# FACT SHEET
## Master Trusts & Wrap Accounts

Financial Desk
National Seniors Australia

## What are Master Trusts and Wrap Accounts?

Master Trusts and Wrap Accounts are structures used by the financial industry to deliver services known as Investor Directed Portfolio Services (IDPS) under Australian Securities and Investments Commission (ASIC) policy. They are often described as ‘Platforms’.

They generally offer a menu of preselected wholesale investments/investment managers over which the investor’s money can be distributed. They are investment structures where the investor has the ultimate responsibility for choice of investment manager, with guidance and access to the product from a financial planner - in most cases. Sometimes it is possible to deal directly with the platform operator.

Wrap Accounts differ from Master Trusts in that direct investments such as shares, property etc. can be included.

These structures provide a means for acquiring and retaining investments within a single administration arrangement that provides a consolidated simplified report on the investments held. They can cover both superannuation and non-superannuation investments. Superannuation master trusts/funds are regulated under the Superannuation Industry (Supervision) (SIS) Act and non-superannuation investments are regulated under the Corporation Law.

## Key Aspects

- Platform operators are required to hold an Australian Financial Services Licence (AFSL) that specifically authorises them to operate an IDPS
- The products are regulated under the licensing provisions of the law and where referred to as a managed investment scheme the Managed Investment provisions do not apply
- Clients of both Master Trusts and Wrap Accounts must be provided with a Product Disclosure Statement that contains similar disclosure information provided to retail investors when they receive investment advisory services from a financial advice provider
- The investment managers of these products are required to provide investors with regular statements that detail transactions, assets, income distribution and fees or to provide them with electronic access to the information
- Operators of these structures can communicate with their investors electronically if the investor has agreed to receive the information in this form. Generally the communication is via the financial planner
- It is possible to change financial planners without disturbing investments provided they use the same platform operator

## Features

- Simplified reporting - the administrator provides a single report on all investments through the service
- Consolidated reports are provided that simplify the compilation of a tax return
- Flexibility - investors are able to switch between managers and investments at a reduced cost
- The platform operator’s fee is usually tax deductible



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## Glossary

**Consolidated Simplified Report:** *The process where information from all investment managers is collated into a single report to the investor.*

**Law:** *Corporation Law including the Managed Investments provisions.*

**Managed Investment Schemes:** *Where people contribute money to be pooled to acquire financial benefits for the investors in the scheme.*

**Management Expense Ratio (MER):** *Extra expenses incurred in the management of an investment scheme, not including expenses that a direct investor would incur in dealing with the same assets.*

**Retail:** *Investment funds structured to accept money direct from individuals.*

**Passive investor:** *An investor who buys and holds investments without altering them as circumstances change.*

**Wholesale:** *Investments that generally have lower management fees, a higher initial investment amount and broader investment choice.*

## But Remember...

- Investors invest in the IDPS and not the underlying investments. There is no direct contact with different fund managers
- Investments in Master Trusts are held in the name of the trust while investments in Wrap Accounts are held in the investor's name
- While platforms provide a greater level of flexibility (see features above) passive investors may pay a higher level of management and administration fees for services they do not use

## Fees

- Establishment fees of up to 5% may apply
- Administration fees apply and are deducted from the account. These fees vary between administrators
- Where entry is through a financial planner the fees may be negotiable. Where entry is directly through the platform operator the full fee may apply
- Management Expense Ratio (MER) - the platform operator should calculate the total MER including costs of both the structure and the underlying investments. Where there is a different MER for each of the underlying investments, these should be shown in a range from the lowest to the highest of the available options

## Government Income Support

The full market value of the investments through the platform is counted as an asset for the assets test. If borrowed funds not secured against the recipient's primary residence are used for investment, the net asset value is assessable. Investments through these structures are financial assets and the full value, with no reduction for any borrowing, is assessed under the deeming rules for the income test.

For further information contact your nearest Department of Human Services' (DHS) Financial Information Service (FIS) Officer or Department of Veterans' Affairs office.

## Taxation

All income, including capital gains realised by the platform from non-superannuation investments, is fully assessable in the year earned whether it is distributed or reinvested.

Because of the diverse nature of the investments that can be held within these platforms, issues such as capital gains tax, foreign income, franking credits and Pay As You Go (PAYG) tax may arise. The taxation implications of investments held in a platform can be complex. It is important that professional advice be sought if you do not fully understand the taxation implications of your investments.