

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

CFP SYLLABUS

MODULE 1 FOUNDATION IN FINANCIAL PLANNING

Course Objectives

This course is designed to enable candidates to develop a clear appreciation of financial planning. Candidates are provided with an outline of each of the major concerns of a financial planner to prepare for the extensive study to be covered in the other courses of the CFP program. The entire program prepares candidates to be a competent financial planner capable of meeting the financial planning need of the consumers.

Course outline

PART 1: AN OVERVIEW

Topic 1.1: The Financial Planning Industry in Malaysia

- The development of financial planning in Malaysia worldwide
- Users of financial planning services
- Providers of financial planning services
- The range of financial planning services
- The profile of a competent financial planner

Candidates should understand the factors affecting the development of financial planning, the demand for financial planning services and the rapid growth of the independent financial planning industry. Candidates should also understand the whole range of products required to meet the different needs of the consumers and to achieve a balance portfolio.

Topic 1.2: Regulatory Controls and Practices Affecting Financial Planning

- Bank Negara
- Bursa Malaysia and Securities Commission
- Main Market, Ace Market and Bursa Malaysia Derivatives
- Labuan and offshore investment
- Professional code of Ethics and Licensing
- Relevant regulations and guidelines issued by the Securities Commission (SC) AND Bank Negara Malaysia

Candidates should understand how various regulatory controls affect the activities of a financial planner and how to minimize the risk of legal action in the course of providing financial planning services. The relevant guidelines (acts) therefore are necessary to be covered in the topic in order for candidate to understand how various regulatory controls may affect the activities of financial planner.

Topic 1.3: The Nature and Scope of Financial Planning

- Definition of financial planning
- Process of financial planning
 - Budget Planning
 - Managing cash flow and basic assets
 - Risk management and insurance planning
 - Investment planning
 - Tax planning
 - Retirement/estate planning
 - Islamic products and their uses in financial planning
- The trade-off concept
- The objectives of financial planning
- Marketing a financial planning business
- Risk profiles of investors

Candidates should understand that to be competent financial planners, they must know how to integrate different disciplines into a comprehensive plan. In order to do so, they should develop skills and adhere to processes, including environmental analysis, investment analysis, spreading of risk, in matching clients' needs and objectives.

Topic 1.4: Analytical Tools for Financial Planners

- The time value of money I: Rudimentary Concepts and Applications
- The time value of money II: Advanced Concepts and Applications
- Insights on Risk Tolerance in Financial Decisions
- Understanding and using business statistics
- The impact of the development of IT on financial planning

Compiling a financial plan involves the use of problem solving techniques and requires skill in processing and analyzing data. Candidates should therefore develop the necessary analytical skills required by financial planners.

Topic 1.5: Effective Communication in Client Counseling

- Types of structured communication
- Basic of financial counseling
- Profile of financial counseling
- Essential communication principles

Effective communication is the foundation stone in effective clients counseling. Candidates should understand the various principle and development of effective communication to enhance their overall skills as a financial planner.

PART 2: THE ECONOMIC ENVIRONMENT AND ITS EFFECTS ON FINANCIAL PLANNING

Topic 2.1: The economic system

- The basic economic structure
- The basic demographic structure
- The role of government
- The role of the private sector
- Investment Incentives

Candidates should gain an appreciation of the basic economic and demographic structures of Malaysia. It is important to understand how the government manages the economy to provide economic growth and development, and the role of the private sector in the functioning of the economy.

Topic 2.2: The economic environment

- Economic growth
- The business cycle
- Inflation
- Economic indicators

Candidates should understand factors affecting economic growth and how they will in turn affect investment returns and how important it is to the financial planning industry. Likewise, it is important to understand the behavior of the business cycle which influences the timing of investments, the effects of inflation on financial planning and the usefulness of economic indicators in identifying the phase of the business cycle in which the economy resides.

Topic 2.3: Government policy

- National savings
- Exchange rate policy
- Fiscal policy and taxation
- Monetary policy and interest rates
- Wages policy
- The NDP and NEP
- EPF
- Exchange Controls
- Islamic practices and policies

Candidates should understand the principles guiding the government's fiscal, monetary, exchange rate and wages policies in managing the economy. Further, candidates should also understand the role of the EPF in providing for social security and how the various EPF schemes affect national savings and investments.

PART 3: RISK MANAGEMENT AND INSURANCE PLANNING

Topic 3.1 The concept of risk

- Definition of risk
- Categories of risk
- Risk identification
- Risk evaluation

Candidates will be introduced to the two broad categories of risks - "speculative risks" and "pure risks", and the necessity of identifying and evaluating risks in financial planning.

Topic 3.2: The management of risk

- Risk avoidance
- Risk control
- Risk financing
- Risk transfer through insurance

Candidates should understand the various methods of handling risk including how risk can be avoided, reduced, eliminated, financed, retained and transferred through insurance.

Topic 3.3: The insurance industry

- The regulators
- Professional bodies : LIAM/PIAM/MII/NAMLIA
- The operators

Candidates should have a good knowledge of the Insurance Act and how the regulators monitor the sound operation of the insurers. Candidates should also understand how the professional bodies attempt to maintain the professional standard of insurance agents and brokers.

Topic 3.4: Types of insurance cover

- Life insurance
- Health and disability insurance
- General insurance
- Commercial insurance
- Islamic insurance

Candidates should understand the different types of insurance covers that are available and the ways in which these covers can be used effectively for risk management. Different types of insurance can be used to protect loss of income as a result of death, sickness or disability and to protect property loss due to fire or motor accident.

PART 4: INVESTMENT PLANNING

Topic 4.1: Concepts of investment

- Objectives and rewards of investing
- Concept and advantage of portfolio investment
- Definition of risk and importance of risk management

Candidates should understand the need for investment to achieve financial goals and the advantages of portfolio investment in spreading risk.

Topic 4.2: Primary investment

- Overview of equity market
- Overview of debt market
- Overview of the foreign exchange market
- Overview of Islamic investment products namely banking products, investment products, Takaful (insurance) products and investment-linked products
- Overview of the property market
- Factors to consider in comparing primary investments

Candidates should understand the two basic primary investment markets - the equity market and the debt market - where investors make their own decisions and invest directly in them. In making decision, it is important to know and compare the difference in the risk-return trade-off for the different types of primary investments.

Topic 4.3: Managed investments

- Unit trust
- Real Estate Investment Trusts (REIT)
- Investment trusts
- Exchange traded funds (ETF)
- Investment-linked insurance products
- Federation of Investment Managers in Malaysia (FIMM)

Candidates should understand the advantages and disadvantages of managed investments vis-à-vis primary investments. It is important to know the various types of managed investments so that financial planners are able to select the ones that match their clients' needs.

PART 5: INCOME TAX PLANNING

Topic 5.1: Basic income tax concept

- Basis of assessment
- Residency
- Calculation of gross income
- Deductions
- Reliefs
- Tax computation
- Real property gains tax

In advising how financial goals can be better achieved through minimization and deferment of income taxation, candidates should have a good understanding of the definition of income, types of income and how deductions and rebates can help to alleviate the income tax burden.

Topic 5.2: Income tax planning

- Income splitting
- Income deferral
- Insurance premiums and benefits

Candidates should understand that significant savings could be made through proper tax planning for employees and also for businesses. In addition, candidates should know the taxation treatment of insurance premiums and benefits.

PART 6: RETIREMENT PLANNING/ESTATE PLANNING

Topic 6.1: The retirement planning process

- Estimate the amount of income needed during retirement – Income replacement and expense methods
- Estimate the capital needs for retirement
- Evaluate the current resources – EPF savings and Non-EPF savings
- Formulate strategies for filling retirement income deficit

Financial planners should be able to help clients estimate the amount of retirement income required so as to maintain a certain standard of living during retirement. They should be able to identify the resources available and recommend a financial plan to meet that need. Financial planners should know the advantages and disadvantages of the various retirement planning instruments.

Topic 6.2: The estate planning process

- Definition of estate planning
- Role of an estate planner
- Techniques for preserving wealth
- Role of life insurance in estate planning
- Types of trusts
- Taxation of trusts
- Wills
- Syariah Law in relation to estate planning

Candidates should understand that planning for conservation and distribution of a client's accumulated wealth at time of death is an important part of overall financial planning and should be coordinated with other facets of the total plan. It is important that the candidates gain knowledge of the various techniques that can be used to preserve a client's wealth.

PART 7: THE BASIS OF A FINANCIAL PLAN

Understanding the client

The data gathering process

Financial analysis of data

Understanding strategies to meet needs

Plan preparation

Plan implementation

The review process

Candidates should understand the basic mechanics of a financial plan. The process should be emphasized, as each step from the data gathering to review is essential to the successful implementation of the financial plan.

PART 8: CODE OF ETHICS

A high ethical standard is the hallmark of a professional financial planner. Candidates should and be able to quote the principles and rules of FPAM's Member's Code of Ethics and Professional Responsibility.

Professional Ethics

The Client and Code of Ethics

FPAM Code of Ethics

Principles of FPAM Code of Ethics

Financial Planning Association of Malaysia**Recommended Reading List for Module 1 – Foundation in Financial Planning**

Type	Title
Book	<p>Block, Hirt (2005), Foundations of Financial Management, 11th Edition, Mc Graw Hill (2005)</p> <p>Kapoor, Dlabay, Hughes (2004), Personal Finance, 7th Edition, Mc Graw Hill (2004)</p> <p>Brigham, Houston (2004), Fundamentals of Financial Management, 10th Edition, Thomson South-Western (2004)</p> <p>Harrison (2002), Personal Financial Planner, 2nd Edition, Prentice Hall (2002)</p> <p>Ross, Westerfield, Jordan (2006), Corporate Finance Fundamentals, 7th Edition, Mc Graw Hill (2006)</p> <p>Gitman (2006), Principles of Managerial Finance, 11th Edition, Pearson Addison Wesley (2006)</p> <p>Brealey, Myers, Marcus (2004), Fundamentals of Corporate Finance, 4th Edition, Mc Graw Hill (2004)</p> <p>Lee Hock Lock (2001), Financial Security in Old Age -Whither The Employees Provident Fund of Malaysia?, Pelanduk Publications (2001)</p>

Type	Title
Articles	60 short essays compilation in 'Investing Your Savings", a book written by Yeoh Keat Seng

Type	Organization	Web Address
Webs	Federation of Malaysia Unit Trust Managers Bursa Malaysia Securities Commission of Malaysia Bank Negara Malaysia Relevant Journals	www.fmutm.com.my www.klse.com.my www.sc.com.my www.bnm.gov.my www.ssrn.com

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MODULE 2

RISK MANAGEMENT AND INSURANCE PLANNING

Course Objectives

This course is designed to help candidates understand the fundamental concepts of risk management and insurance and gain the knowledge about various personal insurance products, both life and general, which are related to financial planning. The candidates are expected to be able to apply these concepts and understand how to formulate appropriate financial plans in assisting their clients.

Course Outline

Topic 1: Fundamental Concepts in Risk Management

- Understanding risks – comparing pure and speculative risks
- Categories of pure risks – personal, property and liability risks
- Related concepts of risks – perils and hazards
 - – fundamental and particular risks
- The Risk Management Process
- Risk Management techniques and insurance

Candidates should be able to understand the nature of pure risks and the related terms used in describing the various aspects of these risks. The three categories of pure risks affecting individuals should be understood. Candidates are expected to be familiar with the risk management process, with particular reference to the various techniques that may be used. Insurance as a favourable risk management technique must be appreciated. Candidates should know how to classify risks into pure, speculative and insurable risks. They should also know how to implement appropriate risk management techniques to different types of loss exposures.

Topic 2: Insurance Fundamentals

- Understand the concept of insurance
- Criteria of insurable risks
- Life and General insurance companies and reinsurers
- Marketing of insurance products – the various intermediaries
- Pricing fundamentals – mortality and morbidity factors
- The basis of determining life insurance premiums

Candidates should understand the basis of insurance being a contract of risk transfer. The criteria of pure risks for an insurer to consider offering an insurance coverage, must be understood. The role of life and general insurers and the common types of policy contracts that they offer to individuals must be made familiar to candidates. The importance of mortality and morbidity rates as well as the various components to determine insurance premiums must be appreciated by candidates.

Topic 3: Legal Principles in Insurance

- The role of legal principles and legislation in insurance
- The law of contract – elements of a contract and how they are seen in insurance policies
- Legislation that influence legal principles in insurance contracts
- The unique legal characteristics of insurance contracts
- The law of agency – the principal-agency relationship
- The law of tort – negligence and liability contracts

Candidates should understand the fundamentals of the law of contract as they are applicable to insurance policies. The combination of legal principles and legislation must be familiar to the candidates. Utmost good faith principle and its implications in an insurance contract should also be known. Agency law and the law of tort with particular reference to negligence is important for the understanding of candidates.

Topic 4: The Role of Insurance in Financial Planning

- Insurance as the most suitable risk management technique for individuals
- The responsibility of a financial planner in the risk management process
- How much of life insurance is needed
 - settlement of debts and liabilities
 - maintenance of dependents and the 'Human Life Value' Concept
 - capital sums required for specific needs

Candidates must know that as a risk transfer mechanism, insurance plays a dominant role in the financial management of individuals as well as business owners. The role of the planner in identifying the various risk exposures as well as estimating the amount of coverage needed, particularly for life insurance is important. The various needs and the role of life insurance as funding mechanism must be understood. Candidates must be able to work out simple calculations to determine the required needs.

Topic 5: Factors Affecting Life Insurance Needs

- The important factors of premature death and total permanent disability and its impact on the individual and dependents
- Factors that influence needs – age and occupation
- Life insurance needs for business owners and business organisations
 - "key-person" indemnification
 - loans/debts cancellation
 - retirement/death benefits
 - business continuation by "buy-out" arrangements
 - group insurance
- Trust policies – Section 166 of the Insurance Act 1996
 - its advantages to policy owners
- Assignments of insurance policies – its uses and advantages to individuals

Candidates must know the various factors, the influence and the needs of life insurance as a funding mechanism to individuals. The importance of permanent disability and the financial implications must be understood. The role life insurance plays to business owners and organisations is increasingly important. The advantages of statutory trusts and assignments and the role they play in fulfilling life insurance needs must also be familiar to candidates.

Topic 6: Understanding Life Insurance Policy Contracts

- Types of life insurance products
 - Conventional/traditional life insurance – term, whole-life and endowment
 - Investment-linked life insurance and the relevant regulations
 - Disability (income protection) insurance
 - Annuities
 - Takaful
 - Critical illnesses/dread diseases
- Comparing traditional and investment-linked insurance
- Participating and non-participating contracts
- Bonuses – reversionary and cash bonuses

Candidates should be familiar with the common policy contracts, their features and main advantages to the policy owners. A better understanding is achieved by a comparison of the various contracts and their specific uses. It is also important to understand the significant differences between traditional and investment-linked insurance policies. Candidates must also know the important regulations that affect investment-linked policies.

Topic 7: General Insurance Policy Contracts

- Fundamental principles of general insurance contracts
- Special features of general insurance policies
 - indemnity, co-insurance, average clause, subrogation principle, proximate cause
- Basis of claim payments
- Common insurance policy contracts for individuals
 - Personal Accident
 - Fire
 - Houseowners & Householders
 - Burglary
 - Motor
 - Professional indemnity
 - All risk
 - Public liability

Candidates should be familiar with the fundamental and special features of general insurance contracts that are frequently purchased by individuals. The basis of determining the insured sum and the principles adopted by insurers when paying out claims must be understood. Common policy contracts, their benefits, perils covered, exclusions and other features must be highlighted with reference to individual policy owners.

Topic 8: Health Insurance

- Medical insurance and the various types of coverage available
- Comparison with critical illnesses/dread diseases cover
- Common features of medical insurance contracts in Malaysia
- Use of medical insurance cards for admission into hospitals
- "Major" medical insurance
- EPF health withdrawal scheme
- Purchasing medical insurance in Malaysia

Candidates must realize the importance of medical insurance in financial planning. The various types of coverage and their scope as well as limitations must be understood. Common misconceptions and exclusion clauses in medical insurance contracts must be noted. In the purchase of medical insurance, candidates should be able to advise individuals help to cater for their specific needs accordingly.

Topic 9: Annuity Policy Contracts

- Types of annuities and their features
 - Immediate Annuities
 - Deferred Annuities
- Other types of Annuity contracts and their specific uses
- General principles of Annuity payments
- EPF Conventional Annuity Scheme

Candidates should be able to identify the main features of each type of annuity and their specific uses. As annuities are increasingly being used as retirement schemes the options available to the individual must be understood.

Topic 10: Legislation and Rules in the Insurance Industry

- The basis of legislation and objectives of supervision in the insurance industry
- Important requirements in the Insurance Act 1996 that affect licensees
- The role of Bank Negara Malaysia (BNM)
- The role of Self-Regulatory Organisations
- Life Insurance Association of Malaysia

Candidates must understand the importance of legislation, regulation and supervision of the insurance industry. Significant requirements in the Insurance Act 1996 must be made familiar to candidates because these influence the operations of insurers in the industry. The role of BNM and Self Regulatory Organisations with LIAM as an example must be noted.

Topic 11: Consumer Protection and Insurance Industry Codes of Practice

- Specific provisions in the Insurance Act 1996 that provide protection for policyowners and claimants
- Understanding – cash/surrender values
 - paid-up options
 - non-forfeiture privileges
- Nominations – its effects and advantages
- BNMLINK and BNMTELELINK
- Complaint departments of insurance companies
- Financial Mediation Bureau
- The role of Insurance Brokers
- Choosing an insurer
- LIAM's Code of ethics and conduct

The law and regulations provide a strong basis of protection to consumers and policyowners. Candidates should be familiar with all the important mechanisms and organisations in the industry that maintain the spirit of "consumerism" with reference to the purchase of insurance products.

Topic 12: Additional topics

- Takaful principles and the growing importance of takaful contracts in Malaysia.
 - comparison with conventional policy contracts
 - principles in conventional contracts that are unacceptable to Shariah principles
- Insurance and income tax
 - the tax implications of premiums paid and claim proceeds received for individuals and business organisations
- EPF Education Withdrawal Scheme
- PTPTN Loans

Candidates should be familiar with other instruments and schemes that contribute to an individual's insurance and financial planning. Such funds available to individuals must be noted so that the candidates are able to advise them together with insurance as a risk management tool.

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MODULE 3 TAX PLANNING

Course Objective

Tax planning is a critical component of financial planning. Tax planning is a necessary component in achieving almost all objectives of a client. Whether it is education, retirement or estate planning tax provisions have an impact on these major components of financial planning. Even general wealth accumulation goals will be better served with an understanding of the tax code. Tax planning begins with an understanding the tax laws; how tax is computed and the various tax administrative procedures. It is however a vast subject and at the CFP level we only explore the basic principles which is enough to allow the student to expand and improve on this knowledge throughout his or her career. The ultimate goal is for the CFP qualified financial planner to talk intelligently on the subject with the client and to coordinate any effort in introducing salient tax planning ideas to help the client achieve as many goals as possible.

With self-assessment all taxpayers must know how to compute their tax. Needless to say financial planners have to be well equipped with this knowledge to augment the value of their services to their clients.

As everyone would have noticed the Inland Revenue Return Form begins with the Statutory Income from all sources. The approach has been to compute the Statutory Income of all sources and then to bring it all together to compute the Chargeable Income and the tax payable.

Topic 1 – Introduction to Malaysian Taxation

The introduction begins with an analysis of the big picture. How much revenue does the government need and collect and the spread of revenue collection between direct and indirect taxes. A brief history of what is taxed and not taxed in Malaysia is also discussed. A detailed description of the scope of taxation in Malaysia and the classification of income under the Income Tax Act 1967 is examined. The introduction covers persons chargeable to tax and the determination of resident status. The introduction looks into the 'why' of various aspects of Malaysian taxation.

Topic 2 – Computation of Statutory Income from employment

Employment is the principal work activity of the Malaysian people. The largest number of taxpayers comes from this category. The task is to compute the statutory income from employment. A preliminary step involves understanding the basis period applicable to the different types of employment income received in a variety of ways and the derivation of employment income from Malaysia. The main thrust in employment tax is to determine the five main categories of gross income from employment. In taxation it is also important to tie the law with the relevant Public Rulings by IRB. This is a major area of taxation and so to compute the statutory income involves a detailed study of employment tax provisions and the Public Rulings of IRB.

Topic 3 – Computation of Statutory Income from business

Business is the mainstay of any tax system. Companies in business provide the highest tax revenue to the government. Sole proprietors and partnerships also form a large tax base. The principal activity being business it is important to learn how to compute statutory income from business. Derivation rules and basis periods are important preliminary topics. Business taxation involves learning the principles of gross income especially between capital receipt and revenue and statutory provisions of gross income. A major area of study is the computation of adjusted income. Not only must the major provisions of the ITA be studied but also case law decisions that help differentiate allowable versus non-allowable expenses. In this regard the Public Rulings of IRB must be studied. In computing the statutory income, deductions must be given for capital expenditure in the form of capital allowances. Knowing the computation of capital allowances for plant and machinery and also for agricultural activity and industrial buildings is important in computing the statutory income. This makes this chapter long and tedious but it is important to know how to compute the statutory income of a business source.

Topic 4 – Computation of Statutory Income from investments

Investments are of major interest to financial planners and therefore understanding the tax provisions relating to investments is important. Investment income comes under two subsections, Section 4(c) and 4(d). The tax treatment of dividends, interest, rent and royalties are very different and therefore the financial planner must understand how to maximize the after-tax return from investments. There are various exemptions for investment income and the financial planner must know all these exemptions which come under the main provisions of the Act and also under

Schedule 6. Malaysia by and large have very favorable tax provisions as regards investments especially since it does not have a capital gains tax other than real property gains tax which at the moment is only 5%. Basis periods and derivation of investment income and withholding tax provisions for payments to non-residents are also covered.

Topic 5 – Computation of Chargeable Income and tax payable

This chapter brings together the statutory incomes from business, employment and investments and outlines the strict procedure followed by IRB. First the Aggregate income is computed and then the Total income followed by the Chargeable income. In computing the chargeable income of individuals personal relief must be computed which are manifold and which keeps changing each year of assessment. The calculation of tax payable based on the chargeable income and the rebates available to resident individuals is also examined. The computation of tax payable is mainly from the perspective of individuals. This is a very important chapter as it offers many tax planning ideas for planners to follow.

Topic 6: Tax treatment of various tax entities

This is a very useful chapter as it highlights the different tax treatment of the various types of tax entities, especially those involved in business. Sole proprietors, partnerships, companies, trusts and deceased person's estate are examined to reflect the different entities that co-exist under the ITA. The tax treatment of companies has changed from YA 2008, and the partnership allocation of income is an important area of study. Trusts are important estate planning vehicles and knowing their tax treatment is important. Even upon death taxes do not leave you and so the tax implications of a deceased person's estate are explored.

Topic 7 – Tax administration and tax audits

This is a very important area of study as in self-assessment; you have to know all the compliance issues. There are four main categories in tax administration; submission of returns, assessments, appeals and collection of tax. Avoiding penalties is an important step and keeping to the timeline and dates will be necessary. Tax audits have become a way of life for IRB and so clients must be advised on how to minimize the impact of tax audits. Tax Appeals follows strict procedures and planners must be aware of the process. There are numerous important dates as far as tax compliance is concerned and employees and employers alike must know this. Legal action by IRB must be avoided and planners must know the provisions in the ITA as regards legal action by IRB.

Topic 8 – Tax planning in financial planning

Tax planning contributes to the achievement of goals. This chapter introduces the student to the concept of tax planning and the many ways one can reduce the impact of tax. Employees often find little avenue for tax planning but actually there are many ways an employee can save or reduce his tax burden. The basic principles of tax planning for businesses are contained in the four canons of tax planning. Mastering these concepts will help financial-planners advice their clients accordingly. Maximizing the relief available and utilizing whatever exemptions that are in the ITA will help clients increase their after-tax return on their activity. Tax planning is only easy if the planner knows the tax provisions and the fundamentals of Malaysian tax. Students should continue increasing and improving their reservoir of ideas on tax planning.

Topic 9 –The Employees Provident Fund and retirement planning

The basic function and structure of the Employees Provident Fund is examined. EPF is a major savings vehicle and the financial-planner must understand this thoroughly. This chapter can be expanded to include EPF rules and regulations. Although EPF is the major savings vehicle other opportunities must also be explored. Deferred compensation and salary continuation plans, both qualified and non-qualified, should be explored. It can be concluded that despite the high savings rate of Malaysians, there is still a need for planning for an increasingly longer period of retirement and the continuous onslaught of inflation. Malaysians have to innovate and be creative in this area. Many articles have appeared in personal money/finance magazines about contributors' attitude and opinions on their EPF savings. These comments, ideas and opinions must be followed up by students to keep abreast of this important retirement savings vehicle.

Topic 10 - Taxation aspects of business succession planning

Business succession planning is a very important topic. High net worth individuals generally come from this group of business owners. How to provide for retirement or for the benefit of future generations requires tax planning. A business must be an enduring asset. Upon retirement or death this asset must be transferred in the most economical and tax efficient way. The tax treatment is different for the different tax entities. Estate planning considerations must be synthesized with tax laws to achieve the best possible outcome. This area needs more study in the future as it incorporates buy-sell agreements, funding issues, family issues, qualified successors and tax. Financial planners should keep their horizons open on this topic.

Topic 11 – Real Property Gains Tax

Real Property Gains Tax has been re-instated from 2010. Property investments form a major asset class for most clients. Financial Planners must know basic RPGT computation and the compliance procedures. Although the tax rate is only 5% and there is no tax after a period of 5 years it is nevertheless an important and common tax. Students must be familiar with the exemptions offered for private residence and in the basic computation.

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MODULE 4 INVESTMENT PLANNING

Course Objectives

To understand the concepts of risk and return, the financial markets and the various financial instruments available, financial mathematics and statistics, the analysis of financial statement, the basic concepts and tools of asset valuation, asset pricing models and portfolio management. The aim is for candidates to gain the knowledge to evaluate alternative investments, the advantages and disadvantages, and to make suitable investment recommendations to clients.

Topic 1: Basic Concept of Investment

Learning Contents

- Investment
- Investment Funds (Portfolios)
- Risk and Expected Return
- Expected Return (Required Rate of Return) and Real Rate of Return
- Relationship between Risk and Return
- Capital Asset Pricing Model
- Types of Assets
- Ways of Investing in Financial Assets
- Diversification in Investments
- Correlation between Assets
- Risk and Return
- Return
- Method of Annualizing the Holding Period Return
- The Measurement of Historical Rate of Return
- Expected Rate of Return with Probabilities
- Risk, Types of Risk, Total Risk
- Sources of Total Risk
- The computation of Total Risk, Systematic Risk and Unsystematic Risk
- Risk Measurement
- Measuring Risk on Historical Return and Expected Return
- Risk Profile of Investors

Learning Objectives

Candidates should be able to understand the concepts of risk and return with regards to investment, holding period return, direct and indirect investments, the various types of investments according to the general degree of risk and to evaluate return on investments in relation to their composition of risks.

Topic 2: Financial Mathematics and Statistics

Learning Contents

- Time Value of Money
- Computation of Value of Money
- Simple Interest
- Compounding Interest
- Future Value
- Present Value
- Present Value Annuities
- Present Value Annuity (PV_O) – Ordinary Annuity
- Present Value Annuity (PV_A) – Annuity Due
- Future Value Annuity (FV_O) - Ordinary Annuity
- Future Value Annuity (FV_A) - Annuity Due
- Perpetuities
- The Quotation of Interest Rates
- Effective Annual Rates (EAR)
- Loan Amortization Schedule
- Missing Cash Flows
- Basic Statistical Concepts
- Sampling Techniques
- Variables
- Measures of Central tendency – Singled Data
- Measures of Spread of data (Variability / Dispersion) – Singled Data
- Probability
- Continuous Probability Distribution
- Probability : Continuous (Normal Distribution)

Learning Objectives

Candidates should be able to understand and compute simple interest, compound interest, present values, future values and annuities. Candidates should have knowledge of elementary statistics, sampling techniques, data collection and analysis, mean and standard deviation, probability theory and distributions.

Topic 3: Financial Statement Analysis

Learning Contents

- Accounting Concepts and Principles
- The Financial Statements
- Categories of Financial Ratios
- Activity Ratios
- Debt Ratios
- Profitability Ratios
- Market Ratios
- DuPont Analysis
- Common Size Analysis
- Cautions about using Ratio Analysis

Learning Objectives

Candidates should be able to understand the major accounting concepts and principles and to read and interpret the financial statements. Candidates should also be able to calculate and analyze the various key financial ratios and know how to use these ratios to ascertain financial condition of companies and to make comparison between companies, perform common size analysis and note the limitations of financial ratios.

Topic 4: Securities Market and Investment in Shares

Learning Contents

- The Importance of Financial Markets
- The Primary Markets
- The Investment Banker
- The Secondary Markets
- Over the Counter (OTC) Market
- Overview of Malaysia Financial Market
- Bursa Malaysia
- Regulators of Malaysia Financial Market
- Regulatory Structure of Malaysia Capital Market
- Capital Market Efficiency
- Efficient Market Hypothesis (EMH)
- Weak-form EMH
- Semistrong-form EMH
- Strong-form EMH
- Market Anomalies
- Temporal Anomalies
- Financial Instruments Traded on Bursa Malaysia
- Fixed Income Securities
- Exchange-Traded Fund (ETF)
- Warrants or Transferable Subscription Rights (TSRs)
- Call Warrants
- Property Trusts
- Close-end Funds
- Stock Market Indices
- Index Methodology
- Market Capitalization Weighted Method
- Unweighted Method
- Shares Price Adjustment
- Types of Orders used by Investors
- The Top 20 Major Stock Exchanges: By Market Capitalization

Learning Objectives

Candidates should have a comprehensive knowledge on the importance of financial markets, primary markets, secondary markets, capital market, Malaysia stock market, financial instruments traded on Bursa Malaysia and the effect of rights issue and bonus issue on stock price. Candidates should also have a reasonable understanding of efficient market hypothesis, the use of market indices and the various methods of constructing market indices.

Topic 5: Basics of Equity valuation

Learning Contents

- Fundamental Analysis
- Company Analysis and Stocks Valuation
- Present Value Methods
- Discounted Dividend Model (DDM)
- Constant Growth
- Non Constant Growth
- Discounted Cash Flow (DCF) Method
- Relative Valuation Method
- Price Earnings Ratio (PER) (x)
- Price Book Value Ratio (PBV) (x)
- Price Sales Ratio (P/S) (x)
- Price NTA Ratio (P/NTA) (x)

Learning Objectives

Candidates should have a comprehensive knowledge on concept of fundamental analysis, the valuation of securities according to the Present Value Methods and Relative Valuation Methods. Present Value Methods consist of Discounted Dividend Model (DDM) – constant and non constant growth and Discounted Cash Flow (DCF) Method. Price Earnings ratio, Price Book Value ratio, Price Sales ratio and Price NTA ratio are covered under the Relative Valuation Method.

Topic 6: Investment in Bonds

Learning Contents

- Bonds
- Types of Bonds
- Bonds Rating
- Bonds Total Return (Yield to Maturity)
- Yield to Call (YTC)
- Factor Affecting Bond Prices
- Interest Rates Risk
- Price-Interest Rates (Yield) Curve
- Determinants of Price Volatility for Bond

- The Duration Measure
- Modified Duration, Approximation of Price Volatility and Bond New Price
- Bond Convexity and Convexity Effect
- Convexity Effect and New Bond Price

Learning Objectives

Candidates should be able to understand bonds as fixed income securities, bond valuation and bonds rating. Candidates should also have knowledge on how bond value and yield are calculated, the effect of interest rates and coupon on bonds, factors affecting bond prices and determinants of price volatility.

Topic 7: Derivatives

Learning Contents

- Derivative
- Uses of Derivatives
- Types of Derivatives
- Common Derivative Instruments
- Malaysian Derivative Contracts and Exchange
- The Basics of Futures Contract
- Futures Contracts Available in Malaysia
- Crude Palm Oil Futures
- A Stock Index Futures (SIF)
- Single Stock Futures (SSF)
- Interest Rate Futures
- The concept of Margin
- Standardization of Futures Contract
- The Basics of Options Contract
- Determinant of Option Pricing
- Warrants as an Embedded Option

Learning Objectives

Candidates should have comprehensive knowledge on derivatives, uses and the types of derivatives contracts available in Malaysia. Candidate should also understand the determinants of option pricing, the valuation of options and warrants as an embedded option.

Topic 8: Unit Trusts

Learning Contents

- Regulation of the Unit Trust Industry in Malaysia
- Statistics on Unit Trust Funds in Malaysia
- Concepts of Unit Trusts, Structure of Unit Trusts
- Dollar Cost Averaging,
- Types of Unit Trusts
- Equity Funds
- Fixed Income Funds
- Money Market Funds
- Real Estate Investment Trusts (REITs)
- Exchange Traded Funds (ETF)
- Balanced Funds
- Syariah Funds
- Risk Classification, Benefits of Unit Trusts Investment
- Pricing and Costs of Unit Trusts Investment
- Performance Measurement (Evaluation)
- Sharpe Measure, Information Ratio, Treynor Measure, Jensen Measure
- Risk Adjusted Performance (RAP) Measure
- Syariah Compliance Unit Trusts, Appointment of the Syariah Committee (Syariah Adviser)
- Distribution of Returns, Unit Splits
- Employees Provident Fund (EPF) Withdrawal for Investing in Unit Trust Funds
- Criteria in Selecting Unit Trust Funds
- Tax Benefits from Unit Trust Investment
- Code of Ethics and Standard of Professional Conduct for the Unit Trust Industry
- Servicing and Marketing Unit Trust Funds

Learning Objectives

Candidates should be able to understand the benefits of investing in unit trusts, the different types of unit trusts available, how to analyze, compare and choose unit trusts considering investor's objective, risk tolerance and time horizon. Candidates will also be exposed to Syariah compliance unit trusts and the code of ethics and standard of professional conduct for the unit trust industry.

Topic 9: Real Estate Investment

Learning Contents

- Basic Characteristics of Real Estate as an Investment
- Sources and Acquisition of Investment Property
- Three Approaches in Valuing Real Estate
- Real Estate Businesses
- Service Income
- Real Estate Construction
- Real Estate Development

- Real Estate Investment
- Valuing Real Estate
- Sources and Management of Cash Flows
- Discounted Cash Flow Valuation
- Real Estate Cycles
- Real Estate Investment Trust
- Risks Factors in Real Estate Investment

Learning Objectives

Candidates should have an overview of the characteristics of real estate investment, the risk and return, approaches in real estate valuation, real estate cycles, the concept of property trusts, so that they can advise clients considering including real estate in their investment portfolios.

Topic 10: Concepts of Portfolio Management

Learning Contents

- Portfolio Management
- Steps in Portfolio Management Process
- The construction of policy statement
- Studies and evaluation of current and forecasted scenarios and its impact
- Portfolio Construction
- Portfolio Monitoring
- Asset Allocation
- Asset Allocation Process in Investment Strategy
- Approaches in Asset Allocation Decision
- Theory of Portfolio Management
- Computation of Expected Return and Risk on Expected Return of Portfolio
- Expected Return of Portfolio
- Risk on Expected Return of Portfolio (2 Assets Portfolio)
- The Effect of Coefficient Correlations (r) between Two Assets (Stocks) on Portfolio Risk
- Risk on Expected Return of Portfolio (3 Assets Portfolio)
- Computation of Covariance, Correlation Coefficient and Variance using raw data (stock prices)
- Efficient Frontier for Alternative Portfolios
- Computation of Portfolio Risk (using different Weights and Correlation Coefficients) and Portfolio Expected Return
- Asset Pricing Models
- Capital Asset Pricing Model (CAPM)
- Arbitrage pricing Theory (APT)
- Performance Attribution Analysis
- Allocation Effect
- Selection Effect
- Tracking

Learning Objectives

Candidates should be able to have understanding on portfolio management process, the importance of diversification among different asset classes, the effect of coefficient correlations on portfolio risk, assets pricing model, characteristics of the efficient frontier, the different investment styles of professional fund managers and how to evaluate performance.

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

CFP SYLLABUS

MODULE 5 ESTATE PLANNING AND RETIREMENT PLANNING

Course Objectives

The duties of a Financial Planner are certain to include preparing provision for administration of the affairs of a client by someone other than the client. The area of estate planning is an essential part of a financial plan. The discussion focuses on all the key aspects of estate planning, including the 1958 Distribution Act (Revised 1997), Syariah Law (Faraid), Will Planning, Use of Power of Attorney, Rights of Beneficiaries and Trusts affecting both business owners and individuals.

PART I: ESTATE PLANNING

Topic 1: Estate Planning Fundamentals

- The concept of estate planning
- The estate planning process: Accumulation, conservation and distribution of the estate
- The estate planning team
- Types of property: Business and individuals, probate and non-probate items
- Overview of the tools used in estate planning
- Taxation implications of estate planning

Estate planning is an important part and subset of financial planning both for individuals and business owners. Candidates should have a basic understanding of the concepts and planning process of estate planning.

Topic 1a: Wills and Will Planning

- The development, purpose and definition of a Will
- Types of Wills
- Law of testacy and intestacy: Distribution Act, 1997, Probate and Administration Act, Wills Act 1959, Islamic law of inheritance
- Preplanning considerations in Will planning
- Steps and legal requirements in Will planning
- The probate and administration process
- Will planning for business owners

Will planning is fundamental to the estate planning process. Candidate should be well versed in the concepts, legal requirement and procedural aspects in Will planning for the individuals and business owners of various types of businesses.

Topic 2: Trusts

- The characteristics and components of a trust
- Methods of classifying trust
 - Express trusts
 - Resulting trusts
 - Constructive trusts
 - Statutory trusts
- Types of trusts and their characteristics
 - Fixed trusts and their characteristics
 - Living trusts vs. Discretionary trusts
 - Living trusts vs. Testamentary trusts
 - Revocable trusts vs. irrevocable trusts
 - Funded vs. Unfunded trusts
- Application of trust instruments in estate planning
- Taxation of trusts

Trust instrument is another important tool of estate planning. Candidate should be familiar with the various types and uses of trust instruments to meet the estate planning needs of the client.

Topic 3: Powers of Attorney

- Definition and characteristics of Power of Attorneys
- Simple vs. Durable Power of Attorney
- The Power of Attorney Act, 1949
- Duties and powers of the Attorney-in-Fact
- Procedural aspects of the Power of Attorney

A Will is useless if the individual is still alive but is incapacitated. Under such circumstance, the durable power of attorney comes in useful in handling the affairs of the disabled individual. Candidates should be familiar with various types and uses of the power of attorney to meet the estate planning needs of the client.

Topic 4: Duties and Power of the Personal Representative

The personal representative of a deceased client may have various duties, either in the capacity of personal representative or in the subsequent capacity of trustee. The duties of a personal representative are as follows:

- To arrange for the funeral
- To prove the Will if any
- To administer the estate personally
- To collect or get in the assets of the estate and preserve them from harm
- To ascertain and pay the debts of the estate and apportion the burden of their payment amongst the beneficiaries
- To keep accounts and records of all dealings with assets and liabilities of the estate
- To distribute the net assets of the estate to the persons or entities to receive them

The first part of this topic considers the fourth of those duties, the duty of the personal representative to collect the assets of the estate, and also refers to the last duty, the duty to distribute them. The second part of this topic turns to the

power to invest, and covers the "prudent person" test and the system of "authorized trustee investments". The duty to collect and the power to invest have been selected as the topics in the administration of estates that are most closely related to the practice of Financial Planners.

Topic 5: Rights of Beneficiaries

The Financial Planner should understand the difficulty of deciding between complaints that are groundless and should not be pursued but where the clients understanding of the problem can be aided, and those which have a basis worthy of further investigation by a solicitor, where referral is appropriate. A general knowledge of the rights of beneficiaries in different circumstances should assist the Financial Planner in the decision-making process.

Topic 6: Special Estate planning issues for business owners

- Types and characteristics of businesses
- Business continuation problems of owners: Death, disability and retirement
- Solutions to business continuation problems: The buy-sell concept
- Types of buy-sell plans
- Valuation of businesses: Methods, discount factors and selection
- Funding options: Valuation principles, role of business insurance and tax issues
- The keyman factor in business owners and non-owner-employees: Approved and non-approved schemes.
- Taxation implications of estate planning for business owners

Owners of different businesses face additional problems in planning for their estate. An example would be the business continuation issue. The candidates should be conversant with these problems and the types of solution available to best solve these problems.

PART II: RETIREMENT PLANNING

In Malaysia, the Employee Provident Fund (EPF) is a significant source of income for retirement. Unlike some western countries, private pension is uncommon in Malaysia, due mainly to the high EPF contribution rates and to the little (or no) tax incentive given to contributions and investment incomes of private pension schemes. In addition to the EPF, Malaysians commonly use non-specific investments (i.e. investments the objectives of which are not explicitly linked to retirement funding) such as properties, to fund their retirement needs.

This course is designed to enable candidates to develop suitable retirement plans for clients. The course covers how to analyze clients' retirement needs and the ways in which these needs can be met through various investment vehicles. Social security schemes such as the EPF and private pension schemes are also discussed.

Topic 1: Introduction

- The importance of retirement planning
- The retirement needs analysis
 - Determination of financial objectives at retirement
 - Calculation of retirement fund to meet objective
 - Availability of non-funded "safety nets"
 - Construction of monthly budget
 - Analysis of current asset, liabilities and retirement expenses
 - Inclusion of inflation factor in calculation of retirement expenses
- The underlying principle of retirement planning
- The present and future demographic of Malaysia
- The effect of changing demographic on retirement planning
- Importance of starting early for retirement planning using numerical examples.

Topic 2: Investment for Retirement

- Importance of time horizon and impact on risk
- Discounted cash flow calculations
- Typical assets classes and their uses
- Portfolio theory applied to retirement planning
 - Asset/liability modeling
 - Diversification
 - Taxation
 - Asset allocation
- Property as an asset class
 - Characteristics
 - Taxation
- Risks
- Returns on available assets for investment in retirement

Topic 3: Retirement Schemes

- Types of retirement plans
- Approved and Non-Approved schemes
- Deferred compensation schemes
- Benefit design
- Funding of benefits
- Security of Fund
- What adds up to a comfortable retirement?
- Tax considerations
- Likely developments
- Defined-Contribution Plan and Defined-Benefit Plan

Topic 4: The Employee Provident Fund (EPF)

- History and development
- Features of the Scheme
- Benefits under the Scheme
- Relevant legislation and guidelines
- Allowable investments – rationale, characteristics and applicable regulations
- Future role
- Details of % contribution in Account 1, and 2 of EPF scheme and details of withdrawal for allowable investment by depositors from Account 1

Topic 5: Retirement Income Streams

- Lump sum versus income streams
- Vehicles providing income streams
 - Annuity
 - Deposits
 - Dividends – shares, unit trusts
 - Property
- Types of annuities
 - Annuity rates
 - Income considerations
- Tax Considerations
- Advantages and disadvantages of the streams for retirees
- Preference shares, guaranteed unit trust funds, Real Estate Investment Trust (REITs), Malaysian Savings Bond
- Discussion on immediate annuities and deferred annuity and to recognize how annuities provide financial security.

Topic 6: Role of Financial Planner in pre-retirement counseling

- Analysis of key factors affecting plan selection
 - Lifestyle
 - Aspirations
 - Family circumstances
 - Insurance
 - Taxation
- Integration of retirement plan with retirement needs
- On-going needs for financial planning through retirement
- Working during retirement, living on retirement income, the effect on retirees due to mismatch between retirement plan and retirement needs.

Financial Planning Association of Malaysia

Recommended Reading List for Module 5 – Estate Planning and Retirement Planning

- Lee Hock Lock (2001), Financial Security in Old Age -Whither The Employees Provident Fund of Malaysia?, Pelanduk Publications (2001)
- Kapoor, Dlabay, Hughes (2004), Personal Finance, 7th Edition, Mc Graw-Hill (2004)
- Harrison (2002), Personal Financial Planner, 2nd Edition, Prentice Hall (2002)
- Distribution Act 1958 (amended 1997)
- Intestate Succession Ordinance (1960) Sabah only
- Probate and Administration Act 1959
- Wills Act 1959
- Inheritance (Family Provision) Act 1971
- Islamic laws of inheritance
- Power of Attorney Act 1949
- Intestacy Law of Distribution Act 1958 (amended 1997)
- Trustee Act 1949

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

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MODULE 6

FINANCIAL PLAN CONSTRUCTION AND PROFESSIONAL RESPONSIBILITIES

Course Objectives

The financial plan construction process needs to be meticulously considered. A systematic process to gather raw data, analyze the information, recommend strategies and eventually implementing the plan is required in order to determine the clients' hidden and known objectives/ this chapter prepares the planner to be competent in all aspects of plan construction.

In order to prepare a comprehensive financial plan, it is vital to be familiar with all aspects of financial planning which includes risk management and insurance planning, tax planning, retirement and estate planning as well as investment planning. Therefore, it is imperative to be familiar with the syllabus of Modules 2 to 5 of the Certified Financial Planner certification examinations.

Students must also ensure that they update themselves on the latest changes to the relevant laws and regulations relating to the different areas of financial planning.

The regulatory environment: An overview

- Understanding the regulatory environment
- The need for higher professionalism
- Creation of the virtuous cycle

Understanding the client

- Comprehension of clients' needs
- Understanding why the client is seeking your advice
- The financial and non-financial consideration of a financial plan
- Sieving out hidden agendas that client may have

The process of data gathering

- The importance of proper records
- The legal aspects of knowing your client
- How FPAM assess compliance
- The importance of due diligence in data gathering
- Essential considerations of client data sheets
- Risk assessment

Financial Analysis of data to determine investment strategy

- Ascertaining the client's present financial position

- Determining the client's objectives
- Analyzing the client's risk profile
- Identifying the client's risk profile
- EPF considerations
- Taxation consideration

Strategies to meet needs

- Asset allocation strategy
 - Factors affecting asset allocation
 - The need for diversification
 - Portfolio guidelines
 - Provision for "worst-case" scenarios
- Selection of investments
 - Factors to consider
 - Making sure the client understand the characteristics of his portfolio
- The basis of recommendation of products
- Possible legal implications

Plan Preparation

- Essential elements of a standard financial plan
- The format
- Consideration when preparing and presenting a plan
- Securing the client's approval and implementation agreement

The plan implementation process

- Implementation agreements
- The legal considerations
- Use and extent of disclaimers
- Compliance measures to adopt when handling cash, cheques and paper securities
- The documentation process
- The importance of good records keeping

Financial plan review

- Justifying the need of a review and components of a review
- Reviewing the health of the portfolio
 - Criteria
 - Factors to assist in the identification process
 - A systematic investments redemption process
- Establishing an agenda for the review
- Tools to aid the review process

Dealing with client complaints

- A professional approach
- How disputes arise
- A dispute resolution process

The FPAM code of ethics

- Refer to the FPAM Professional Ethics for Certified Financial Planner Licensees

The importance of continuing education