

Using An Investment Loan To Exercise Your Company options



Company options are a widely accepted component of remuneration packages for senior management, executives and company directors. Options provide an opportunity to share in the performance of the company and also act as a lucrative reward for company decision makers.

In Australia the majority of options issued to management and executives provide them with the opportunity, but not the obligation, to purchase the company's shares at a set price by a certain date or period of time in the future.

With movements in share prices and other financial commitments, exercising large numbers of options can often cause cash shortages. An alternative to redeeming investments or changing strategies when seeking to exercise options is to use an investment loan.

INVESTMENT LOAN

An Investment Loan is a facility where funds are borrowed to purchase shares or other types of equity products, such as managed funds. A CommSec Adviser Services Investment Loan enables a borrower to fund between 40% and 75% of the value of the shares through debt. The percentage able to be borrowed against a share or the 'borrowing limit' is dependent on a range of factors including liquidity and the financial stability of the selected company.

When exercising company options it is possible that no additional funds will be required. This type of situation arises where the options are significantly in the money or where additional shares or managed funds are lodged as security.

WORKING WITH YOUR ADVISER

CommSec Adviser Services strongly encourages clients to seek professional advice from a suitably experienced and licensed financial adviser. A financial adviser will often be familiar with investment loans and will be able to assist your wealth creation and management plans.

ISSUES TO CONSIDER

Some of the issues to consider when exercising company options include:

- Diversification – with CommSec Adviser Services Investment Lending there is no charge for a 'single stock portfolio fee' where a client's portfolio is comprised of one stock. We do however encourage diversification as a strategy to reduce the possibility of a margin call through a poorly performing investment.
- When borrowing to invest it is important to consider the impact of a fall in your company's share price. If the price falls and a margin call is triggered on your loan, it will then be necessary to either reduce your loan balance, lodge additional security or sell down part of your shareholding to settle the call.
- Exercising of company options and use of a CommSec Adviser Services Investment Loan should be considered as a part of your overall financial strategy.
- Overseas equities – a CommSec Adviser Services Investment Loan is unable to be used to purchase equities listed on overseas stock exchanges. A suitably qualified financial adviser can however, advise on using existing assets to help 'free up' sufficient cash to exercise these options in a tax effective manner.

BENEFITS

A CommSec Adviser Services Investment Loan can provide a financially beneficial, simple and cost effective solution when seeking to exercise company options.

TAX EFFECTIVE	Interest on an investment loan used to convert the options is generally tax deductible as the loan has been used to acquire income producing assets.
FLEXIBLE	The loan created to exercise company options can also be used to fund other share or managed fund purchases thereby helping diversify a portfolio. A CommSec Adviser Services Investment Loan with a variable interest rate also has no minimum loan term or penalties for closing out the facility.
SIMPLE	Applying for an investment loan may be a simpler process than applying for other forms of finance, such as a home equity loan or even some types of credit cards. A CommSec Adviser Service Investment Loan application can generally be completed within 20 minutes and depending on your circumstances proof of income may not be required.
QUICK	Applications for CommSec Adviser Services Investment Loans made by individuals are aimed to be processed within 24 hours of receipt. This means that you will generally be in a position to exercise your options on the business day after your application is received. Please remember to allow additional time if you are transferring other shares or managed funds you may hold as it will take a longer period due to third party transactions.
COST EFFECTIVE	Investment lending can be a cost-effective method of financing equity purchases. CommSec Adviser Services Investment Lending does not charge individuals* an establishment fee to set up the loan and the interest rate offered is very competitive when compared to other financing alternatives.

If you would like further information about how you could use a CommSec Adviser Services Investment Loan to exercise your company options we encourage you to speak with your financial adviser.

*Fees apply for company and trust structures.

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