company involved with property promoting group* (25 August 2015)
Omniwealth Services paid a $10,200 penalty for potentially misleading claims on its website.	15-190MR *Omniwealth pays penalty for potentially misleading advertising* (21 July 2015)
The principal of Sherwin Financial Planners, Bradley Thomas Sherwin, was charged with fraud relating to the use of SMSFs of former clients of Sherwin Financial Planners.	15-158MR *Principal of Sherwin Financial Planners charged with fraud* (25 June 2015)
The Federal Court ruled that Craig Gore and several other parties and financial services businesses, including Queensland-based ActiveSuper and Royale Capital, contravened sections of the Corporations Act, or were knowingly concerned in those contraventions.	15-134MR *Decision in ActiveSuper civil proceedings* (29 May 2015)
Australian Financial Planning Solutions Pty Ltd paid $10,200 in penalties for potentially misleading SMSF advertisements.	15-052MR *Australian Financial Planning Solutions pays $10,200 penalty for misleading advertising* (12 March 2015)
ASIC banned the founder of the Charterhill Group of Companies, George Nowak, from providing financial services until 3 July 2017 on the basis that Mr Nowak is an undischarged bankrupt.	15-048MR *Charterhill director George Nowak, banned from providing financial services* (10 March 2015)
Interprac Financial Planning agreed to address ASIC concerns relating to advice provided to some clients about SMSFs.	14-258MR *AFS licensee addresses ASIC concerns on SMSF advice* (1 October 2014)
Sentry Financial Services agreed to address ASIC concerns about SMSF advice provided to clients.	14-109MR *ASIC concerns prompt Sentry Financial Services to undertake a review of SMSF advice* (21 May 2014)
SuperHelp Australia paid a $10,200 penalty after making potentially misleading statements about the cost of setting up SMSFs.	14-051MR *SuperHelp Australia Pty Ltd pays infringement notice in relation to free SMSF fund setup claims* (18 March 2014)

Action	Media release
Media Super paid a $10,200 penalty for potentially misleading SMSF advertisements.	14-001MR *Media Super pays infringement notice in relation to superannuation advertising* (6 January 2014)
Spring Financial Group entered into an enforceable undertaking following ASIC concerns about the level of monitoring and supervision of its representatives.	13-263MR *ASIC review prompts Spring Financial Group into enforceable undertaking* (24 September 2013)
Anne Street Partners agreed to engage an independent expert following ASIC concerns about SMSF advice provided to clients.	13-248MR *ASIC concerns prompt Anne Street Partners to change their financial advice practices* (5 September 2013)

Appendix 1: Tips for advice providers

416 Listed below are all the tips for advice providers provided in Section D of this report.

Role and obligations of SMSF trustees

1 The ATO regulates SMSFs and provides useful information on its website about the obligations and duties of trustees in managing an SMSF.[99] As good practice, you should:

(a) direct clients to the relevant pages on the ATO website;

(b) provide clients with a copy of key ATO publications with their SOA to ensure that they understand their obligations; or

(c) encourage clients to complete one of the ATO's free approved online education courses.[100]

2 You should explain to clients the duties and obligations that each trustee has to comply with under the law.

3 You should explain to clients that, within 21 days of becoming an SMSF trustee, they will need to complete the ATO's trustee declaration.

4 You should discuss with clients the ATO's trustee declaration, explain each obligation and duty, and allow clients to ask any questions about their obligations.

5 If you do not adequately understand the role and obligations of SMSF trustees, it is inappropriate for you to advise clients about SMSFs.

Suitability of an SMSF structure

6 You should discuss the client's superannuation balance and whether it is likely to be cost-effective for the client to set up an SMSF.

7 You should discuss the likely costs associated with running an SMSF—including the set-up costs, the cost of winding up, and the ongoing costs of investment management, compliance and advice—and explain these to the client before making a recommendation to set up an SMSF. This information is contained in INFO 206.

8 Before recommending an SMSF, you should consider the client's ability and willingness to manage the fund and meet their trustee obligations on an ongoing basis.

9 Be aware of 'red flag' indicators that may suggest an SMSF will not be suitable for a client—including, but not limited to the following:

---

[99] ATO, *Self-managed super funds.*
[100] ATO, *Approved education courses.*

(a) the client has a low superannuation balance, and would have a limited ability to make future contributions;

(b) the client wants a simple superannuation solution;

(c) the client wants to delegate all of the running of the SMSF to a paid advice provider;

(d) the client wants to delegate all of the investment decision making to someone else;

(e) the client does not have a lot of time to devote to managing their financial affairs;

(f) the client has little experience making investment decisions;

(g) the client, or suggested trustee, is an undischarged bankrupt or has been convicted of an offence involving dishonesty (as such, persons are prohibited from acting as a trustee); and

(h) the client has a low level of financial literacy.

10 You should explain to clients approaching the pension phase that there may be a point at which the SMSF may cease to be cost-effective because fixed costs will remain constant or increase while the balance of the fund diminishes.

11 Where appropriate, you should discuss SMSF succession planning issues with clients (this will be more relevant for older clients). Some key questions to discuss include the following:

(a) For clients who are individual trustees, what will happen if one of the trustees dies?

(b) If one trustee (the controlling trustee) is more actively involved in the day-to-day management of the SMSF, what will the less active trustee do if the controlling trustee is unable to manage the SMSF?

Risks of an SMSF structure

12 You should be familiar with the risks of an SMSF structure, as set out in INFO 205.

13 You should warn clients looking to set up an SMSF about the lack of Government compensation available to SMSFs. This information will help clients properly weigh up whether an SMSF structure is right for them.

14 You should warn clients that SMSF trustees and members do not have access to the SCT to resolve complaints.

15 You should explain the advantages and disadvantages of setting up an SMSF with a corporate trustee versus individual trustees, and provide clients with relevant ATO publications via hard copy or web links.

16 If the client’s proposed membership structure of an SMSF is unusual, you may need to spend more time discussing the duties and obligations of trustees, the risks associated with the membership structure, and the importance of having a well-documented, specific investment strategy, and a trust deed that contains dispute resolution clauses.

17 You should reiterate the role and responsibilities of trustees, and explain that, even if one trustee is less actively involved, they are equally liable for complying with the trustee obligations under superannuation and tax laws.

18 When you recommend an SMSF to a client, you should discuss their insurance needs. This will often involve discussing:

(a) their existing insurance cover;

(b) the level of insurance cover they will need in the future;

(c) the costs and options of maintaining, increasing or decreasing (as appropriate) their existing insurance cover through an SMSF;

(d) whether they have any health issues that may affect their ability to get insurance cover;

(e) the advantages and disadvantages of retaining a portion of their APRA-regulated superannuation for insurance purposes (if considered appropriate); and

(f) the impact of the insurance recommendation on their SMSF balance.

19 If you identify that a client needs advice on insurance, you must consider and advise the client on their insurance needs before recommending an SMSF be set up. If you do not have the necessary expertise to provide insurance advice, you should notify the client and refer the client to an advice provider who has the expertise to provide the advice.

20 If you are operating under a limited AFS licence, you should carefully check what advice you are or are not able to provide: see Information Sheet 227 *What can limited AFS licensees do* (INFO 227).

Investment strategy

21 You should explain to clients the 'sole purpose' test and the requirement for investments to be made and maintained on an arm's length basis.

22 When you are advising clients on their SMSF investment strategy, you should explain the benefits of asset diversification and investing across a number of asset classes (e.g. shares, real property and fixed interest products) in a long-term investment strategy.

23 You should explain to clients that some investments are restricted and that it is the trustee's obligation to ensure that the SMSF does not make restricted investments.

24 You should explain to trustees that they must regularly review the fund's documented investment strategy to ensure that it suits the needs of members.

25 If you are recommending that an SMSF be set up to invest in a single asset class, you should ensure that the SOA adequately documents the basis for the advice in light of the client's financial situation, needs and objectives. In particular, you should set out why the investment is appropriate (rather than a diversified investment portfolio), and whether the investment will generate a sufficient return to fund the client's retirement needs (and, if not, what the exit strategy is and any costs or risks associated with this exit strategy).

26 You should explain to clients that the SMSF investment strategy is likely to change as members approach the retirement phase and their needs and circumstances change.

27 If a client has a preference for a property investment, you should consider whether the property investment is appropriate.

28 If you are recommending a property investment, you should discuss with the client:

(a) the needs and circumstances of the fund's members (e.g. their age and retirement needs);

(b) if the recommendation involves an investment loan, how long it will take for the client to repay the loan;

(c) the high upfront costs of purchasing the property (e.g. stamp duty, loan fees, estate agent fees);

(d) the client's ability to repay the loan if an unexpected event occurs (e.g. the client becomes unemployed for a period of time);

(e) how the client's retirement will be funded by the property investment (i.e. through sale of the property or through rental income);

(f) how likely it is that the property can be sold quickly (i.e. whether it is in a high demand area); and

(g) what the client will do if the property is not rented for a period of time.

Note: If the investment property is not the SMSF's sole asset, you may need to spend less time discussing the above issues.

Alternatives to an SMSF structure

29 Before recommending an SMSF to a client, you should consider whether an APRA-regulated fund will meet the financial situation, needs and objectives of the client. Many APRA-regulated funds now offer a DIY investment option.

30 APRA-regulated funds may be more cost-effective for clients than an SMSF, depending on the size of the client's superannuation balance, and the extent to which the SMSF trustee(s) would engage external professionals to undertake administrative or other functions.

31 Setting up an SMSF, which then invests through an investment platform, may not be as cost-effective for clients as becoming a member of a public offer investment platform directly.

Record keeping

32 You should clearly demonstrate in the client file the reasons or objectives that prompted the client to seek advice, and the outcomes the client wants to achieve. This should be clear and recorded in the client's own words in the client file and in the SOA.

33 You should ensure that, together, the client file and the SOA demonstrate:

(a) the subject matter of the advice sought by the client (both explicit and implicit);

(b) the subject matter and scope of the advice being provided; and

(c) why the subject matter and scope are suitable for the client and consistent with the client's objectives, financial situation and needs.

34 You must not reduce the scope of advice to exclude critical issues that are relevant to the subject matter of the advice sought. Where the subject matter of the advice is limited in scope at the request of the client, you should record this carefully in the client file, including the client's reasons for the request. This should also be detailed in the SOA.

35 If the advice is relatively complex, you may need to make inquiries that are additional to those you would normally make, and demonstrate evidence of this in the client file. We consider these issues are particularly relevant to SMSF advice.

36 You must conduct a reasonable investigation into products that will meet the client's needs and objectives. The level of inquiries you need to make will vary according to the complexity of the advice, including the financial products and strategies recommended. Complex financial products and strategies necessitate more extensive inquiries. The decision to move from an APRA-regulated fund to an SMSF is a significant decision for clients. Therefore, you should demonstrate in the client file that you have undertaken reasonable inquiries into the financial products and strategies that could meet the client's needs and objectives.

37 When recommending a financial product, you should demonstrate in the client file:

(a) whether it is reasonable to recommend a financial product, taking into account the reasons why the client sought advice;

(b) that you have considered strategic advice that may form the basis of the financial product recommendations;

(c) that you have considered and investigated financial products, taking into account:

(i) the client's existing financial products;

(ii) financial products that might meet the client's needs and objectives (including the recommended financial products);

(iii) why the recommended financial products meet the client's needs and objectives when compared with other products considered (including the client's existing products); and

(iv) any research you have used.

38 Superannuation switching advice must be appropriate for the client. In addition, a superannuation fund often contains insurance cover that should always be considered and investigated when you provide switching advice. The client file should demonstrate that you have taken the steps described above.

Appendix 2: Accessible versions of figures

417 This appendix is for people with visual or other impairments. It provides the underlying information for the figures presented in this report.

Table 8: Superannuation assets by type of fund by financial year (as at 30 June)

Financial year	Corporate	Industry	Public sector	Retail	SMSFs	Other
2006–07	0.058	0.195	0.184	0.377	0.312	0.047
2007–08	0.052	0.195	0.177	0.351	0.319	0.038
2008–09	0.045	0.185	0.158	0.315	0.32	0.036
2009–10	0.048	0.219	0.18	0.348	0.355	0.039
2010–11	0.049	0.242	0.219	0.378	0.402	0.039
2011–12	0.047	0.258	0.232	0.38	0.422	0.044
2012–13	0.052	0.313	0.26	0.433	0.48	0.047
2013–14	0.056	0.376	0.306	0.486	0.542	0.052
2014–15	0.054	0.434	0.342	0.537	0.603	0.058
2015–16	0.055	0.466	0.356	0.545	0.622	0.055
2016–17	0.059	0.545	0.379	0.588	0.697	0.057

Note: This is the data contained in Figure 1.

Table 9: Number of SMSFs and value of assets invested in SMSFs by financial year (as at 30 June)

Financial year	Total number of SMSFs	Total SMSF assets ($bn)
2009–10	414,238	356
2010–11	440,396	405
2011–12	474,158	422
2012–13	504,041	478
2013–14	534,176	537
2014–15	546,112	590
2015–16	570,535	635
2016–17	590,742	697

Note: This is the data contained in Figure 2.

Table 10: SMSF establishments and wind-ups by financial year

Financial year	Establishment	Wind-up	Net establishment
2003–04	30,548	-4,757	25,791
2004–05	23,049	-5,052	17,997
2005–06	24,575	-4,999	19,576
2006–07	45,666	-4,612	41,054
2007–08	31,614	-6,018	25,596
2008–09	32,586	-8,582	24,004
2009–10	29,913	-14,699	15,214
2010–11	33,139	-5,108	28,031
2011–12	41,072	-7,850	33,222
2012–13	39,616	-11,054	28,562
2013–14	33,823	-12,189	21,634
2014–15	34,421	-12,111	22,310
2015–16	33,194	-10,551	22,643
2016–17	29,620	-1,419	28,201

Note: This is the data contained in Figure 3.

Table 11: Proportion of SMSFs by balance size by financial year (as at 30 June)

Financial year	$0.1m or less	More than $0.1m to $0.2m	More than $0.2m to $0.5m	More than $0.5m to $1m	More than $1m to $2m	$2m plus
2010–11	13%	12%	25%	23%	17%	11%
2011–12	14%	12%	26%	23%	16%	11%
2012–13	13%	11%	25%	23%	17%	12%
2013–14	12%	10%	24%	23%	18%	13%
2014–15	10%	9%	24%	24%	19%	14%

Note: This is the data contained in Figure 4.

Table 12: Average and median SMSF starting balance by financial year (as at 30 June)

Financial year	Average starting balance	Median starting balance
2011–12	$325,388	$192,825
2012–13	$338,194	$204,829
2013–14	$351,051	$219,177
2014–15	$385,403	$229,579
2015–16	$390,398	$245,433

Note: This is the data contained in Figure 5.

Table 13: SMSF contributions by financial year

Financial year	Member contributions	Employer contributions
2011–12	$19.1bn	$7.5bn
2012–13	$18.0bn	$5.4bn
2013–14	$19.7bn	$6.0bn
2014–15	$25.3bn	$7.0bn
2015–16	$25.1bn	$7.1bn

Note: This is the data contained in Figure 6.

Table 14: SMSF asset allocation by financial year (as at 30 June)

Financial year	Trusts	Managed investment schemes	Cash, term deposits and fixed interest	Equity	Property	Other
2012–13	$59.7bn	$22.5bn	$158.3bn	$158.0bn	$81.3bn	$15.5bn
2013–14	$70.0bn	$26.7bn	$162.7bn	$185.7bn	$93.2bn	$17.7bn
2014–15	$82.7bn	$31.4bn	$166.2bn	$197.3bn	$105.4bn	$20.4bn
2015–16	$92.6bn	$32.7bn	$171.1bn	$198.6bn	$118.5bn	$21.2bn

Note: This is the data contained in Figure 7.

Table 15: Asset allocation for SMSFs and APRA-regulated funds

Asset class	APRA-regulated funds	SMSFs
Australian equity	27%	48%
International equity	22%	1%
Alternative assets	9%	9%
Property	9%	16%
Fixed interest	21%	2%
Cash	13%	25%

Note: This is the data contained in Figure 8.

Table 16: Average return on investment for SMSFs and APRA-regulated funds by financial year (as at 30 June)

Financial year	APRA-regulated funds	SMSFs	Difference
2004–05	13.3%	17.4%	4.1%
2005–06	14.0%	16.0%	2.0%
2006–07	15.4%	20.1%	4.7%
2007–08	minus 8.3%	minus 4.4%	3.9%
2008–09	minus 11.7%	minus 5.3%	6.4%
2009–10	9.5%	7.1%	minus 2.4%
2010–11	8.3%	10.4%	2.1%
2011–12	0.8%	minus 0.1%	minus 0.9%
2012–13	14.4%	12.3%	minus 2.1%
2013–14	12.5%	12.4%	minus 0.1%
2014–15	9.2%	10.6%	1.4%
2015–16	3.3%	3.4%	0.1%

Note: This is the data contained in Figure 9.

Table 17: SMSF return on assets by balance size by financial year (as at 30 June)

Financial year	$0.05m or less	More than $0.05m to $0.1m	More than $0.1m to $0.2m	More than $0.2m to $0.5m	More than $0.5m to $1m	More than $1m to $2m	$2m plus
2011–12	minus 18.73%	minus 9.93%	minus 5.90%	minus 2.52%	minus 0.41%	0.67%	1.49%
2012–13	minus 17.28%	minus 5.17%	0.83%	6.36%	9.31%	10.64%	11.59%
2013–14	minus 12.51%	minus 2.78%	1.55%	5.88%	8.33%	9.59%	11.29%
2014–15	minus 17.38%	minus 6.84%	minus 1.02%	2.45%	4.60%	5.70%	7.52%
2015–16	minus 16.70%	minus 7.28%	minus 3.28%	minus 0.02%	1.37%	2.15%	4.27%

Note: This is the data contained in Figure 10.

Table 18: Age of members when they first set up an SMSF by financial year (as at 30 June)

Financial year	Under 35	35 to 44	45 to 54	55 to 64	65 and over
2011–12	11%	23%	31%	28%	7%
2012–13	12%	27%	32%	23%	6%
2013–14	12%	29%	33%	21%	5%
2014–15	12%	30%	32%	20%	5%
2015–16	12%	30%	33%	21%	5%

Note: This is the data contained in Figure 11.

Table 19: Main reasons for members setting up an SMSF in 2015 to 2017 compared with 1999 to 2002

Main reason for setting up an SMSF	SMSF set up 1999 to 2002	SMSF set up 2015 to 2017
More control of my investments	60%	48%
Wanted to choose specific shares to invest in	41%	29%
To achieve better returns	36%	30%
Advice from my accountant	31%	24%
Saw what super funds were charging me	28%	25%
More tax effective	25%	20%
Advice from my financial adviser	18%	26%
Can make better investments than super funds	19%	19%
I was or became self-employed	19%	10%

Main reason for setting up an SMSF	SMSF set up 1999 to 2002	SMSF set up 2015 to 2017
Wanted to invest in property through super	6%	22%
I retired	14%	9%
Advice from a friend or family member who had an SMSF	10%	20%

Note: This is the data contained in Figure 12.

Table 20: SMSF investments in property by financial year (as at 30 June)

Financial year	Domestic residential	Domestic non-residential	LRBA	Overseas	Property as proportion of total Australian and overseas assets
2012–13	$17.3bn	$57.0bn	$7.9bn	$0.3bn	17.2%
2013–14	$20.1bn	$60.9bn	$13.3bn	$0.3bn	17.6%
2014–15	$23.5bn	$65.3bn	$19.6bn	$0.4bn	18.4%
2014–15	$28.1bn	$66.3bn	$23.7bn	$0.3bn	18.7%

Note: This is the data contained in Figure 13.

Table 21: Main source of advice for running an SMSF in 2017

Main source of advice	Type of adviser	Proportion of members
Accountant for tax advice	Accountant	31%
Accountant for investment advice	Accountant	6%
Auditor	Accountant	3%
Tax agent	Accountant	2%
Financial adviser	Financial adviser	17%
Full service stockbroker	Banker / Stockbroker	6%
Personal banker	Banker / Stockbroker	1%
Private banker for banking advice	Banker / Stockbroker	less than 1%
Private banker for investment advice	Banker / Stockbroker	1%
None	None	21%
SMSF administrator	Other	10%
Specialist super consultant	Other	2%
Mortgage broker	Other	1%

Main source of advice	Type of adviser	Proportion of members
Solicitor	Other	less than 1%
Other	Other	less than 1%

Note: This is the data contained in Figure 14.

Table 22: SMSFs by payment phase by financial year (as at 30 June)

Financial year	Accumulation phase	Partial pension phase	Full pension phase
2012–13	56%	11.3%	32.7%
2013–14	55%	11.2%	33.8%
2014–15	53.2%	11.3%	35.5%
2015–16	52.9%	11.4%	35.7%

Note: This is the data contained in Figure 15.

Table 23: SMSF asset allocation by payment phase (as at 30 June 2016)

Asset allocation	Percentage of SMSFs (accumulation phase)	Percentage of SMSFs (pension phase)
Trusts	12.8%	15.4%
Managed investment schemes	4.6%	5.4%
Cash and term deposits	25.3%	24.5%
Fixed interest	1.3%	2.6%
Equity	25.0%	34.3%
Property	27.1%	14.6%
Other	3.8%	3.1%

Note: This is the data contained in Figure 16.

Table 24: Prompts for setting up an SMSF, online survey (%)

Survey response	Proportion of new members	Proportion of established members
A family member	16%	32%
A financial planner	28%	30%
A friend or colleague	25%	26%
An accountant	23%	25%

Survey response	Proportion of new members	Proportion of established members
Myself or my own research	9%	0%
Magazines	7%	1%
A property group adviser	7%	5%
Advertisements	7%	8%
Direct mail or email	5%	7%
Newspapers (paper or online)	6%	3%
A real estate agent	3%	8%
A cold call from someone I don't know	4%	1%
Can't remember	4%	8%
Other	7%	2%

Note: This is the data contained in Figure 17.

Table 25: What members planned to invest in, online survey (%)

Survey response	Proportion of new members	Proportion of established members
Property	54%	33%
Shares	48%	37%
Managed funds	30%	35%
Term deposits	22%	20%
Collectibles and personal assets	6%	7%
Can't remember	1%	14%
Other	6%	2%

Note: This is the data contained in Figure 18.

Table 26: Use of external help/advice in setting up an SMSF, online survey (%)

Survey response	Proportion of new members	Proportion of established members
A financial planner	39%	35%
An accountant	39%	22%

Survey response	Proportion of new members	Proportion of established members
A family member	13%	26%
A friend or colleague	13%	15%
A property group adviser	9%	4%
A real estate agent	4%	4%
I did not receive any advice	10%	15%
Can't remember	1%	3%
Other	9%	0%

Note: This is the data contained in Figure 19.

Table 27: Use of external help/advice in making investment decisions, online survey (%)

Survey response	Proportion of new members	Proportion of established members
A financial planner	36%	34%
An accountant	26%	22%
A family member	13%	22%
A friend or colleague	11%	15%
A property group adviser	11%	7%
A real estate agent	5%	6%
I did not receive any advice	23%	15%
Can't remember	1%	1%
Other	7%	2%

Note: This is the data contained in Figure 20.

Table 28: Cost of setting up and running an SMSF, online survey (%)

Survey response	Proportion of members
About as much as expected	59%
More than expected	32%
Less than expected	9%

Note: This is the data contained in Figure 21.

Table 29: Fees paid for advice when setting up an SMSF, online survey (%)

Survey response	Yes	No
A financial planner	83%	17%
An accountant	78%	22%
A property group adviser	59%	41%
A real estate agent	58%	42%

Note: This is the data contained in Figure 22.

Table 30: Amount of time spent on SMSFs, online survey (%)

Survey response	Proportion of members
About as much as expected	47%
More than expected	38%
Less than expected	15%

Note: This is the data contained in Figure 23.

Table 31: Median starting balance by debt-to-asset ratio

Debt-to-asset ratio	Median SMSF starting balance
10–30%	$312,135
30–50%	$322,607
50–70%	$208,167
70–90%	$160,534

Note: This is the data contained in Figure 25.

Key terms

Term	Meaning in this document
advice	Personal advice given to retail clients
advice provider	A natural person providing personal advice to retail clients on behalf of an AFS licensee who is either: • an authorised representative of an AFS licensee; or • an employee representative of an AFS licensee. Note: This is the person to whom the obligations in Div 2 of Pt 7.7A of the Corporations Act apply: see key term definition of 'advice provider' in RG 175.
advice review	The review of client files, conducted by an independent expert, to assess whether advice providers were complying with the law when providing personal advice to retail clients to set up an SMSF
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act
APRA	Australian Prudential Regulation Authority
APRA-regulated fund	A superannuation fund regulated by APRA
ASIC	Australian Securities and Investments Commission
ASIC Act	*Australian Securities and Investments Commission Act 2001*
ATO	Australian Taxation Office
best interests duty	The duty to act in the best interests of the client when giving personal advice to a client, as set out in s961B(1) of the Corporations Act
best interests duty and related obligations	The obligations in Div 2 of Pt 7.7A of the Corporations Act
cold call	An unexpected call or visit by an unknown person, trying to sell something
compliant advice	Personal advice provided to a retail client by an advice provider who has demonstrated compliance with the best interests duty and related obligations, as well as compliance with s947D, in providing the advice Note: Further guidance on these provisions is set out in RG 175.

Term	Meaning in this document
conflict of interest	Circumstances where some or all of the interests of persons (retail clients) to whom an AFS licensee (or its representative) provides financial services are inconsistent with, or diverge from, some or all of the interests or duties of the licensee or its representatives
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
client	A retail client
client's relevant circumstances	The objectives, financial situation and needs of a retail client that would reasonably be considered relevant to the subject matter of advice sought by the client
debt-to-asset ratio	An indicator for the level of gearing calculated by dividing the loan amount by the sum of the SMSF starting balance and the loan amount
DIY	Do-it-yourself
EDR	External dispute resolution
entities	Financial planning and accounting entities
established members	Participants in the member research who had set up an SMSF: • in the preceding 12 to 36 months after receiving personal advice (for the interviews); or • in the preceding 12 to 60 months (for the online survey)
FASEA	Financial Adviser Standards and Ethics Authority
financial adviser (or financial planner)	An individual that is authorised to give personal advice to retail clients on relevant financial products
financial product	A facility through which, or through the acquisition of which, a person does one or more of the following: • makes a financial investment (see s763B); • manages financial risk (see s763C); • makes non-cash payments (see s763D) Note: This is a definition contained in s763A of the Corporations Act: see also s763B–765A.

Term	Meaning in this document
financial product advice	A recommendation or a statement of opinion, or a report of either of these things, that: • is intended to influence a person or persons in making a decision about a particular financial product or class of financial product, or an interest in a particular financial product or class of financial product; or • could reasonably be regarded as being intended to have such an influence. This does not include anything in an exempt document or statement Note: This is a definition contained in s766B of the Corporations Act.
financial service	Has the meaning given in Div 4 of Pt 7.1 of the Corporations Act
FOFA	Future of Financial Advice
gatekeepers	Advice providers, SMSF auditors, and providers of products and services to SMSFs
Government	Australian Government
in-house product	A financial product that is manufactured by a related party
interviews	The qualitative aspect of the member research, involving 28 qualitative interviews conducted by a market research agency in Sydney and Melbourne in mid-2017 to explore member experiences with SMSFs
limited recourse loan	A loan to an SMSF, under an LRBA, for the purpose of acquiring an asset (e.g. property)
LRBA	A limited recourse borrowing arrangement
member	A member of an SMSF
member research	Research commissioned by ASIC in March 2017 from an independent research agency to explore member experiences with SMSFs. The research was a mix of qualitative research (interviews) and quantitative research (online survey)
new members	Participants in the member research who had set up an SMSF in the preceding 12 months (for the interviews, this was after receiving personal advice)
non-compliant advice	Personal advice provided to a retail client by an advice provider who has not demonstrated compliance with the best interests duty and related obligations, as well as compliance with s947D, in providing the advice Note: Further guidance on these provisions is set out in RG 175.

Term	Meaning in this document
online survey	The quantitative aspect of the member research, involving an online survey conducted by a market research agency between June and July 2017 with 457 members who had set up an SMSF in the preceding five years
personal advice	Financial product advice given or directed to a person (including by electronic means) in circumstances where: • the person giving the advice has considered one or more of the person's objectives, financial situation and needs; or • a reasonable person might expect the person giving the advice to have considered one or more of these matters Note: This is a definition contained in s766B(3) of the Corporations Act.
property group advisers	See 'property one-stop shops'
property one-stop shops	A group of related businesses that provide SMSF establishment advice, SMSF investment advice, specific property advice, property finding advice and SMSF administration services
recognised accountants	Members of the Institute of Chartered Accountants in Australia, CPA Australia or the Institute of Public Accountants who comply with their membership professional education requirements Note: See reg 7.1.29A(2) of the Corporations Regulations for the exact definition.
REP 337 (for example)	An ASIC report (in this example numbered 337)
retail client	A client as defined in s761G of the Corporations Act and Div 2 of Pt 7.1 of the Corporations Regulations
RG 175 (for example)	An ASIC regulatory guide (in this example numbered 175)
s761A (for example)	A section of the Corporations Act (in this example numbered 761A)
safe harbour for the best interests duty	The steps set out in s961B(2) of the Corporations Act. If an advice provider proves they have taken these steps, they are considered to have met their obligation to act in the best interests of their client
SCT	Superannuation Complaints Tribunal
SIS Act	*Superannuation Industry (Supervision) Act 1993*
SMSF	A self-managed superannuation fund

Term	Meaning in this document
SOA	A Statement of Advice—a document that must be given to a retail client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 of the Corporations Act Note: See s761A for the exact definition.
switching advice	Advice that recommends that a client replace (in full or in part) one financial product with another
TPD insurance	Total and permanent disability insurance

Related information

Headnotes

advice provider, AFS licence, approved SMSF auditor, APRA-regulated superannuation fund, auditor registration, disclosure obligations, financial product advice, general advice, misleading or deceptive advertising, personal advice, property one-stop shops, retail client, self-managed superannuation fund, SMSF, SOA, Statement of Advice, trustee

Legislative instruments

[CO 14/923] *Record keeping obligations for Australian financial services licensees when giving personal advice*

Regulatory guides

RG 175 *Licensing: Financial product advisers—Conduct and disclosure*

RG 244 *Giving information, general advice and scaled advice*

Legislation

Corporations Act, Div 2 of Pt 7.7A, s912G, 947D, 961B, 961G, 961J

Corporations Regulations

SIS Act, Pt 23

Superannuation Industry (Supervision) Regulations 1994, reg 4.09(2)(e)

Reports

REP 337 *SMSFs: Improving the quality of advice given to investors*

REP 515 *Financial advice: Review of how large institutions oversee their advisers*

REP 562 *Financial advice: Vertically integrated institutions and conflicts of interest*

REP 576 *Member experiences with self-managed superannuation funds*

Media and other releases

16-239MR *ASIC bans North Queensland financial adviser* (26 July 2016)

16-362MR *ASIC clarifies record keeping obligations for financial services licensees* (27 October 2016)

See also Table 7 for media releases relating to recent ASIC actions on SMSFs.

Information sheets

INFO 205 *Advice on self-managed superannuation funds: Disclosure of risks*

INFO 206 *Advice on self-managed superannuation funds: Disclosure of costs*

INFO 216 *AFS licensing requirements for accountants who provide SMSF services*

INFO 227 *What can limited AFS licensees do*

INFO 228 *Limited AFS licensees: Advice conduct and disclosure obligations*

INFO 229 *Limited AFS licensees: Complying with your licensing obligations*

Other references

AMP Capital, *Black sky report*, 2017

ANZ, *ANZ survey of adult financial literacy in Australia*, May 2015

APRA, *Annual superannuation bulletin: June 2016*

APRA, *Quarterly superannuation performance: June 2017*

ASX and Deloitte Access Economics, *ASX Australian investor study 2017*

ATO, *Pension standards for self-managed super funds*

ATO, *Self-managed super fund statistical report: June 2017*; *Self-managed super fund statistical report: June 2015*; and *Self-managed super fund statistical report: June 2012*.

ATO, *Self-managed super funds: A statistical overview 2015–16*, *Self-managed super funds: A statistical overview 2014–15*; *Self-managed super funds: A statistical overview 2013–14*; and *Self-managed super funds: A statistical overview 2012–13*

Bird R, Foster D, Gray J, Raftery A, Thorp S, Yeung D, *Experiences of current and former members of self-managed superannuation funds* (128/2016/Project No. E220), Working Paper, CIFR, October 2016

Bird R, Foster D, Gray J, Raftery A, Thorp S, Yeung D, *Who starts a self-managed superannuation fund and why* (127/2016/Project No. E220), Working Paper, CIFR, September 2016

Commonwealth Bank and SMSF Association, *Women and SMSFs: A study of self-managed super funds (SMSFs)*, February 2016

Dundan M, *Is the trend of running out of money in retirement increasing?*, VicSuper, 5 January 2017

Financial Services Council and ING Direct, *Superannuation: Australia's view*, 2013 (PDF 2.3 MB)

Investment Trends, *SMSF investor report*, March 2017

Productivity Commission, *Superannuation: Assessing efficiency and competitiveness*, April 2018

Rice Warner, *Cost of operating SMSFs: ASIC*, March 2013

Rice Warner, *In defence of the SMSF investor*, March 2017

Roy Morgan Research, *Most seek advice when switching superannuation provider but gaps remain* (Article No. 6331), 9 July 2015

Santhebennur M, *Gap between expectation and reality in SMSFs*, Money Management, 13 February 2017, accessed 13 July 2017

Shevchenko P, *Analysis of withdrawals from self-managed super funds using ATO data* (Technical Report no. EP164438), CSIRO, 10 July 2016

Sneddon T, Reeson A, Zhu Z, Stephenson A, Hobman E, Toscas P, 'Superannuation drawdown behaviour', JASSA, *The Finsia Journal of Applied Finance*, Issue 2, 2016

SuperConcepts and University of Adelaide, *When size matters: A closer look at SMSF performance* (PDF 353.42 KB), 30 November 2016

Susan Bell Research, *Do SMSF investors achieve their goals? Report to SMSF member Advisory Panel of ASIC*, January 2014

The Hon. Peter Costello MP, Treasurer, Media Release No. 042, *A plan to simplify and streamline superannuation*, 2006