

# Share Protection Plan

ATO Product Ruling  
PR 2007/101

# Share Protection Plan (SPP)

## A geared share investment where you can take the winners and hand back the losers.

Leveraged Equities offers a capital protected investment that allows you to borrow 100% of the purchase cost of your shares with all the upside of share ownership but with no margin calls\* or risk of capital loss.

### The SPP offers you:

**100% Capital protection:** you will never receive a margin call as a result of falling share prices\*;

**100% Upside:** as there is no offsetting of losses against gains, you profit from the winners and hand back the losers;

**100% Finance:** you can borrow the full purchase cost of your shares without having to provide any equity contribution. You only have to cover your interest obligations;

**100% Ownership:** you receive all dividends and franking credits from the shares;

**Tax benefits and interest deductibility:** your only outlay is the interest payment which may be tax deductible depending on your personal circumstances;

**Adviser of choice:** you are free to trade your shares through an adviser of your choice;

**1,2,3,4 or 5-year terms:** you can lock in your interest rate for up to 5 years. Interest rates vary depending on the term of the loan and the shares chosen. Your rate is fixed for the term of the loan;

**Loan size:** the minimum loan is \$50,000 for a single stock and \$100,000 for a portfolio of shares. There is a \$30,000 minimum trade in each stock for a \$100,000 portfolio and a \$40,000 minimum trade in each stock for a portfolio greater than \$100,000;

**Trading ability:** clients are able to trade their protected securities above the protected price over the term of the loan (please see back page for more details);

**Write Call options over protected stock:** clients are able to write call options above the protected price of their securities. This can generate income to help offset interest payments on the SPP (please see back page for more details).

The Leveraged Equities SPP has received an ATO Product Ruling PR 2007/101 for monthly in arrears or annually in advance payments.

On 13 May 2008, the Federal Government announced that it will amend the benchmark interest rate in the capital protected borrowing rules from the Reserve Bank of Australia indicator variable rate for personal unsecured loans to the Reserve Bank of

Australia indicator variable rate for standard housing loans for capital protected borrowings entered into after 7:30pm (AEST) on 13 May 2008. This change will therefore potentially affect the benchmark interest rate referred to in the Product Ruling.

As the proposed law has not been enacted, the ATO will not issue a legally binding Product Ruling on this change until the relevant legislation is enacted. Once the change is enacted, Leveraged Equities Limited intends that the Product Ruling will be amended and reissued to reflect the change in the law, including which arrangement will be affected by the proposed changes.

For an example please see Table 1.

## Getting started.

To take advantage of our SPP you will need to:

- open a Margin Loan Account with Leveraged Equities by completing the application form and signing the application documents. Any questions can be directed to Leveraged Equities on 1300 307 807.

Existing and new clients (after completing the above step) can then follow these steps:

- sign the Supplementary Application Form in the SPP booklet;
- speak to Leveraged Equities and select the shares you wish to purchase from the approved securities list, along with the loan amount, loan term and interest payment option. You can view SPP interest rates online via leveraged.com.au
- Leveraged Equities will then quote an interest rate with the interest payments to be paid monthly in arrears or annually in advance;
- pay the approximate interest amount (plus brokerage costs) into your Margin Loan Account prior to buying stock;
- instruct your adviser to purchase the agreed number of shares and Leveraged Equities will settle the trades on your behalf. Any brokerage charged by your adviser will not form part of the loan amount and will need to be paid upfront to Leveraged Equities;
- your adviser must contact Leveraged Equities as soon as stock has been purchased so as to avoid market risk on locking in the protected price;
- the purchase price of each share becomes the protected price, ie. the minimum price to be received on expiry of the SPP.



**Table 1: An example of a SPP portfolio assuming the dividends are fully franked – 3 Year Term.**

Stock	Loan amount	Dividend yield p.a.	Interest rate p.a.
Commonwealth Bank	\$50,000	5.84%	15.84%
National Australia Bank	\$50,000	6.02%	15.92%
Total/average rate	\$100,000	5.93%	15.88%

  

	CBA	NAB	Total for the year
Interest cost	\$7,920	\$7,960	\$15,880
Dividend after tax	\$2,232	\$2,301	\$4,532
Interest cost after tax	\$5,746	\$5,786	\$11,532
<b>Net cost after tax (%)</b>	<b>7.03%</b>	<b>6.97%</b>	<b>7.00%</b>

### Case Study:

Andrew pays tax at an effective tax rate of 46.5%. Andrew has taxable income of \$200,000. Following his Adviser's recommendation, Andrew takes out a 5 year protected loan of \$250,000 at a rate of 15%.

	SPP loan
Salary	\$200,000
Dividends	\$15,625
Add: franking credit	\$6,696
Gross dividend income	\$22,321
Total assessable income	\$222,321
Total Interest cost	(\$37,500)
Add: Non-deductible portion of interest expense	\$14,125
Taxable income (assessable income less deductions)	\$198,946
Tax payable	\$92,510
Less: franking credit	(\$6,696)
<b>Tax payable</b>	<b>\$85,814</b>

#### Notes:

Calculations are expressed on a per annum basis.

The calculations do not account for fees or transaction costs.

Investor is an Australian resident individual

Investment income not credited to loan

Interest rate on capital protected borrowing 15%

Assuming an RBA indicator variable rate for standard housing loans\*\* 9.35%

Dividend yield 6.25%

CGT asset held for more than one year

**Important Information:** The above share portfolio is for illustrative purposes only and does not constitute investment advice.

The actual result achieved will depend upon the investments made and historical performance does not necessarily represent future performance. We recommend you obtain independent advice in relation to share selection and the suitability of this type of investment for your tax and other circumstances. Shares are purchased using the Leveraged Equities margin loan facility, and are selected from an approved list.

The interest rates and dividend yields shown are indicative and are subject to change without notice – figures and rates correct as at 12 March 2008.

\*As a result of falling share prices. A margin call will be made if annual interest payments are not met. Capital contributions may be required as a result of Corporate Actions.

\*\*The RBA indicator variable rate for standard housing loans is based on the rate as it applied in March 2008 to reflect the potential impact of the announcement made by the Federal Government in respect of tax deductibility of interest on capital protected borrowings, announced on 13 May 2008.

### During the loan term.

- You are required to pay the interest payments as and when they become due.
  - Interest annually in advance - for terms longer than one year, the annual interest will be payable two weeks before each anniversary date. These funds will be deposited into a Cash Management Trust on your behalf, earning interest until the funds are transferred to Leveraged Equities on the anniversary date of the loan.
  - Interest monthly in arrears - interest is charged to your account on the last day of each month. Interest is payable via the direct debit facility on the next day following the interest charge.
  - Under the Product Ruling (PR 2007/101) you are able to trade your protected shares twice in any one year, as long as the net sale price is greater than the protected price. This allows for greater flexibility by locking in gains, while at all times maintaining the protection on the shares. The interest commitment is still payable on the original loan amount even when the shares have been sold, and additional security may need to be lodged on the account if you repurchase the shares at a higher price than the sale price or protected price.
  - If you wish to terminate the SPP before expiry, an early repayment fee may be payable. This is calculated at the time of termination and will take into account the costs borne by Leveraged Equities to exit any contracts it entered into to protect the investments (including any interest-rate hedges), and will include any outstanding interest payments if applicable.
- If there are any adjustments to the shares, for example a capital return, bonus issue, share split or takeover, Leveraged Equities may make an adjustment to the number of protected shares and price, and advise you of the outcome, or partially/wholly break the loan.
  - If you choose to write covered calls over your SPP securities, you must adhere to the following conditions:
    - calls must expire within any interest-prepaid period;
    - calls written on SPP protected stock must expire prior to, or concurrently with, the expiry date of the put option;
    - the strike price of the call must be at or above the strike price of the put.

### End of the loan term.

On expiry of the loan, if the shares are trading above the protected price you can decide to:

- sell the protected shares and realise the profit;
- repay the loan and keep the shares;
- roll the shares into a new SPP;
- convert the loan to a standard margin loan.

If the shares are trading at or below the protected price, you instruct Leveraged Equities to exercise the protection and sell the shares at the protected price.

**For more information call 1300 307 807  
or visit [leveraged.com.au](http://leveraged.com.au)  
Alternatively, contact your Adviser.**

This is not an investment recommendation. We recommend that you obtain your own independent professional and tax advice on the risks and suitability of this type of investment and the tax implications as they apply to your individual circumstances. Please note that a Leveraged Equities margin loan is provided as a full recourse loan and Leveraged Equities' rights against the borrower are not limited to enforcement of its security. Terms and conditions are available on application. Lending criteria will apply. The information is correct as at 01 July 2008 and is subject to change without notice.