

## SMSF RISKS

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The Self-Managed Superannuation Fund (SMSF) risks disclosure statement is a document that provides important information about the potential risks associated with investing in a self-managed superannuation fund. This statement is typically provided to individuals who are considering establishing or joining an SMSF.

The risks disclosure statement aims to ensure that individuals are fully aware of the potential risks involved in managing their own superannuation fund and can make an informed decision. While the specific contents of the statement may vary depending on the jurisdiction and regulatory requirements, it generally covers the following key areas:

1. **Investment Risk:** SMSFs provide individuals with control over their investment decisions. However, this control also means that the investment risks rest solely with the trustees. Poor investment decisions, lack of diversification, or market volatility can lead to financial losses.
2. **Compliance Risk:** SMSFs must comply with various regulations and laws set by the Australian Taxation Office (ATO) and the Australian Securities and Investments Commission (ASIC). Failing to meet compliance obligations can result in penalties, loss of concessional tax treatment, or even the disqualification of the fund.
3. **Regulatory Risk:** The regulatory landscape for SMSFs can change over time. New laws, rules, and reporting requirements may be introduced, impacting how SMSFs operate. Trustees need to stay updated with the latest regulatory developments and ensure their fund remains compliant.
4. **Liquidity Risk:** SMSFs should have enough liquidity to meet their ongoing expenses, pay benefits, and manage unexpected costs. Illiquid investments or poor cash flow management can create difficulties in meeting these obligations.
5. **Concentration Risk:** If an SMSF's investment portfolio is heavily concentrated in a particular asset class, sector, or single investment, it can increase the vulnerability of the fund to market fluctuations or specific economic factors affecting that asset or sector.
6. **Estate Planning Risk:** SMSFs often have complex estate planning considerations, particularly when it comes to passing on the fund's assets to beneficiaries. Inadequate or improper estate planning can result in disputes or unintended distribution of assets.
7. **Operational Risk:** Running an SMSF involves administrative tasks, record-keeping, reporting, and decision-making. Trustees need to ensure they have the necessary skills, knowledge, and resources to manage the operational aspects effectively.
8. **Fraud and Scams:** SMSFs can be targets for fraudsters and scams, who may attempt to lure trustees into illegal or risky investments. Trustees should exercise caution, conduct due diligence, and seek professional advice when considering investment opportunities.
9. **Insurance Risks:** Individuals considering an SMSF should be aware that they may lose access to certain insurance benefits provided by their existing superannuation fund. The risks associated with not having appropriate insurance coverage or replacing existing policies should be considered.