

FINANCIAL PLANNING ASSOCIATION OF MALAYSIA

FOUNDATION IN FINANCIAL PLANNING AND TAX 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