

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

FOUNDATION IN FINANCIAL PLANNING

MODULE 1

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 planning professional to prepare for the extensive study to be covered in the other courses of the CFP certification program. The entire program prepares candidates to be a competent financial planning professional 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 and worldwide
- Users of financial planning services
- Providers of financial planning services
- The range of financial planning services
- The profile of a competent financial planning professional

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

- Structure of the Malaysian financial system
 - Money, Capital, Foreign Exchange, Derivatives, Commodities and Islamic Markets
- Market structure and Participants
 - Primary and Secondary Market
 - Exchange-traded and Over-the-counter markets
- Principal functions and objectives of regulatory authorities - Securities Commission, Bursa Malaysia Berhad, Bank Negara Malaysia and Labuan Offshore Financial Service Authority
- Financial intermediaries, rating agencies, deposit insurance corporations and investors – principal roles
- Relevant regulations and guidelines
 - Capital Market Services Act 2007,

- Financial Services Act 2013 and Islamic Financial Services Act 2013,
- Anti Money Laundering and Anti Terrorism Financing Act 2001, Guidelines on Investor Protection Guidelines,
- Guidelines on Anti Money Laundering by the Securities Commission, Guidelines on the Offering of Structured Products by the Securities Commission,
- Guidelines on Introduction of New Products by Bank Negara Securities Commission – Guidance Notes on secondary trading of FCY denominated debentures and FCY denominated Islamic securities.
- Malaysia Deposit Insurance Corporation Act 2011

Candidates should understand how various regulatory controls affect the activities of a financial planning professional and how to minimise the risk of legal action in the course of providing financial planning services. The relevant laws and guidelines 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 planning professional.

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

Candidates should understand that to be competent financial planning professionals, 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 Planning Professionals

- The time value of money
 - Present value, Future value, Annuities
- Calculation of returns
 - Nominal rate of return

- Effective rate of return
- Internal rate of return for equal cash flow (IRR)
- Internal rate of return for unequal cash flow (XIRR)
- Real rate of return
- After-tax rate of return
- Compounded Annual Growth Rate (CAGR)
- Loan repayment and amortization
 - Loan monthly instalment calculation
 - Amortisation
 - Home equity
 - Cost of refinancing a loan
 - Fixed monthly repayment vs. fixed tenure
- Personal financial statement analysis
 - Understanding net worth statement and cash flow statement
 - Financial Ratios – liquidity ratio, savings ratio, debt ratios

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

Topic 1.5: Effective Communication in Client Counseling

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

Candidates should develop effective communication skills which are 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 planning professional.

Topic 1.6: Behavioural Finance

- Understanding the key concept of behavioural finance
 - Anchoring
 - Mental accounting
 - Confirmation and hindsight bias
 - Gambler's fallacy
 - Herd behavior
 - Overconfidence
 - Overreaction and availability bias
 - Prospect theory
- Psychology of investors
 - Basic building blocks of cognitive psychology and the role of the unconscious in investing decisions
 - Psychological drivers of market bubbles and financial crises

- Recognising decision errors and understand the reasons for these
- Basic investment styles and its drawbacks

Candidates should develop an understanding of the key concepts of behavioural finance. In today's complex financial environment, it is not enough for a financial planning professional to have solid financial knowledge; he should also have a working knowledge of the psychological aspects of client decision-making. By having an understanding of the way an individual thinks, feels, and makes decisions has a direct impact on their financial well-being.

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 behaviour 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 National Development Policy and National Economic Policy
- Employees Provident Fund (EPF) Act
- 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 laws 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 (Syariah-compliant 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 trusts
- Real Estate Investment Trusts (REIT)
- Investment trusts
- Exchange traded funds (ETF)
- Investment-linked insurance products
- Private retirement schemes (PRS)

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 planning professionals are able to select the ones that match their clients' needs.

PART 5: INCOME TAX PLANNING

Topic 5.1: Income tax concept

- Features of the Malaysian Tax System
- Direct vs. Indirect Tax Structures
- Basis of assessment
- Residency Rules
- Calculation of gross income
 - Salary income
 - Investment income
 - Income from properties
 - Income from business or profession
 - Other sources of income
- Deductions
- Reliefs
- Tax computation
- Real property gains tax

In advising how financial goals can be better achieved through minimisation 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

- Need and importance of tax planning
- Tax avoidance and tax evasion
- Tax planning for employees and businesses
- Deferral of tax liability
- Splitting of income
- Managing losses
- Maximisation of deductible expenditures of individuals and business forms

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
- Evaluate other retirement resources – Private Retirement Scheme

Financial planning professionals 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 planning professionals 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
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

8.1 The Code of Conduct and Professional Responsibility

- FPAM Code of Ethics
- Principles of FPAM Code of Ethics

8.2 Ethical and Professional Considerations of CFP Professional

- Responsibilities towards clients and public at large
- CFP mark usage for CFP Certificants
- Relevant legislative requirements and responsibilities

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

Financial Planning Association of Malaysia

Type	Organisation	Web Address
Webs	Federation of Investment Managers Malaysia Bursa Malaysia Securities Commission of Malaysia Bank Negara Malaysia Relevant Journals	www.fimm.com.my www.bursamalaysia.com www.sc.com.my www.bnm.gov.my www.ssrn.com

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

INSURANCE PLANNING AND ESTATE PLANNING

MODULE 2

Course Objectives

This course is designed to help candidates understand the fundamental concepts of risk management, insurance and estate planning and gain the knowledge about various personal insurance products, both life and general, which are related to financial planning and estate planning tools such will, power of attorney and trust as well as taxation issues affecting estate 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 planning professional 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 roles of the financial planning professional in identifying the various risk exposures as well as estimating the amount of coverage needed, particularly for life insurance are discussed. 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 – 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
- 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

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
- Health withdrawal scheme provided by the Employees Provident Fund (EPF)
- Purchasing medical insurance in Malaysia

Candidates must realise 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 Financial Services Act 2013 and the Islamic Financial Services Act 2013 that affect licensees
- The role of Bank Negara Malaysia (BNM)
- The role of Self-Regulatory Organisations
- Life Insurance Association of Malaysia (LIAM)
- Income Tax Act provisions relating to premium paid and claim proceeds received by individuals and business organisations

Candidates must understand the importance of legislation, regulation and supervision of the insurance industry. Significant requirements in the Malaysian Insurance Laws 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. Candidates should also be familiar with the tax issues relating to insurance.

Topic 11: Consumer Protection and Insurance Industry Codes of Practice

- Specific provisions in the Insurance laws 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: Estate Planning Fundamentals

- What is estate planning
- Estate planning purposes and objectives
- What is an estate
- The players in estate planning
- The process involved in estate planning
- Strategies of protection, preservation and distribution of wealth
- Overview of estate planning instruments commonly used
- Taxation implications of estate planning

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

Topic 13: Wills and Will Planning

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

Candidates must understand that will planning is fundamental to the estate planning process. As such, they 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 14: Trusts

- The characteristics and components of a trust
- Methods of classifying trust
 - Express trusts
 - Implied trusts
 - Resulting trusts and Constructive trusts
 - Statutory trusts
- Types of trusts and their characteristics
 - Fixed trusts vs. Discretionary trusts
 - 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 and advantages of a trust
- Rights and remedies of beneficiaries
- Taxation of trusts

Candidate should be familiar with the various types of trusts, which is another important tool of estate planning, and uses of trust instruments to meet the estate planning needs of the client. Candidates are also required to have a general understanding of the rights of beneficiaries of a trust and remedies available in different circumstances. There will be situation a financial planning professionals may faced with 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.

Topic 15: Powers of Attorney

- Definition and characteristics of Power of Attorney
- The Power of Attorney Act, 1949
- Procedural aspects of the Power of Attorney
- Duties and powers of the Donee

Candidates should be familiar with various types and uses of the power of attorney to meet the estate planning needs of the client. A power of attorney, coupled with a trust, comes in useful in handling the affairs of the incapacitated and disabled individuals.

Topic 16: Duties and Power of the Personal Representative

- Estate administration
- Duties of a Personal Representative
- Duties of a Trustee
- Powers of a Personal Representative or Trustee
- Investment management of trust assets

Candidates should be familiar with the duties and roles of the personal representative of a deceased client. A personal representative may also act in the capacity of a trustee who has the power to invest on behalf of the deceased client. This topic also covers the “prudent person” test and the system of “authorized trustee investments”.

Topic 17: 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 key employee factor in business owner and non-owner-employee
- Tax implications of estate planning for business owners

Candidates should understand the various types of problem faced by business owners in succession planning and planning for their estate. Business succession issues are common among small business owners and financial planning professionals should be conversant with these problems and the types of solution available to best solve these problems.

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

INVESTMENT PLANNING AND RETIREMENT PLANNING

MODULE 3

Course Objectives

To enable candidates to obtain an understanding of the concepts of investment planning and personal investment portfolio management, the concepts of risk and return and how return from investments can be optimized, the various type of asset classes available for investment by recognize the importance of personal retirement maps to suit client objectives and lifestyles, the basic guidelines of retirement planning and common pitfalls and misconceptions of retirement. Method of identifying retirement costs and income needs of clients as well as the various forms of retirement savings options and income streams are also discussed.

Course Outline

Topic 1 - Investment Concepts

Why do people invest?

Measurement of investment returns

Minimising Risk

Portfolio Management Process for Individual Investors

- Investment Objectives
- Defining the Objectives for Component Parts of the Portfolio
- Investment Management Process

Asset Allocation

- Major asset classes and their Characteristics
- Asset Allocation and the Asset Allocator
- Types of Investment Funds
- Evolution of Asset Allocation Theory, Practice and Performance

Investment Risk Management

- What is Investment Risk?.
- Measurement of Investment return
- Measurement of risk
- Risk Measurement Issues

Candidates should be familiar with the basic concepts of investment such as concepts of risk and return with regards to investment, the reasons for investing, the relationship between risks and returns and how they are measured, process of investment and the benefits of diversification. These understanding of these concepts are critical to providing investment advice to clients.

Topic 2: Concepts of Portfolio Theory and Performance Measures

- Introduction to Portfolio Theory
- Risk Aversion and Utility
- Markowitz Portfolio Theory
- Capital Asset Pricing Model
- Arbitrage Pricing Theory
- Market Efficiency
- Evaluation of Investment Performance – Time-weighted and money-weighted return, risk-adjusted ratios

Candidates should be able to understand, describe and explain in a formal way the interactions between investments and the risk-reducing properties of portfolios. This topic explains the concepts of Markowitz Portfolio Theory, Capital Asset Pricing Model, Arbitrage Pricing Theory and Market Efficiency, their practical applications and the problems associated with them.

Topic 3 - Equity Market

- Introduction to equity markets
- Overview of Malaysia Capital Market
- Regulatory Structure of Malaysia Capital Market
- Roles of Securities Commission and Bursa Malaysia
- Types of equities
 - Ordinary shares
 - Preference shares
 - Depository receipts
 - Warrants or Transferable Subscription Rights (TSRs)
- Classification of equities for Investment Purposes
- Valuation of equities
 - Fundamental Analysis and Technical Analysis
 - Discounting cash flow methods– dividend growth approaches and free cash flow approaches
 - Relative valuation methods - price earnings ratio, price book value ratio, price sales ratio, dividend yield
 - Book value methods – net tangible assets, replacement cost, liquidation methods
- Impact of corporate exercises such as rights issues, bonus issues and dividend payout on share price

Candidates should be able to describe how the equity market works, the type of equity instruments available to investors, the factors that affects the price of equity instruments and the methods that can be applied to value shares and other equity instruments

Topic 4: Investment in Debt Securities

- Introduction on debt securities
 - Definition of debt securities
 - Background of the debt markets
 - Importance of debt securities in relation to capital raising and investments
- Types of fixed income securities in Malaysia - straight bonds, floating rate bonds, zero coupon bonds, callable/puttable bonds, convertible bonds, perpetual bonds
- Characteristics of bonds
 - Par values/face values and bond proceeds
 - Term to maturity
 - Coupon rate and calculation
 - Trustee and trust deed
 - Yield (yield to maturity, yield-to-call, realised, nominal, current)
- Considerations when investing in bond
 - Credit rating
 - Maturity
 - Yield
 - Call or conversion
 - Tax
- Risk of investing in bonds
 - Factors affecting interest rates
 - Supply and demand
 - Economic factors
 - Government and central bank policies
 - Market expectation and psychology
 - International political events
- Bond price sensitivity
 - Duration measures
 - Modified duration and approximation of price volatility
 - Convexity and its effect

Candidates are required to have a satisfactory understanding of the fundamental features and benefits of debt securities, how debt securities value are determined, the factors that affects the value of the debt securities and its volatility and be able to describe the various types of risk associated with investing in debt securities.

Topic 5: Derivatives and Structured Products

- Derivatives
 - What are derivatives?
 - Uses of Derivatives
 - Types of Derivatives
 - The derivatives markets
 - Using derivatives in managing investment risk

- Options
 - Definition and Concept of Options
 - Trading of Options
 - Option Payoffs
 - Option Strategies
 - Option Valuation
 - Options in Portfolio Management \
- Futures
 - Definition and Concept of Futures
 - The Futures Market
 - Application of futures
 - Futures pricing Review
 - Risks associated with futures trading
 - Types of futures traded on the Malaysian Derivatives Exchange
 - Crude Palm Oil futures
 - Equity Futures
 - Bond futures
 - Interest Rate Futures
- Structured Investments
 - What are structured investments and why people invest in structured investment?
 - Types of structured products
 - Basic building blocks of a structured investment
 - Characteristics of structured products
 - Principal repayment
 - Payoff structures
 - Participation rate
 - Pre-termination
 - Examples of underlying assets
 - Risks associated with structured investments

Candidates should have satisfactory knowledge of derivatives and structured products, its uses and the types of derivatives contracts and structured products available in Malaysia. Candidate should also understand the determinants of option pricing, the valuation of options and warrants as an embedded option. Candidates should also have an understanding of structured products and its features, risks and documentation and legal aspects.

Topic 6: Collective Investment Scheme and Unit Trusts

- Overview of Unit Trust Schemes
- Regulation of the Unit Trust Industry in Malaysia
- Parties to Unit Trust Schemes and their roles
- Method of Investments (Single sum, Lump Sum, Dollar-cost-averaging, Loans, EPF)
- Calculation of Net Asset Value and Impact of Distributions and Bonus Split
- Management Expenses Ratio & Portfolio Turnover Ratio

- Shariah-based unit trust schemes
- Other types of collective investment schemes – REITs, ETFs
- Regulations on Marketing & Distribution of Unit Trust
- Code of Ethics for Consultants

Candidates should understand the benefits of investing in unit trusts, the different types of unit trusts and collective investment schemes available, how to analyse, 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 7: Real Estates Investment

- The role of real estate in an investment portfolio
- The property investment decision
- Measurement of return on return state investment
- Risk associated with real estate investment
- Macroeconomics Influences on Property Returns
- Microeconomics Influences on Property Returns

Candidates should have an good understanding 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 8 - Investment for Retirement

- Importance of time horizon and impact on risk
- Portfolio theory applied to retirement planning
 - Asset/liability modeling
 - Diversification
 - Taxation
 - Asset allocation
 - Taxation

Candidates should be able to appreciate the importance of time horizon in retirement planning and the various types of assets classes for retirement and their uses. Candidates are also be able to apply the concepts of portfolio theory in retirement planning including asset allocation, diversification and asset/liability modelling.

Topic 9 - The underlying principles of retirement planning

- 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
- Importance of starting early for retirement planning using numerical examples
- The present and future demographic of Malaysia
- The effect of changing demographic on retirement planning

Candidates should be familiar with the issues affecting retirement planning such as inflation and the changing demographics. Candidates are also required to be able to establish the needs of retirees and the determination of funding needs of retirees.

Topic 10 - 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 11 - The Employee Provident Fund (EPF) and Private Retirement Scheme (PRS)

- Employee’s 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
- Private Retirement Scheme (PRS)
 - History and development
 - Features of the Scheme
 - Benefits under the Scheme
 - Relevant legislation and guidelines
 - Allowable investments – rationale, characteristics and applicable regulations
 - Future role

Candidates should have a good understanding of the features and benefits of the EPF and the PRS. In Malaysia, EPF and PRS are two of the main platforms of savings for nearly all people working in both the private and public sector organizations. It is important for financial planning professionals to understand the importance of EPF and PRS and how they can provide for the retirement of his clients.

Topic 12 - 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
- Immediate annuities and deferred annuity and to recognize how annuities provide financial security
- Other income streams and their tax treatment – fixed deposits, rental income, preference shares, guaranteed unit trust funds, real estate investment trusts (REITs) and Malaysian Savings Bond

Candidates should be aware of the various forms of income stream available to retirees, and their advantages and disadvantages. A retiree requires multiple retirement income streams to ensure that his essential living expenses are covered every month. Today, one stream of income is usually not enough to cover essential living expenses. A regular income in retirement is therefore a fundamental part of retirement planning

Topic 13 - 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

Candidates should be familiar with problems and issues associated with an individual prior to his retirement and able to provide the necessary counseling and solutions to those who needed them. Retirement is very critical for some people and other than financial issues some also face restlessness. Candidates should be well versed to handle issues relating to relationship, financial management, life balance issues, stress and well as anxiety that accompanies an individual when he near the retirement stage.

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

MODULE 4

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, analyse the information, recommend strategies and eventually implementing the plan is required in order to determine the clients' hidden and known objectives.

This module builds upon the foundations in financial planning and the knowledge requirements in Modules 1 to 3 of the CFP Certification Programme to enable the CFP professional to construct a comprehensive financial plan for a client. Therefore, it is vital for students to be familiar with all aspects of financial planning which includes risk management and insurance planning, tax planning, retirement and estate planning, investment planning as well as the general principles and good practices of financial planning.

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.

At the end of this module, a student should be able to:

1. Determining the client's financial status by analysing and evaluating the client's information.
2. Developing and preparing a client-specific financial plan tailored to meet the goals and objectives of client, commensurate with client's value, temperament, and risk tolerance.
3. Implement and monitor the financial plan

Course Contents

Financial planning and the regulatory environment

- An overview of the regulatory framework for financial planning
- Enhance professionalism in financial planning
- Understanding the FPAM Code of Ethics and Practice Standards
- The fiduciary nature of the relationship between the financial planning professional and the client

Financial Planning Process

1. Establishing client-financial planning professional relationships
 - a. Explain issues and concepts related to overall financial planning process, as appropriate to the client
 - b. Explain services provided, the process of planning, documentation required
 - c. Clarify client's and financial planning professional's responsibilities
2. Gathering client data and determining goals and expectations
 - a. Obtain information from client through interview/questionnaire about financial resources and obligations
 - b. Determine client's personal and financial goals, needs and priorities
 - c. Assess client's values, attitudes and expectations
 - d. Determine client's time horizons
 - e. Determine client's risk tolerance level
 - f. Collect applicable client records and documents
3. Determining the client's financial status by analysing and evaluating the client's information
 - A. General
 - a. Current financial status (e.g., assets, liabilities, cash flow, debt management)
 - b. Capital needs
 - c. Attitudes and expectations
 - d. Risk tolerance
 - e. Risk management
 - f. Risk exposure
 - B. General Needs
 - a. Emergency funds
 - b. Children's education
 - c. Children's marriage
 - d. Buying real assets like home, car, durables, etc.
 - e. Future life style needs
 - C. Special needs
 - a. Divorce /remarriage considerations
 - b. Charitable planning
 - c. Adult dependent needs
 - d. Disabled child needs

- D. Risk management
 - a. Life insurance needs and current coverage
 - b. Disability insurance needs and current coverage
 - c. Medical insurance needs and current coverage
 - d. Long – term care insurance needs and current coverage
 - e. Homeowners insurance needs and current coverage
 - f. Motor insurance needs and current coverage
 - g. Other liability insurance needs and current coverage - professional, errors and omissions, directors and officers)

- E. Retirement
 - a. Current retirement plans
 - b. Retirement strategies
 - c. Available employee benefits

- F. Investments
 - a. Current investments
 - b. Current investment strategies and policies

- G. Taxation
 - a. Tax returns
 - b. Current Tax strategies
 - c. Tax compliance status
 - d. Current tax liabilities

- H. Estate planning
 - a. Estate planning documents
 - b. Estate planning strategies

- 4. Analyse Client Objectives, Needs and Financial Situation
 - a. Analysis of relevant information
 - b. Need for specialist advice
 - c. Issues that require further clarification

- 5. Developing and presenting the financial plan
 - A. Developing and preparing a client-specific financial plan tailored to meet the goals and objectives of client, commensurate with client's value, temperament, and risk tolerance, covering:
 - 1. Financial position
 - a. Current statement
 - b. Projected statement
 - c. Projected statement with recommendations

2. Cash flow
 - a. Projections
 - b. Recommendations
 - c. Projections with recommendations
3. Capital needs at retirement
 - a. Projections
 - b. Recommendations
 - c. Projections with recommendations
4. Capital needs: projections at death, disability, general and special needs
 - a. Recommendations
 - b. Projections with recommendations
5. Income tax
 - a. Projections
 - b. Recommendations
 - c. Projections with strategy recommendations
6. Asset allocation
 - a. Statement
 - b. Strategy recommendations
 - c. Statement with recommendations
7. Investment
 - a. Recommendations
 - b. Policy statement
 - c. Policy statement with recommendations
8. Risk
 - a. Assessment
 - b. Recommendations
6. Implementing the financial plan
 - a. Assist the client in implementing and recommendations
 - b. Coordinate as necessary with other professionals, such as tax accountants, lawyers, investment advisors, insurance agents, etc.
7. Monitoring the financial plan
 - a. Monitor and evaluate soundness of recommendations
 - b. Review the progress of the plan with the client
 - c. Discuss and evaluate changes in client's personal circumstances
 - d. Review and evaluate changing tax law and economic circumstances
 - e. Make recommendations to accommodate new or changing circumstances