

Government Income Support

For listed debentures the market value is assessed as an asset for the assets test. The face value is assessed for assets test purposes when assessing unlisted debentures. A reduced assessable asset value may apply when an issuer under administration is out into liquidation or placed under a deed of company arrangement. Debentures are assessed as financial assets and are assumed to earn income at the deeming rates applying at the time, irrespective of the return actually received. For further details check with a Centrelink Financial Information Service Officer, the Department of Veterans' Affairs or refer to the NICRI leaflet *Deeming Accounts*.

Taxation

Interest, even if compounded, is fully assessable for income tax in the tax year it is paid. If it is invested for longer than 12 months and interest is not paid until maturity, a portion of income will be assessable in each tax year. Interest on debentures may be subject to pay as you go (PAYG) tax instalments.

Security and Risk

Debentures may have lower risk than other types of investments but they do still have risk. Investors should ensure they are confident the institution is safe and will continue to operate.

Debentures are not regulated by the Australian Prudential Regulation Authority (APRA). Therefore the financial integrity and efficiency of the financial institutions' system is not monitored and APRA cannot ensure that depositors are adequately protected.

Investing With Safety

- Debentures are not risk free investments. When selecting debentures be aware that a higher return than current market rates might also indicate a lending policy involving greater risk.
- Debentures should not be regarded as short term investments. Money required for ready access should not be placed in these investments.
- Although the information in the PDS or prospectus may be lengthy and complicated, it should be fully understood before investing in this type of product.
- Debenture investments have a risk factor which should be understood and accepted before investing. Investments offering a higher return usually have a higher risk.
- If debentures are the only investment held it is wise to spread them across different maturity dates and different issuers.

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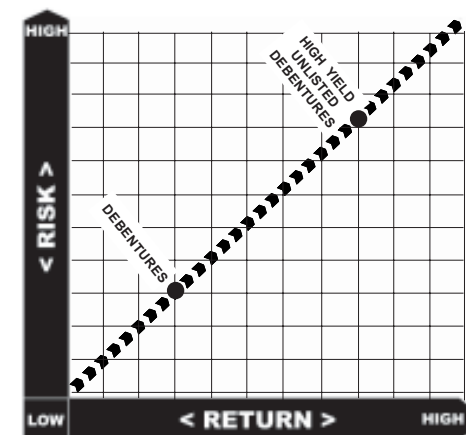
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Debentures



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Investment Product Series

INFORMATION CURRENT FROM 14/11/07



What are debentures?

Debentures are a fixed-interest, fixed term investment. They are offered by finance and industrial companies which are referred to as issuers. They usually offer a higher return than is available from other fixed interest investments. Returns are based on a combination of official interest rates and loan rates depending on the issuer's lending practices. They are not risk free investments.

Funds raised are used for various purposes or ventures, either by the issuer or lent to third parties (borrowers). Security is usually required by the issuer from the borrower and lending criteria are often required to be met. The management skill and lending criteria of the issuer, when determining if the potential borrowers are able to repay the debt, contributes to the level of risk involved to the debenture holder. Where money raised is used by the issuer or related entities for their own ventures, the risk to investors can be greater as the advances are not assessed or monitored by an independent third party.

Debentures are governed by a trust deed which sets out the rules of the fund and the rights of the debenture-holders. They are issued through a Product Disclosure Statement (PDS) or Prospectus which highlights the terms, conditions, features and costs of the investment. Issuers are required to lodge this document with the Australian Securities and Investment Commission (ASIC).

Debenture categories

Comparing debenture products can be difficult so gaining an understanding of the use of the funds will assist in comparing products. Debentures can be put into various categories according to how the funds are used. Common categories are listed below;

- Finance - funds are lent for commercial or personal purposes such as leasing plant equipment or work vehicles;
- Mortgage financing - mortgage loans for secured residential and commercial property ownership and/or improvement;
- Structured real estate investments - loans for ownership of commercial and residential real estate as part of a wider ownership structure;
- Debt capital funding - funds used as working capital or transaction-specific purposes to further issuer's or groups' business operations;
- Memberships - debentures issued to facilitate memberships of clubs, groups or franchise operations; and
- Integrated property - funding of property transactions and development within a group or with related parties where the amount of funds applied is greater than 10% of the total assets of the debenture issuer.

Debenture holders are ranked ahead of ordinary share-holders in the event of the winding up of a company.

High yield, unlisted and unrated debentures

The level of risk associated with debentures can also vary due to the use of funds raised and the issuer providing the debentures. Issuers can range from small independent finance companies to finance companies owned by large financial institutions.

Some debentures are considered 'high yield' because they offer rates of return well above the going market rates. Higher returns mean anything more than 1-3% above the market rate for similar products. As with other forms of investment, the higher the return offered the higher the risk of the investment.

Unlisted debentures refer to debentures that don't have a liquid secondary market on which investors can sell the investment at will. This means that while early exit mechanisms may be offered they may be unavailable if the issuer is in financial difficulty.

Unrated debentures refer to debenture issuers that are not rated by an official ratings agency. The company investment performance and integrity cannot be compared with other debenture products.

Care should be taken when considering high yield, unlisted, unrated debentures. It is important to fully understand the product the issuer prior to investing.