

Module I - Introduction to Financial Planning

Course Description: This module would serve as an introduction to Financial Planning. The module would cover in detail the Financial Planner Competency Profile, the six step process which includes Financial Planning process, client interactions, general principles of financial management, financial mathematics, personal financial statements, cash flow and debt management, asset acquisition, FPSB India's Code of Ethics and Professional Responsibility and Model Rules of Conduct, and the regulatory environment related to the Financial Planning domain.

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

1. Implement the Financial Planning process by appropriately using financial planner competencies and by following the prescribed code of ethics, practice standards and professional conduct.
2. Understand the economic, social, political, and technological environment and be able to determine how financial plans should accommodate those environments.
3. Understand the potential goals a client may have, help them enunciate their goals and evaluate strategies to help clients achieve their goals.
4. Understand basic tools of financial management and financial mathematics applications, and devise simple strategies and mechanisms to achieve realistic goals.
5. Understand various regulations which need to be adhered to while making and implementing financial plans for the clients.

Detailed Topic List: The topics of the Module: Introduction to Financial Planning are structured into five distinct parts as follows. The weights of these individual parts in relation to the Module as well as each of Exam 1 – 4 are given along with testing objective and the nature of testing. A summary of distribution of marks of the Module: Introduction to Financial Planning is provided in the table below:

Pattern of Question Bank – 20% of 'Introduction FP" Module embedded in Exam 1/2/3/4											
		Part-I		Part-II		Part-III		Part-IV		Part-V	
		No. of Items	Marks	No. of Items	Marks	No. of Items	Marks	No. of Items	Marks	No. of Items	Marks
Marks Category	1	2	2	4	4	1	1	2	2	1	1
	2	1	2	0	0	0	0	1	2	1	2
	3	0	0	1	3	1	3	0	0	0	0
	4	0	0	0	0	2	8	0	0	0	0
Total		3	4	5	7	4	12	3	4	2	3

- **Total Items: 17 / Total Marks: 30**

Part I: The 6-Step Financial Planning Process

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical testing clarity of concepts or Numerical testing basic skills: 'Grade 2'
Total weight to the Module	13.33%
Total weight to each of Exam 1 - 4	2.67%
Nature of Test Items	2 items: 1 mark each 1 item : 2 marks

Sub-parts	Testing and Difficulty grade
1.1 Establish and Define the Relationship with the Client	'Grade 1'
Detailed Topics	
1.1.1. Explain the client the purpose of Financial Planning, the role of Financial Planner and his/her Professional Competencies. 1.1.2. Discuss Financial Planning needs and expectations of the client with respect to Financial Planning Components 1.1.3. Determine whether the Practitioner can meet client's needs with regard to the financial planner competencies 1.1.4. Define the scope of engagement including services to be provided including monitoring responsibilities	
1.2 Collect Client's Information	'Grade 1'
Detailed Topics	
1.2.1. Collect quantitative and qualitative information 1.2.2. Assess client's values, attitudes and expectations 1.2.3. Assess the client's level of knowledge and experience with financial matters	
1.3 Analyze Client's Financial Status, Risk Profile and Determine Financial Goals	'Grade 1'
Detailed Topics	
1.3.1. Analysis of client's background and current financial status 1.3.2. Assess the client's objectives, needs and priorities 1.3.3. Determine client's risk tolerance level by ascertaining risk appetite and risk capacity 1.3.4. Identify client's personal and financial goals, needs and priorities through interview/questionnaire 1.3.5. Define client's time horizon for each goal	
1.4 Develop Financial Planning Recommendations and Present them to the Client	'Grade 1' & 'Grade 2'
Detailed Topics	
1.4.1. Identify and evaluate Financial Planning Alternatives to meet client's goals and objectives 1.4.2. Develop the Financial Planning Recommendations 1.4.3. Present and discuss the Financial Planning Recommendations with the client 1.4.4. Obtain the feedback from client and revise the Recommendations as necessary 1.4.5. Provide documentation of Plan Recommendations 1.4.6. Confirm client's acceptance on Recommendations	

1.5 Implement Client's Financial Planning Recommendations	'Grade 2'
Detailed Topics	
1.5.1. Agree on implementation responsibilities 1.5.2. Assist the client in selecting products and services for implementation 1.5.3. Coordinate as necessary with other specialists	
1.6 Monitor and Review the Client's Situation	'Grade 2'
Detailed Topics	
1.6.1. Review performance and progress of the plan with the client 1.6.2. Discuss and evaluate changes in client's personal circumstances (e.g. birth/death, age, illness, divorce, retirement) affecting/modifying goals 1.6.3. Review, evaluate changing tax laws and economic circumstances 1.6.4. Assess impact of rise/fall in interest rates on financial goals 1.6.5. Make recommendations to accommodate new or changing circumstances 1.6.6. Provide ongoing services to client	

Part II: Financial Management- General Principles and Behavioral Finance

Testing Objective	Theoretical testing knowledge: 'Grade 1' Numerical testing basic skills: 'Grade 3'
Total weight to the Module	23.33%
Total weight to each of Exam 1 - 4	4.67%
Nature of Test Items	4 items : 1 mark each 1 item : 3 marks

Sub-parts	Testing and Difficulty grade
2.1 Brief Overview to Financial Markets	'Grade 1'
Detailed Topics	
2.1.1. Capital Markets- Primary and Secondary 2.1.2. Market Indices and Parameters 2.1.3. Money Market 2.1.4. Derivatives Market 2.1.5. Foreign Exchange market 2.1.6. Commodity Market 2.1.7. Services- Life and non Life	
2.2 Debt Management	'Grade 1'
Detailed Topics	
2.2.1. Debt- Purpose, needs and responsibilities 2.2.2. Long Term Debt vs. Short Term Debt 2.2.3. Fixed Rate vs. Variable Rate Mortgages 2.2.4. Consumer loans 2.2.5. Refinancing 2.2.6. Hire- purchase 2.2.7. Credit cards 2.2.8. Leasing	
2.3 Personal Financial Statement Analysis	'Grade 3'
Detailed Topics	
2.3.1. Cash inflows and outflows- Cash Management 2.3.2. Income and expenditure statement	

2.3.3. Budgeting and forecasting 2.3.4. Monitoring budgets and provisions for savings 2.3.5. Personal Balance Sheet and Net Worth	
2.4 Forms of Business Ownership/ Entity Relationships	'Grade 1'
Detailed Topics	
2.4.1. Sole Proprietorship 2.4.2. Partnership Firm 2.4.3. Limited Liability Partnership 2.4.4. Limited liability companies 2.4.5. Trusts 2.4.6. Foundations/ exempt organizations 2.4.7. Cooperative societies	
2.5 Concepts in Behavioral Finance	'Grade 1'
Detailed Topics	
2.5.1. Prospect Theory 2.5.2. Herd Behavior 2.5.3. Anchoring and Contrarian Investing 2.5.4. Mental Accounting and Gambler's Fallacy	
2.6 Behavioral Finance- Investor Psychology	'Grade 1'
Detailed Topics	
2.6.1. Value Investing and Behavioral Finance 2.6.2. Role of emotions in financial decision making – Common errors 2.6.3. Skewness of Asset Allocation due to cultural or historical bias 2.6.4. Basic investment style and its drawbacks	
2.7 Economic Environment Analysis	'Grade 1'
Detailed Topics	
2.7.1. Demand and Supply 2.7.2. Inflation and Recession 2.7.3. Deflation and stagflation 2.7.4. Interest rates/yield curves 2.7.5. Equity investment and real return 2.7.6. Government Monetary and Fiscal Policies 2.7.7. The impact of business cycles 2.7.8. Impact of global economic environment 2.7.9. Impact of global factors on Foreign Exchange Rate 2.7.10. Key indicators- leading, lagging and concurrent	

Part III: Financial Mathematics

Testing Objective	Theoretical testing knowledge: 'Grade 1' Numerical testing basic skills: 'Grade 3' Numerical testing analytical skills & synthesis: 'Grade 4'
Total weight to the Module	40%
Total weight to each of Exam 1 - 4	8%
Nature of Test Items	1 item : 1 mark 1 item : 3 marks 2 items: 4 marks each

Sub-parts	Testing and Difficulty grade
3.1 Calculation of Returns	'Grade 1,3 & 4 '
Detailed Topics	
3.1.1. Nominal Rate of Return 3.1.2. Effective Rate of Return 3.1.3. Internal Rate of Return (IRR) 3.1.4. Internal Rate of Return irregular cash flows (XIRR) 3.1.5. Compounded Annual Growth Rate (CAGR) 3.1.6. Real Rate of Return after adjusting inflation 3.1.7. Rate of Return after adjusting taxes 3.1.8. Analysis of Return	
3.2 Time Value of Money	'Grade 4 '
Detailed Topics	
3.2.1. Present Value 3.2.2. Net Present Value 3.2.3. Future Value 3.2.4. Annuities- Immediate and Deferred 3.2.5. Growing Annuity and Inflation Adjusted Annuities	
3.3 Loan Calculations	'Grade 3 & 4 '
Detailed Topics	
3.3.1. EMI calculation 3.3.2. Loan Restructuring- Present value of future payments 3.3.3. Loan Repayment Schedules 3.3.4. Repayment Schedules with Varying Interest Rates 3.3.5. Amortization 3.3.6. Home Equity 3.3.7. Refinancing Cost 3.3.8. Fixed EMI vs. Fixed Tenure	
3.4 Total assets, Net Worth and Financial Ratios	'Grade 3 '
Detailed Topics	
3.4.1. Net Worth and its Components 3.4.2. Liquidity Ratios 3.4.3. Debt to Income Ratio, Debt to Financial Assets, Debt to Total Assets 3.4.4. Savings Ratio	

Part IV: FPSB India’s Financial Planner Code of Ethics, Professional Responsibility and Model Rule of Conduct

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical testing clarity of concepts or Numerical testing basic skills: 'Grade 2'
Total weight to the Module	13.33%
Total weight to each of Exam 1 - 4	2.67%
Nature of Test Items	2 items: 1 mark each 1 item : 2 marks

Sub-parts	Testing and Difficulty grade
4.1 The Code of Ethics and Professional Responsibility	'Grade 1'
Detailed Topics	
4.1.1. Code of Ethic 1 – Client First 4.1.2. Code of Ethic 2 – Integrity 4.1.3. Code of Ethic 3 – Objectivity 4.1.4. Code of Ethic 4 – Fairness 4.1.5. Code of Ethic 5 – Professionalism 4.1.6. Code of Ethic 6 – Competence 4.1.7. Code of Ethic 7 – Confidentiality 4.1.8. Code of Ethic 8 – Diligence	

4.2 Ethical and Professional Considerations in Financial Planning	'Grade 2'
Detailed Topics	
4.2.1. CFP ^{CM} Professional's responsibilities towards clients and public at large	
4.2.2. Client agreements and confidentiality clauses	
4.2.3. Model Rules of Conduct for CFP ^{CM} Professionals	
4.2.4. CFP marks usage for CFP ^{CM} Certificants 'Grade 1'	
4.2.5. Other relevant legislative requirements and responsibilities	

Part V: Regulatory Environment Related to Financial Planning

Testing Objective	Theoretical testing knowledge: 'Grade 1' Theoretical testing clarity of concepts or Numerical testing basic skills: 'Grade 2'
Total weight to the Module	10%
Total weight to each of Exam 1 - 4	2%
Nature of Test Items	1 item: 1 mark 1 item: 2 marks

Sub-parts	Testing and Difficulty grade
5.1 Regulation Relating to Individuals	'Grade 1'
Detailed Topics	
5.1.1. Contracts	
5.1.2. Negotiable Instruments	
5.1.3. Torts	
5.1.4. Professional Liability and Fiduciary Responsibility 'Grade2'	
5.1.5. Agency law	
5.1.6. Consumer Protection Law	
5.1.7. Family Laws-Divorce	
5.1.8. Indian Succession Act 'Grade2'	
5.2 Function, Purpose and Regulation of Financial Institutions	'Grade 2'
Detailed Topics	
5.2.1. Banks	
5.2.2. Brokerage companies	
5.2.3. Insurance companies	
5.2.4. Mutual fund companies	
5.2.5. Credit Rating Agencies	
5.2.6. Non Banking Financial Companies	
5.3 Other Relevant Regulation	'Grade 1'
Detailed Topics	
5.3.1. Indian Companies Act- 1956	
5.3.2. Indian Partnership Act- 1932	
5.3.3. Limited Liability Partnership Act- 2008	
5.3.4. Foreign Exchange Management Act- 1999	
5.3.5. Disclosure and Investor Protection Guideline- 2000 issued by SEBI (DIP Guidelines)	
5.3.6. Prevention of Money Laundering Act-2002 (PMLA)	
Terminology AER: Annual Effective Rate MNR: Monthly Nominal Rate RR: Real Rate MNRR: Monthly Nominal Real Rate BGN or (B) = Beginning of the period calculation END or (E) = End of the period calculation	

1. Introduction to Financial Planning

Planning of finances is essential for each and every one, be it a school-going kid or a retired citizen. The more early you begin to manage your money the better it is. Let's suppose you choose not to plan and keep spending as and when you like and one day you wish to purchase a house but then you cannot as you hardly have any savings left.

This is what happens when you don't plan and end up overspending. We tend to overspend when we do not understand what we really need. We keep on spending to fulfill all our requirements and we lose count of how much we spent. One should understand the difference between your needs and wants.

Things like daily lunch, dinner and house rent payments are our needs which we will have to incur. But things like play stations, parties and movies are always an option and can be done without. If even we do want to splurge on our wants we can set aside some of our savings over a time period and can buy important needs like vehicles, house, higher education etc. when we have accumulated savings.

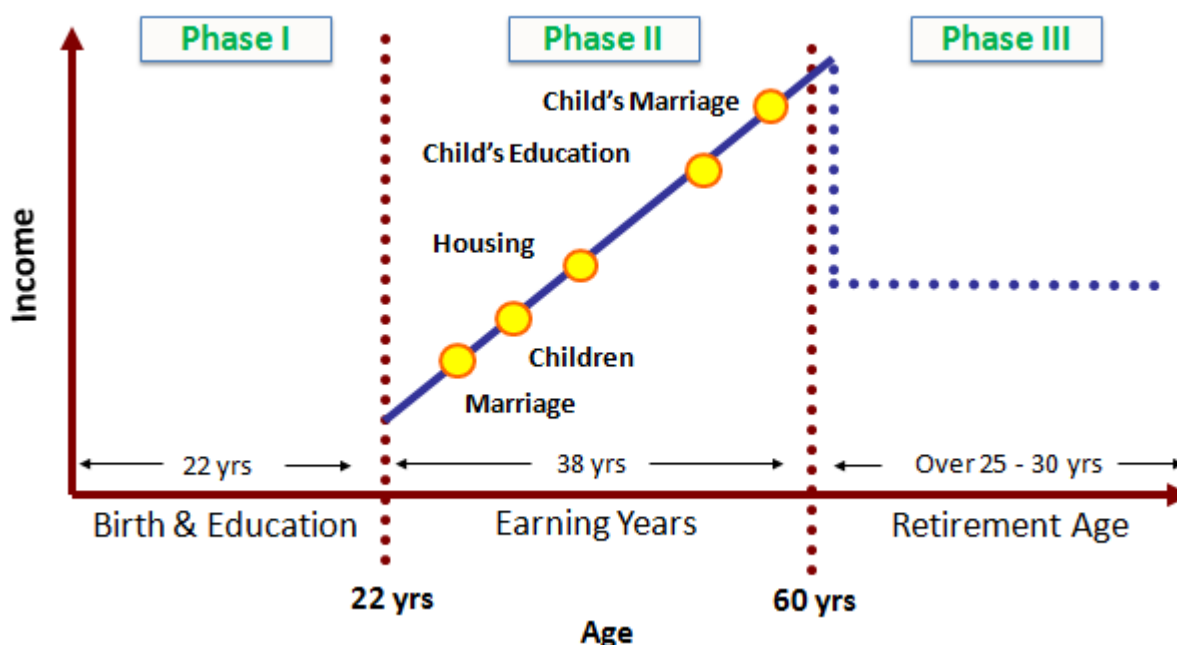
This is what planning is all about, to plan, save and help us achieve our financial goals. When you start early, you can always plan for your future financial goals and have the benefit of meeting them when you want to.

This is because you have a longer time horizon to spread out your investments and manage your portfolio across time. Every school-going kid is taught from his childhood to count and save money for his future so that he can use them appropriately to finance his financial goals.

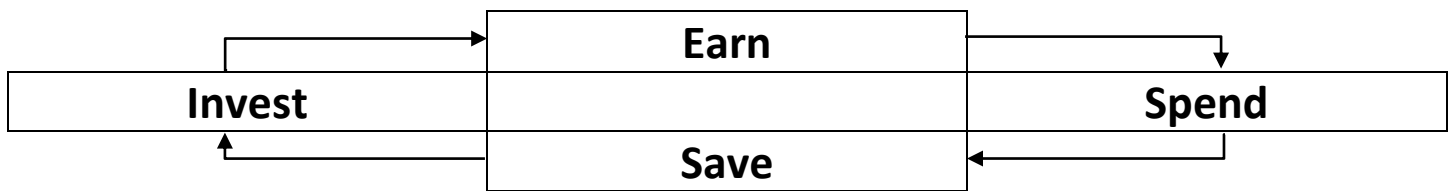
To conclude we can define financial planning as:

- △ The process of meeting one's life goals through the proper management of personal finances
- △ "Financial planning means channelizing your financial resources towards your financial goals"
- △ In summary, personal financial planning is a process of managing money to achieve personal economic satisfaction

1.1 Lifecycle Planning



1.2 Income Cycle Planning

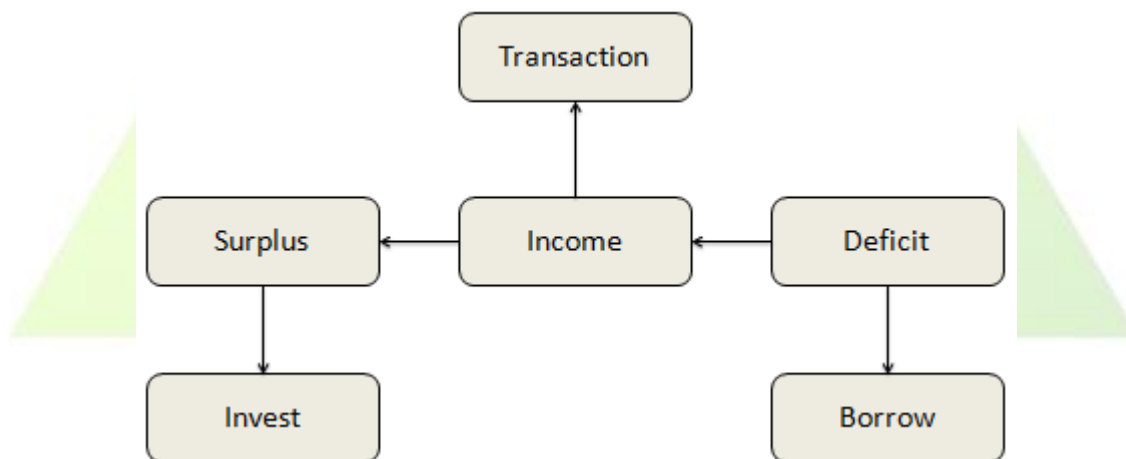


1.3 Wealth Cycle Planning

Wealth Accumulation	<ul style="list-style-type: none"> • Investment planning • Tax planning
Wealth Protection	<ul style="list-style-type: none"> • Insurance planning • Retirement planning
Wealth Distribution	<ul style="list-style-type: none"> • Estate planning

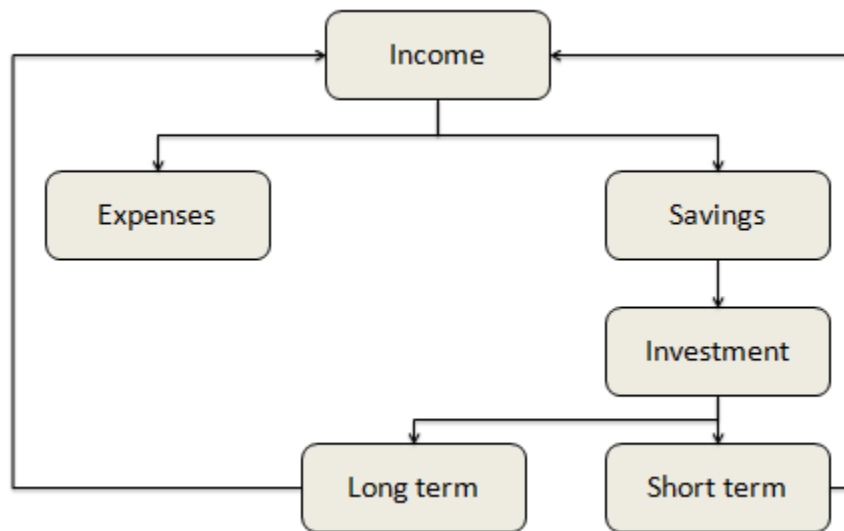
1.4 Why Financial Planning

- △ We tend to overspend when we do not understand what we really need
- △ We keep on spending to fulfill all our requirements and we lose count of how much we spent
- △ One should understand the difference between your needs and wants
- △ By creating financial plan we can focus and control many financial components



- △ Both surplus and deficit require management, and a good plan is required to reduce deficit

1.5 How money works?



1.6 Benefits of Financial Planning

Increased Effectiveness	Increased Control
<ul style="list-style-type: none"> Organized personal finances Lower taxes, higher cash flows Improved investment returns Lower cost of insurance 	<ul style="list-style-type: none"> No excessive borrowing No threat of bankruptcy Focus on life goals Hedge against contingencies
Improved Relationships	Sense of Freedom
<ul style="list-style-type: none"> Family needs satisfied Less disputes or confusions Reduced stress, healthy life structured inheritance plan 	<ul style="list-style-type: none"> Freedom from worries All economic goals achieved Financial independence Golden retirement

1.7 FPSB India

- △ A public-private enterprise and a professional standards setting body
- △ A professional membership and certification organisation
- △ A part of leading global confederation i.e. an affiliate of FPSB, Denver, USA
- △ A professional self-regulatory organisation, promoting and maintaining voluntary standards of professionalism including Education, Examination, Experience, and Ethics

1.7.1 FPSB India: 4 E's

- △ Education:
 - Self or through authorised education providers
- △ Examination:
 - Conducted online all over India on NSE platforms
 - Immediate result