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Document Checklist

Loan Investment

This checklist helps to compile relevant documents for a loan in an SMSF. The checklist covers both the financial audit and the compliance audit for the loan investment. **Loan investments are generally considered high risk.**

Compliance Audit		
1.	Investment strategy that includes loans as an asset category and addresses risk and diversification in relation to the loan.	☐
2.	Details of the due diligence performed by the trustees before making the investment. Details on the purpose of the loan.	☐
3.	Where the borrower is a business, details of the owners and controlling personnel e.g., a company search	☐
4.	Evidence that the terms of the loan are at arm's length, e.g., the terms are consistent with those a commercial lender would offer for similar loans.	☐
Financial Audit		
1.	Evidence of loan existence: • Signed and dated loan agreement. If applicable, a loan agreement with renegotiated terms • Financial reports of the borrower if it is a business	☐ ☐
2.	Evidence of loan recoverability/unrecoverability: • Subsequent receipt of principal after 30 June • For secured loans, title searches for the securities provided to ensure registration of mortgages and check for any additional charges • For secured loans, valuation of the securities provided • Evidence or subsequent event indicating the loan is not recoverable • Where there is a guarantee, evidence that the guarantor is sufficiently financial to cover the loan.	☐ ☐ ☐ ☐ ☐
3.	Calculation of interest income, late fees and other income received in accordance with the terms in the loan agreement.	☐

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Notes to Loan Investment

Compliance and Accounting Considerations

1. Potential breaches include: s.62 sole purpose test, s.109 arm's length, reg 4.09 investment strategy, reg 8.02B market valuation, s. 83 & s. 84 in-house assets.

2. Trustees not enforcing the terms in the loan agreement is a breach of s.109.

3. Arm's length terms can be evidenced by the terms used by commercial lenders of similar loans, or by the commercial loan terms offered to the borrower. Monthly interest payments would generally be expected, as it is unlikely for a commercial lender to provide finance and accept interest only upon loan maturity;

4. Ensure correct asset classification in the balance sheet. For example, unsecured loans should not be classified as secured or mortgage loans.

5. Update Note 1 in the accounting policy to state that the loans are valued with reference to the capital lent.

6. Recoverability of the loan can be supported by evidence such as repayments post year-end and the market value of loan securities. Recoverability may not be conclusively determined based on the financial reports alone. Where the borrower is an individual and the loan is unsecured, providing adequate evidence of recoverability may be challenging unless the loan has been subsequently repaid. Where the investment cannot be valued, it's potentially a breach of reg 8.02B.

7. Where there is a guarantor, the trustees should have performed an identity check, credit check, and reviewed the guarantor's full financial position.

It's crucial that a loan was only granted subsequent to an assessment by the trustee(s) regarding investment risks, asset diversification, and compliance with the trust deed and the investment strategy of the fund.

The trustee(s) must perform due diligence before making the investment.

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