Study Notes for NISM Series V – A: Investment Adviser Level 1 Exam

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YouTube Training Video Link

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NISM-Series-X-A: Investment Adviser (Level 1) Certification Examination – IACE 1

Assessment Structure: 100 Questions. 2 hours. 25% negative marks for wrong answers. 60% required to pass. Validity for the certificate is 3 years.

Syllabus Outline with Weightages

Unit No.	Unit Name	Weightage
Unit 1	Introduction to Indian Financial Market	8%

Unit 2	Securities Market Segments	10%
Unit 3	Mutual Funds	9%
Unit 4	Investment Products	12%
Unit 5	Managing Investment Risk	7%
Unit 6	Measuring Investment Returns	7%
Unit 7	Concept of Financial Planning	4%
Unit 8	Asset Allocation and Investment Strategies	5%
Unit 9	Insurance Planning	10%
Unit 10	Retirement Planning	10%
Unit 11	Tax and Estate Planning	10%
Unit 12	Regulatory Environment and Ethical Issues	8%

Useful YouTube videos – Topic wise

1. Capital Market Legislations - SEBI, SCRA, DP, COMPANIES ACT
2. Capital Market - Primary & Secondary Markets
3. Secondary Market – Segments
4. Securities Market – Functions
5. Primary Market - IPO Grading
6. Primary Market - Issue Pricing
7. Primary Market Issues - Allotment Basis
8. Primary Market Issues - Types of Investors
9. New Category of Equity Mutual Funds Explained
10. Insurance Concepts - Principle of indemnity
11. Insurance - Uberrima Fides - Utmost Good Faith
12. Insurance - Principle of Insurable Interest
13. Insurance - Paid Up Value - Formula & Calculation
14. Prevention of Money Laundering Act 2002 - Part 1
15. Prevention of Money Laundering Act 2002 - Part 2
16. Put Option Explained with an Example in 2 minutes
17. Call Option Explained with an Example in 5 minutes
18. What is the difference between Hedging, Speculation and Arbitraging?

19. What is a Mutual Fund?
20. Terminologies used in Mutual Fund Industry
21. Open and Closed end funds
22. Types of Equity Funds
23. Types of Debt Mutual Funds
24. Types of Hybrid Schemes, Balanced Schemes
25. Tax Saving Scheme – ELSS
26. Gold Exchange Traded Fund
27. Passive Funds and Fixed Maturity Plans
28. Index Funds
29. Tracking Error - Index Funds
30. Mutual Fund Structure and Constituents
31. Grandfather Clause introduced in Budget and Taxation changes
32. Capital Gain Tax
33. Calculation of Long term capital gain tax using Indexation
34. Tax Deducted at Source and Securities Transaction Tax
35. Cut off timing – NAV
36. Liquid Funds Cut off timing
37. Liquid Funds – Redemption
38. Who can Invest in Mutual Funds?
39. Micro SIP and PAN Exempt Cases
40. Risk Adjusted Performance - Sharpe Ratio
41. Risk Adjusted Performance - Treynor ratio and Alpha
42. Mutual Fund Offer Document
43. Statement of Additional Information
44. NAV, Sale Price, Repurchase Price
45. NAV Calculation – Part 1

46. NAV Calculation – Part 2

47. Asset Allocation, Strategic Asset Allocation

48. Fixed and Flexible Asset Allocation

49. SIP and STP

50. SWP, Dividend Pay-out, Dividend Reinvestment and Growth Options

51. Systematic Risk and Unsystematic Risk

52. Beta - measure of Market risk

53. Upfront Commission, Trail Commission, Transaction Charges

Chapter 1 – Introduction to Indian Financial Markets

The financial market comprises of the money markets that deal with the short-term lending and borrowing of funds and the securities or capital markets that enable longer term transfer of funds using debt and equity instruments.
The banking system acts as the intermediary to channel funds to economic enterprises. Banks also provide a secure system for settling financial transactions. RBI is the regulator of the banking sector. It is the bank licensing and note-issuing authority. It also controls the credit and monetary activities in the economy.
Payment banks - to encourage financial inclusion to low income households, small business and others by providing small savings accounts and payment/remittance services. Their activities include accepting current and savings deposits not exceeding Rs.100,000/- issuing ATM/Debit cards but not credit cards and providing payment and remittance services. The bank cannot undertake any lending activities.
Small Finance Banks - to provide a savings vehicle, banking facilities and to supply credit to small businesses, marginal farmers, micro and small industries and other entities in the unorganized sector.
The securities market provides the structure for businesses to raise funds through the issue of securities. The primary market, also called the new issue market, is where issuers raise capital by issuing securities to investors. The secondary market, also called the stock exchange, facilitates trade in already-issued securities.
Commodity transactions can be done in the cash market for immediate payment and delivery, or in the forward and futures market for settlement at a future point in time. An exchange traded futures contract standardizes the quality, quantity and terms of settlement of the underlying and reduces counter-party risk in the trade. Investors in the commodity markets include producers and consumers who want to hedge their

exposure, investors who want to take advantage of arbitrage opportunities and speculators who want to benefit from an expected price movement.

The foreign exchange market determines the value of one currency relative to another (called 'currency pairs') to enable settling trades in goods and services. There is a spot market and forward market in currency. The forward market currency deals have to be supported by an exposure to currency from trade that requires hedging. Future trades in currency are done on the exchanges.

Insurance products may provide pure risk cover (term insurance) or may combine insurance and investment on a traditional platform (endowment, whole life) or unit linked platform.

PFRDA regulates the pension market in India. NPS is a defined contribution pension schemes that covers government employees who joined service after a specified date. It is also available for other citizens.

Stock exchanges provide a regulated platform for trading in securities at current values so that investors have liquidity in the securities held by them.

Depository participants are empanelled members of a depository who enable investors to hold and trade in securities in dematerialized form.

Custodians hold and manage the operational aspects of trading in securities on behalf of institutional investors.

Stock brokers are registered members of a stock exchange who enable investors to put through transactions on a stock exchange for a brokerage.

Investment banks help issuers make decisions on capital structure and assist in fund raising activities.

Commercial banks provide banking services of taking deposits, providing credit and enable payment services.

Insurance companies provide service of insuring life, property and income against unexpected and large loss or expense.

Pension Funds are intermediaries who are authorized to take contributions from eligible individuals and invest these funds to create a retirement corpus.

Asset management companies and portfolio managers are investment specialists who offer their services in selecting and managing a portfolio of securities.

Investment advisers and distributors work with investors to help them make a choice of securities that they can buy, based on an assessment of their needs, time horizon, return expectation and ability to bear risk.

The Ministry of Finance through its departments regulates and overseas the activities of the banking system, insurance and pension sectors, the capital markets and its participants.

The Registrar of Companies (RoC) is the authority appointed under the Companies Act to register companies and to ensure that they comply with the provisions of the law.

The Reserve Bank of India regulates the money market segment of securities market and acts as the manager of the government's borrowing program. RBI is also the regulator of the Indian banking system and conducts the monetary, forex and credit policies.
The Securities and Exchange Board of India (SEBI) is the chief regulator of securities markets in India. It facilitates the growth and development of the capital markets and ensures that the interests of investors are protected.
IRDA is the licensing authority for insurance companies. It ensures the adherence of insurance products to the rules laid down and regulates the distribution of insurance products.
The PFRDA has been assigned the responsibility of designing the structure of funds and constituents in the National Pension System (NPS).
Department of Economic Affairs - formulate and monitor India's macroeconomic policies, covering monetary and fiscal policy as well as the functioning of the capital market including stock exchanges.
Department of Expenditure - various financial rules and regulations including service conditions of all Central Government employees, financial assistance to states and borrowings by states.
Department of Revenue - direct and indirect taxes of the Central Government
Department of Financial Services - government policies relating to:

- Public sector banks.
- Term-lending financial institutions.
- Life Insurance and General Insurance.
- Pension Reforms.

Department of Investment and Public Asset Management - oversees matters relating to disinvestment of Central Government equity from Central Public Sector undertakings.

Chapter 2 : Securities Markets Segments

Primary market is the market where securities are first issued by a company, government, banks and financial institutions, mutual fund and others. A primary issue of securities may be a public issue, where securities are issued to public investors, or a private placement where securities are issued to a select group of individual and institutional investors.
A private placement by a listed company is called a preferential allotment. A preferential allotment to qualified institutional buyers is called a qualified institutional placement.
A primary market enables wider participation in the capital of the issuer, diversifies ownership and thus improves liquidity, enables better pricing of securities issued, provides a platform for information of the issue & the issuer to be disseminated &

evaluated and a means for early investors to exit. The primary market issuances are regulated in terms of who can make an issue, who can invest, quantum of issue, disclosures and procedures to be followed and timelines to be adhered to and usage of funds.

The first public offer of shares made by a company is called an Initial Public Offer (IPO). An IPO may be through a fresh issue of shares or an offer for sale. In an offer for sale, existing shareholders such as promoters or financial institutions offer a part of their holding to the public investors. The share capital of the company does not change since the company is not making a new issue of shares.

A follow-on public offer is made by an issuer that has already made an IPO in the past and now makes a further issue of securities to the public.

In a fixed price issue of shares to the public, the company in consultation with the lead manager would decide on the price at which the shares will be issued.

In a book building process, the issue price is determined based on the offers received for subscription at prices within a specified band or floor price. The cut-off price is the price at which the issue is subscribed from the bids received.

Retail investors can subscribe to a book built offer by bidding at the cut-off. They will be allotted shares at the cut-off price once it is discovered. Bidding at the cut-off ensures that the investor's application is always accepted.

A public issue will be open for a minimum of three working days and a maximum of 10 working days in the case of fixed price issues. For book built issues, the offer will be open for a period between 3 to 7 days extendable by 3 days in case of a revision in price band. Companies making a public offer of shares are required to get the IPO graded by a SEBI registered credit rating agency. Investors can apply for an issue when it is open based on the information provided in the prospectus. Applications can be made physically or through the online bidding facility provided by stock exchanges. In a book built offer investors must place bids for the minimum bid lot specified by the issuer so that the minimum application value adheres to the SEBI prescribed range of Rs. 10,000 to Rs. 15,000. Investors who bid a price can revise their bid at any time before the issue closing date. Payment for applications made in a public issue must be made only using the ASBA (application supported by blocked amount) facility. ASBA is an application for subscription to an issue containing an authorization to the investors' bank to block the application money in the bank account and release funds only on allotment. In an over-subscribed issue, the shares will be allotted to an investor on a proportionate basis.

A company can make a public issue of debt securities, such as, debentures by making an offer through a prospectus. Debt instruments issued to the public has to be mandatorily credit rated, security has to be created and it must be in dematerialized form.

Green Debt Securities are those where the funds raised from the issue are used for defined projects or assets such as renewable and sustainable energy, clean transportation, sustainable water management, waste management etc.

Secondary market is the market to trade in securities already issued. Trades happen between investors and there is no impact on the capital of the company. Secondary markets provide liquidity for investors; enable price discovery, information signalling and a barometer of economic growth.

Secondary markets are regulated under the provisions of the Securities Contract Regulations Act, 1956 and SCR (Rules), 1957. SEBI is authorised by law to implement the provisions of this act and its rules.

The stock exchange provides the trading platform for trading by investors through member of the stock exchange. The trades are settled through the clearing and settlement agency of the stock exchange. Issuers get their securities admitted to the depositories, where they are held as electronic entries against investor names. Market capitalisation (or market cap) of a company is the number of shares outstanding multiplied by the market price per share.

Large cap stocks represent established companies with stable earnings and prices. Mid and small cap stocks represent companies with high potential for growth but also greater risks to performance and prices.

Market turnover of a stock indicates how much trading activity took place in it on a given business day. A market index tracks the market movement by using the prices of a small number of shares chosen as a representative sample.

The risks in secondary markets are managed by prescribing capital adequacy norms for members, margins, circuit breakers and penalties. The clearing house is the counterparty to all trades in the stock exchange. A company announces a record date or book closure period and investors whose names appear on the records on this date are eligible to benefit from the corporate action.

The rights shares are offered to the existing investors in a proportion as approved by the board of a company. Investors can also choose to decline the offer or sell their entitlement to another.

A bonus issue of shares is made to the existing shareholders of a company without any consideration from them. Dividends are the share of the profits of the company received by its shareholders. A company may declare interim dividends during the financial year and final dividend at the end of the year.

A stock split is a corporate action where the face value of the existing shares is reduced in a defined ratio. A company may buy back its shares listed on a stock exchange from the investors out of the reserves and surplus available with the company. Delisting of shares refers to the permanent removal of the shares of a company from being listed on a stock exchange.

Delisting of shares refers to the permanent removal of the shares of a company from being listed on a stock exchange. Delisting may be compulsory or voluntary.

Circuit Breakers and Price Bands

The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz. at 10%, 15% and 20%. The market-wide circuit breakers are triggered by movement of either the BSE Sensex or the Nifty 50, whichever is breached earlier.

Trigger limit	Trigger time	Market halt duration	Pre-open call auction session post market halt
10%	Before 1:00 pm.	45 Minutes	15 Minutes
	At or after 1:00 pm upto 2.30 pm	15 Minutes	15 Minutes
	At or after 2.30 pm	No halt	Not applicable
15%	Before 1 pm	1 hour 45 minutes	15 Minutes
	At or after 1:00 pm before 2:00 pm	45 Minutes	15 Minutes
	On or after 2:00 pm	Remainder of the day	Not applicable
20%	Any time during market hours	Remainder of the day	Not applicable

Exchanges compute the Index circuit breaker limits for 10%, 15% and 20% levels on a daily basis based on the previous day's closing level of the index rounded off to the nearest tick size.

Daily price bands on 2%, 5% or 10% either way on securities as specified by the exchange. No price bands are applicable on scrips on which derivatives products are available or scrips included in indices on which derivatives products are available. In order to prevent members from entering orders at non-genuine prices in such securities, the exchange may fix operating range of 10% for such securities.

Chapter 3: Mutual Funds

TYPES OF MUTUALFUND SCHEMES

https://www.youtube.com/watch?v=xlCsRC3cqzI&list=PLCZvkZJiAVK56z_al_5b4WMMRUXMWydc&index=4

(A) By Structure

Open-Ended Schemes do not have a fixed maturity. You deal with the Mutual Fund for your investments & Redemptions. The key feature is liquidity. You can conveniently buy and sell your units at Net Asset Value (NAV) related prices, at any point of time. Investors can sell their units to the scheme through a re-purchase transaction at re-purchase price, which is linked to NAV.
Close-Ended Schemes have a stipulated maturity period are called close ended schemes. You can invest in the scheme at the time of the initial issue and thereafter you can buy or sell the units of the scheme on the stock exchanges where they are listed.
Interval Schemes combine the features of open-ended and close-ended schemes. The periods when an interval scheme becomes open-ended, are called 'transaction periods'; the period between the close of a transaction period, and the opening of the next transaction period is called 'interval period'. Minimum duration of transaction period is 2 days, and minimum duration of interval period is 15 days. No redemption/repurchase of units is allowed except during the specified transaction period (during which both subscription and redemption may be made to and from the scheme). Scheme should be compulsorily listed in Stock Exchange during the interval period.

SEBI - Categorization and Rationalization of Mutual Fund Schemes

5 types – Equity, Debt, Hybrid, Solution Oriented & Other Schemes
https://www.youtube.com/watch?v=eSQnv0e9awQ

Equity Schemes

SEBI has defined large cap, mid cap and small cap companies as follows:
a. Large Cap: 1st -100th company in terms of full market capitalization
b. Mid Cap: 101st -250th company in terms of full market capitalization
c. Small Cap: 251st company onwards in terms of full market capitalization
Also an Equity scheme should invest minimum 65% of its assets in Equity and Equity related instruments.

Multi Cap Fund: Minimum 25% each in Large cap, mid cap, small cap stocks.

Flexi Cap Fund – Large cap, Midcap, Small cap stocks – 65% minimum.

Large Cap Fund: Investing in large cap stocks – minimum 80% of total assets.

Mid Cap Fund: Investing in mid cap stocks – minimum 65 % of total assets.

Large & Mid-Cap Fund: Minimum 35% each in Large and Midcap stocks

Dividend Yield Fund: Predominantly investing in dividend yielding stocks.

Value Fund & Contra Fund: A value fund follows a value investment strategy. Minimum investment in equity & equity related instruments shall be 65 percent of total assets. Value Schemes invest in Undervalued Companies. Investments in value funds yield benefits over longer holding periods. A contra fund follows contrarian investment strategy. **Mutual Funds will be permitted to offer either Value fund or Contra fund.**

Focused Fund: Investing in maximum 30 stocks (the scheme needs to mention where it intends to focus, viz., multi cap, large cap, mid cap, small cap).

Sectoral/ Thematic: Investing in a specific sector such as Pharma, FMCG is a sectoral fund. The minimum investment in equity & equity related instruments of a particular sector/ particular theme shall be 80 percent of total assets. Sectoral fund schemes are ideal for investors who have decided to invest in a particular sector. Thematic funds invest in line with an investment theme. The investment is more broad-based than a sector fund; but narrower than a diversified equity fund.

Equity Linked Savings Scheme (ELSS): Tax saving scheme with a statutory lock in of 3 years. Minimum investment in equity and equity related instruments shall be 80 % of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by the Ministry of Finance).
https://www.youtube.com/watch?v=Ne1k-BrcI9E&index=9&list=PLCZvkZJiAVK56z_al_5b4WMMRUXMWydc

Equity Index Fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index. These schemes attempt to replicate the performance of a particular index such as the BSE Sensex, the NSE 50 (NIFTY). Invests in Index Stocks as per the Weightage. Fund Manager has no role in deciding on investments. These funds are not designed to outperform the Index and have Low Running Cost. An Index Fund with Low Tracking Error is a Good Fund. Index fund is an example of Passive style of Fund management.

Training Video for Index or Passive Funds:
https://www.youtube.com/watch?v=uq7ICqOk4bw

DEBT Funds
https://www.youtube.com/watch?v=3w_Ta-iUJzc&index=7&list=PLCZvkZJiAVK56z_al_5b4WMMRUXMWydc
Overnight Fund: The investment is in overnight securities having maturity of 1 day.
Liquid Fund: Investment is into debt & money market securities with maturity of upto 91 days

Ultra Short Duration Fund: Investing in debt and money market instruments with Macaulay duration between 3 months and 6 months.

Low Duration Fund: Investing in debt and money market instruments with Macaulay duration between 6 months and 12 months.

Money Market Fund: Investing in money market instruments - maturity upto 1 year.

Short Duration Fund: Investing in debt and money market instruments with Macaulay duration between 1 year and 3 years.

Medium Duration Fund: Investing in debt and money market instruments with Macaulay duration of the portfolio being between 3 years and 4 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years.

Medium to Long Duration Fund: Investing in debt and money market instruments with Macaulay duration between 4 years and 7 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years.

Long Duration Fund: Investing in debt and money market instruments with Macaulay duration greater than 7 years.

Dynamic Bond: An open ended dynamic debt scheme investing across duration.

Corporate Bond Fund: An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. The minimum investment in corporate bonds shall be 80 percent of total assets (only in AA+ and above rated corporate bonds)

Credit Risk Fund: Investing in below highest rated corporate bonds. The minimum investment in corporate bonds shall be 65 percent of total assets only in AA and below rated corporate bonds (excludes AA+ rated corporate bonds).

Banking and PSU Fund: Investing in debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds. The minimum investment in such instruments should be 80 percent of total assets.
Gilt Fund: Investing in government securities across maturity. The minimum investment in Gsecs is defined to be 80 percent of total assets (across maturity).

Floater Fund: An open ended debt scheme predominantly investing in floating rate instruments. Minimum investment in floating rate instruments shall be 65 percent of total assets.

Fixed Maturity Plans - Fixed Maturity Plans (FMPs) are investment schemes floated by mutual funds and are close ended with a fixed tenure, the maturity period ranging from one month to three/five years. Fixed maturity plans are a kind of debt fund where the investment portfolio is closely aligned to the maturity of the scheme. The objective of such a scheme is to generate steady returns over a fixed-maturity period and protect the investor against Interest rate fluctuations.

Hybrid Funds – Investing in two or more asset class
https://www.youtube.com/watch?v=AXHEbVFHrpQ&index=8&list=PLCZvkZJiAVK56z_al_5b4WMMRUXMWydc
Conservative Hybrid Fund: Investment in debt instruments 75 % and 90 % of total assets while investment in Equity shall be between 10 % and 25 % of total assets.

Balanced Hybrid Fund: Investment in equity 40% to 60%, investment in debt 40% to 60%. Arbitraging is not permitted in this scheme.

Aggressive Hybrid Fund: Investment in equity 65 % to 80 % of total assets while investment in debt instruments shall be between 20 % and 35 % of total assets.
Mutual funds in India are permitted to offer either Aggressive Hybrid Fund or Balanced Fund.
Dynamic Asset Allocation or Balanced Advantage: It is an open ended dynamic asset allocation fund with investment in equity/debt that is managed dynamically.

Multi Asset Allocation: An open ended scheme investing in at least three asset classes with a minimum allocation of at least 10 percent each in all three asset classes. Foreign securities are not treated as a separate asset class in this kind of scheme.

Arbitrage Fund: Investing in arbitrage opportunities. The minimum investment in equity and equity related instruments shall be 65 percent of total assets. They simultaneously buy and sell securities in different markets to take advantage of the price difference. Returns are more in line with money market returns, rather than equity market returns. Moderately Low Risk Category. Arbitrage funds are not meant for equity risk exposure, but to lock into a better risk-return relationship than liquid funds and ride on the tax benefits that equity schemes offer.

Equity Savings: An open ended scheme investing in equity, arbitrage and debt. Hedging is also allowed. The minimum investment in equity is 65 % of total assets and minimum investment in debt is 10 % of total assets. Minimum hedged & unhedged investment needs to be stated in the SID. Asset Allocation under defensive considerations may also be stated in the Offer Document.

Solution Oriented Schemes:

Retirement Fund: An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier).

Children's Fund: An open ended fund for investment for children having a lock-in for at least 5 years or till the child attains age of majority (whichever is earlier).

Other Schemes

Exchange Traded Funds (ETF) are also passive funds whose portfolio replicates an index or benchmark such as an equity market index or a debt index. The units are issued to the investors in a new fund offer (NFO) after which they are available for sale and purchase on a stock exchange. Units are credited to the investor's demat account and the transactions post-NFO is done through the trading and settlement platforms of the stock exchange. The units of the ETF are traded at real time prices that are linked to the changes in the underlying index.

Gold Exchange Traded Funds (GETFs) –
https://www.youtube.com/watch?v=VOzaJ55IM5o&index=10&list=PLCZvkZJiAVK56z_al_5b4WMMRUXMWydc
Gold Exchange Traded Funds offer investors an innovative, cost-efficient and secure way to access the gold market. Gold ETFs are intended to offer investors a means of participating in the gold bullion market by buying and selling units on the Stock Exchanges, without taking physical delivery of gold. GOLD ETF invests in 99.99%

pure GOLD. NAV of GOLD ETF depends on Real Prices of GOLD Bullion. Gold funds invest in gold and gold-related securities.

Actively managed funds are funds where the fund manager has the flexibility to choose the investment portfolio, within the broad parameters of the investment objective of the scheme. Passive funds invest on the basis of a specified index, whose performance it seeks to track.

Capital Protected Schemes are close-ended schemes, which are structured to ensure that investors get their principal back, irrespective of what happens to the market.
Real estate funds invest in real estate.

Fund of Funds (FOFs) - Fund of Funds are schemes that invest in other mutual fund schemes. Minimum investment in the underlying fund - 95% of total assets.

WHY SHOULD YOU INVEST IN MUTUAL FUNDS?

Portfolio Diversification, Professional Management, Diversification of Risk, Liquidity, Convenience and Flexibility, Low Cost and Transparency and Well Regulated

Chapter 4 : INVESTMENT Products

Public Provident Fund (PPF) - Account can be opened by an individual for himself/herself, & or on behalf of a minor of whom he/she is a guardian. HUF, AOP (Association of persons), BOI (Body of individuals) and NRI are not eligible to open an account under the PPF Scheme.

Persons who opened PPF and subsequently become NRI can continue till maturity on Non Repatriation basis. Joint account cannot be opened. Nomination facility is available.

Account matures after expiry of 15 years from the end of financial year in which the account was opened. Minimum Investment amount is Rs.500/- and maximum amount in a financial year is Rs.1,50, 000/. Subscription can be paid in one lump sum or in installments.

Eligible for SEC 80C deduction. Interest is tax exempt. Interest is paid on the lowest balance between the close of the fifth day & the end of the month and shall be credited to the account at the end of each year.

A subscriber can take 1 withdrawal during a financial after five years excluding year of account opening. Maximum withdrawal can be 50% of balance at the end of the fourth year or the immediate preceding year, whichever is lower. The account can be continued for a block of 5 years after maturity. The continuation can be with or without contribution. Once an account is continued without contribution for more than a year, the option cannot be changed.

Premature closure of the PPF is allowed in cases such as serious ailment, education of children and such. This shall be permitted with a penalty of a 1% reduction in the interest payable on the whole deposit and only for deposits that have completed 5 years from the date of opening.
A PPF account is not subject to attachment (seizure of the account by Court order). However income tax authorities can attach PPF accounts to recover tax dues. A person can have only one account in his name. Two accounts even at different places anywhere in India are not permitted.

National Saving Certificates
Maturity period of five years, tax benefits under section 80-C, Minimum investment is Rs.1000/- without any maximum limit. It can be bought by an individual or jointly by two adults. Nomination even with joint holders is possible. NRI, HUF, Companies, trusts, societies, or any other institutions are not allowed to purchase the National Saving Certificates.
Premature encashment is allowed only in case of death of the holder, forfeiture by a pledgee, or under orders of court of Law. Accrued interest is taxable, but is it deemed to be reinvested and therefore the interest becomes eligible for Section 80C benefits.

Senior Citizen Savings Scheme
Eligibility is 60 years of age or above
NRIs, PIOs and HUF are not eligible to invest in this scheme.
Minimum is Rs 1000 and Maximum limit is Rs.15, 00,000/-
The benefit of section 80C is available on investment but interest is fully taxable.
Term is 5 years. One time extension of 3 years is allowed, if applied within one year of its maturity. Nomination facility is available even in case of joint account
Premature closure after expiry of one year but before 2 years, 1.50 % of deposit shall be deducted.
Premature closure after expiry of 2 years, 1% of the deposit shall be deducted.
No deduction is made in case of closure of account due to the death.
Nomination facility is available.

National Savings Monthly Income Account / Post Office Monthly Income Scheme (POMIS)

Term of 5 years, Minimum amount of investment is Rs.1000/-, maximum amount in case of single account is Rs.4, 50,000/-, and in case of joint account is Rs.9, 00,000/-. No bonus on maturity. Nomination facility is available.

If the account is closed between 1 and 3 years of opening, 2% of the deposited amount is deducted If it is closed after 3 years of opening, 1% of the deposited amount is charged as penalty.

National Savings Time Deposit Account / Post Office Time Deposits (POTD)

Terms of one year, two years, three years and five years. Single and Joint holding
The minimum deposit amount is Rs.1000. There is no maximum limit
The five year term deposit is eligible for tax benefits under Section 80C

National Savings Recurring Deposit Account / Post Office Recurring Deposit

Accounts can be opened by resident individuals. Single and Joint modes. Either or survivor option available. Minimum INR 100/- per month or any amount in multiples of INR 10/-. No maximum limit. Interest is taxable.

Kisan Vikas Patra (KVP)

NRIs, HUFs are not eligible to invest in the KVP. Minimum of Rs. 1000/- and in multiples of Rs. 100/- No Maximum Limit. KVP can be prematurely encashed 2 ½ years from the date of issue. There is no tax incentive and the interest earned is taxed on accrual basis.

Sukanya Samriddhi Account Scheme

Scheme launched for the benefit of girl children. The account has to be opened in the name of the girl child by a natural or legal guardian. Only one account can be opened in the name of a child and a guardian can open a maximum of two accounts in the name of two different girl children. The age of the child cannot be more than 10 years at the time of opening the account. The minimum investment is Rs.250 in a FY and a maximum is Rs.1,50,000. The account can be transferred to any place in India. The account will mature on the completion of 21 years from the date of opening the account. If the girl child gets married before the completion of 21 years then the account is closed. Partial withdrawal is allowed after the holder attains 18 years of age, to the extent of 50% of the amount in balance at the end of the preceding financial year. Any amount deposited in the account is eligible for deduction under section 80C.

Sovereign Gold Bond Scheme, 2015 - SGBs are government securities denominated in grams of gold. The bonds are issued in denomination of one gram of gold and in denominations thereof. The tenor of the bond is 8 years. The value of the bond will reflect the price of gold. On maturity the value of the bond may be higher or lower

depending upon the prevailing price of gold. The bonds bear an interest rate of 2.50% per annum on the initial investment and is paid semi-annually. Can be bought through the designated banks or post-offices and the NSE and BSE. The bonds can be held in physical form or in dematerialized form. Early redemption is allowed after the fifth year. The minimum investment is 1 gm and the maximum is 4 kg for individuals and HuFs and 20kgs for trusts. Capital gains on redemption of the bonds earned by an individual is exempt and capital gains on transfer of a bond before maturity will be eligible for indexation benefits. Joint holding, nomination and the facility of marking lien is available on these bonds. The bonds are available for investment by resident individuals, HUFs, Trusts, Universities, Charitable Trusts and others.

Earnings per Share (EPS): (Net Profit - dividend paid for preference shares) / no. of equity shares.

Dividend Yield: (Dividend per share / Current Market Price of the share) *100 %.

Price-Earnings Ratio (P/E Ratio): (Market price of share / EPS). In other words it indicates the number of times the earning per share, the market is valuing the share.

Book Value: - The book value is the accounting value per share, in the books of the company. It represents the net worth (capital plus reserves) per share. Whenever the book value of a company is higher than the market price of the company, it indicates the share of the company is available at a discount.

Price to Book Value (PBV) = (Market price of share / Book Value per share)

Value investors, who look for the opportunity to buy a stock at a price lower than its fundamental or intrinsic value, prefer a combination of low PE, low PBV and high dividend yield.
Derivatives are risk management leveraged instruments, which derive their value form the underlying assets. Futures, Forwards, Options etc are examples.

1. A futures is a contract for buying or selling a specific underlying, on a future date, at a price specified today, and entered into through a formal mechanism on an exchange
2. Hedging is basically protecting your assets from losses; and not for maximizing the profits.
3. Arbitraging is taking advantage of price difference in two different markets for risk-free gains.

4. Speculators often take positions in futures markets based on their expectations regarding the price movements of the underlying assets without having a position in cash markets.
5. Buyer of CALL OPTION has the right but not the obligation to buy the underlying asset at a predefined price on a predefined date.
6. Buyer of PUT OPTION has the right but not the obligation to Sell the underlying asset at a predefined price on a predefined date.
7. Strike Price/ Exercise Price: It's the price at which an option is exercised.
8. Expiry Day/Date: Day/date on which option expires & contract ceases to exist.
9. Exercise Day/Date: The day/date on which option is exercised.
10. Spot Price > Strike Price for CALL Option → In The Money Option (ITM)
11. Spot Price < Strike Price for CALL Option → Out of The Money Option (OTM)
12. Strike Price > Spot Price for PUT Option → In The Money Option (ITM)
13. Strike Price < Sport Price for PUT Option → Out of The Money Option (OTM)
14. Option Premium: Price an option buyer pays to the seller to buy this option/right.

Chapter 5 – MANAGING INVESTMENT RISK

Systematic Risk is the risk which impacts the entire market/universe. These risks are not diversifiable i.e. they cannot be avoided. Not under the control of any investor and cannot be mitigated to a large extent, e.g. Change in Government policies.

Unsystematic Risk or Diversifiable Risk is the risk that is unique to a firm or an industry. This risk is related to particular Investment and not related to overall market. This risk can be reduced by diversifying the portfolio, i.e. spreading the investment of the portfolio across asset classes and across number of securities within a particular asset class.

Total Risk = Systematic Risk + Unsystematic Risk

Interest rate Risk is a risk caused by change in Interest rate. This risk is faced by investor when they invest in fixed rate coupon bonds. When interest rate rises for other similar bonds or in the economy, Bond price falls, Fixed Income Investor suffers Loss. When Interest rate falls, Bond prices rise, Fixed Income Investor makes Gains

Re-investment Risk is the risk that the proceeds received in the form of interest and principal from fixed income securities may or may not be able to earn the same interest as the original interest rate. If Interest rate rises, Reinvestment risk reduces. If Interest rate falls, Re-investment risk increases.

Default risk or Credit Risk is defined as the risk that the issuer will default with respect to periodic payment of coupon and/or principal on maturity. Credit risk is measured by Credit Rating. Higher Credit Rating, Low Default Risk. Lower Credit Rating, Higher Default Risk

Liquidity risk is the risk that the investor may not be able to sell his investment when desired, or has to be sold below its intrinsic value/indicative value. Higher Bid and Ask Spread means Higher the Liquidity Risk. Lower Bid and Ask Spread means Lower Liquidity Risk. Bid is the price at which the buyer will buy the security and Ask is the price at which the seller will sell the security.

Exchange rate risk is incurred due to change in value of domestic currency relative to foreign country currency. If foreign currency depreciates against domestic currency, the value of foreign asset goes down in terms of domestic currency. If foreign currency appreciates against domestic currency, the value of foreign asset goes up in terms of domestic currency.

Inflation Risk - Purchasing power risk reduces purchasing power of the investors.

Business risk is the risk inherent in the operations of a company. It is also known as operating risk, because this risk is caused by factors that affect the operations of the company. Common sources of business risk include cost of raw materials, employee costs, introduction and position of competing products, marketing and distribution costs.

VARIANCE AND STANDARD DEVIATION measure Fluctuation around Mean Returns, Measures Total Risk (Volatility). The function STDEV returns the standard deviation of a selected series of data. The function VAR estimates the variance of the selected values. The variance is simply the square of the standard deviation.

CO – VARIANCE

It measures nature of relationship between two variables.

It could be relationship between return on a security and the return on Market portfolio or the relationship between two securities.

CORRELATION COEFFICIENT - Measure of the relationship between two variables.

The value ranges from –1.00 to +1.00

+1 – Both securities move proportionally in the same direction.

-1- Both Securities move proportionally in the opposite direction

0 - No relationship in movement between two securities
As the correlation between the two assets decreases, the benefits of diversification increase. That's because, as the correlation decreases, there is less of a tendency for stock returns to move together.

BETA Measures Systematic or Market Risk

Beta >1 – Aggressive Portfolio (Higher Returns in a BULL Market and Greater LOSS in a Bear Market)
Beta < 1 – Conservative Portfolio (Returns and Risk will be less when compared to Market)
Beta is 1 for Index or Index Fund (Returns and Risk will be same as that of the Market)
Beta as a measure of risk is applicable only for Equity Schemes

Chapter 6 – MEASURING INVESTMENT RETURNS

1. Absolute return = (End Value – Beginning Value)/Beginning Value) x 100
2. Absolute returns are not appropriate for comparing the performance of investments made for different periods of time. That is because the computation of absolute return does not take into account the holding period of investment
3. Annualized return is a standardized measure of return on investments in which the return is computed as percent per annum (% p.a.).
4. To annualize, the absolute rate of return is multiplied by a factor such as:
    - 365/number of days the investment was held
    - 12/number of months the investment was held
    - 1/number of years the investment was held
5. Total return is the return computed by comparing all forms of return earned on the investment with the principal amount. Thus total return is the annualized return calculated after including all benefits from the investment like Dividend, interest income etc. Total return can be positive as well as negative
6. An investment option that provides most of the return in the form of periodic returns is an income-oriented investment.
7. An investment option that provides most of its return from the growth in its value over time is a growth-oriented investment
8. Compound return is earned when the interest earned in one period is added back to the principal amount to generate a new principal on which interest is computed for the next period. As a result, interest is reinvested in the asset so that interest is earned on interest.
9. Future Value of a Single Cash Flow → FV = PV (1+R) ^N

10. FV → is the Future Value; PV → is the Present Value or Investment or Expenses today;
11. R → Rate of Interest and N→ Number of Periods (Months, Year etc)
12. Present Value of a Single Cash Flow → PV = FV / (1+R) ^N
13. FV IN EXCEL → =FV (RATE, NPER, PMT, PV, TYPE)
14. PV In EXCEL → =PV (RATE, NPER, PMT, FV, TYPE)
15. EMI Calculation in EXCEL → =PMT (RATE, NPER, PV, FV, TYPE)
16. SIP AMOUNT CALCULATION IN EXCEL ◊ USE EMI CALCULATION FORMULAE
17. PMT = 0 and TYPE = 0 in case of Single Cash Flow.
18. PMT = Regular Investment Amount or can be EMI amount; Type = 1 for Investments and ZERO for EMI calculations.
19. Loan Value is entered in PV for calculation of EMI
20. In case of Half yearly Compounding, enter RATE as RATE/2 and NPER as NPER*2
21. Similarly for quarterly and monthly compounding use 4 and 12 as Factors.
22. Nominal rate of return: Rate at which money invested grows.
23. Real rate of return: Rate at which the purchasing power of an investment increases.
24. Inflation adjusted → [(1+NOMINAL RATE) / (1+ INFLATION RATE)] – 1
25. Inflation Adjusted return is also known as Real Rate of Return
26. Tax Adjusted returns - Nominal Rate * (1-Tax Rate)
27. IRR is the discount rate at which the investment's NPV equals zero.
28. At least one negative cash flow and one positive cash flow are necessary for IRR.
29. NPV is an absolute number. IRR is expressed in % terms
30. IRR reflects investment performance as well as cash flows
31. IRR cannot be used if cash flows are not uniformly spread over time.
32. XIRR is used for if Cash flows / Time period is not uniformly spread.
33. NPV and IRR both are discounted cash flow models
34. XIRR & IRR function is particularly useful when CAGR has to be computed for a series of cash flows, rather than with just a beginning and ending value of the investment.
35. If the IRR is greater than or equal to a minimum hurdle rate, the investment is considered to be financially worthwhile. This hurdle rate may be a benchmark, or the investor's cost of funds.
36. If an investment involves only one cash outflow/inflow and a series of future inflows/outflows at periodic regular intervals, IRR can be used (bonds or loans for example)

37. If an investment involves multiple inflows and outflows, coming in at uneven time intervals, CAGR can be used (equity shares, mutual funds)
38. Sharpe Ratio measures Risk Adjusted Returns. Also known as Reward to Variability ratio. It measures Returns per Unit of Risk.
39. The Net Present Value (NPV)uses the idea of time value of money to evaluate the viability of an investment option
40. A positive NPV implies that the investment is worthwhile and a negative NPV indicates that the investment should be avoided.

Sharpe Ratio measures the excess returns that an investment/portfolio has earned, per unit of risk taken.
Sharpe Ratio = (Portfolio Return – Risk-free Return) ÷ Standard Deviation
The portfolio with the highest Sharpe Ratio has given the best return per unit of risk (standard deviation).
Sortino Ratio = (Portfolio Return – Risk-free Return) ÷ Downside Deviation
Higher Sortino Ratio - Higher return per unit of risk.
Treynor Ratio = (Portfolio Return – Risk-free Return) ÷ Beta.
ALPHA is a measure of out-performance. Measures Fund Manager Performance.

Chapter 7 – CONCEPT OF FINANCIAL PLANNING

Need for Financial Advisory Services

1. Estimating financial goals, finding suitable products and arriving at suitable allocations to various assets
2. Selecting the right investment products, choosing the right service providers and managers, selecting insurance products, evaluating borrowing options and such other financial decisions
3. Personal financial management requires time and attention to recognize income and expense patterns, estimates of future goals, management of assets and liabilities, and review of the finances of the household. Many clients may not find time from their professional tasks

Goals described in terms of the money required to meet it at a point of time in future, is called a financial goal. Each financial goal contains two important components: (a) value of the goal and (b) time to goal.
Future value of a goal = Current Value x (1+ Rate of Inflation) ^ (Years to Goal)

Financial Planning Delivery Process - Establish and define the client-planner relationship, Gather client data, including goals, Analyse and evaluate financial status,

Develop and present financial planning recommendations, Implement the financial planning recommendations, Monitor the financial planning recommendations.

Investment Objective	**Suitable Investment**
Growth and appreciation in value	Equity shares and equity funds, Real estate, Gold
Regular income	Deposits, Debt instruments and debt funds, Real estate
Liquidity	Cash, Bank deposits, Short-term mutual fund schemes
Capital preservation	Cash, bank deposits, Ultra-short term funds

The risk profile questionnaire helps in understanding the risk tolerance levels of a client. Risk tolerance is the assumed level of risk that a client is willing to accept. Risk tolerance is typically measured using questionnaires that estimate the ability and willingness to take risks.
Financial risk tolerance can be split into two parts: (1) Risk Capacity, (2) Risk Attitude
Risk capacity: the ability to take risk. This relates to the client's financial circumstances and their investment goals.
Risk attitude: the willingness to take risk. Risk attitude has more to do with the individual's psychology than with their financial circumstances.

Conservative Investors

Do not like to take risk with their investments. Typically new to risky instruments. Prefer to keep their money in the bank or in safe income yielding instruments.
May be willing to invest a small portion in risky assets if it is likely to be better for longer term.

Moderate Investors

May have some experience of investment, including investing in risky assets such as equities Understand that they have to take investment risk in order to meet their long-term goals.
Are likely to be willing to take risk with a part of their available assets.

Aggressive Investors

Are experienced investors, who have used a range of investment products in the past, and who may take an active approach to managing their investments?
Willing to take on investment risk & understand that this is crucial to generating long-term return.

Willing to take risk with a significant portion of their assets.
Risk preferences of the investor are taken into account while constructing an investment portfolio.

Chapter 8 – ASSET ALLOCATION & INVESTMENT STRATEGIES

ASSET ALLOCATION - Distribution of the investor's wealth between different asset classes
Asset Allocation helps in Risk Management
Risk Profiling – Finding Risk appetite of investors through Questionnaire.
Equity, Gold, Debt, Real Estate are Asset Classes

STRATEGIC ASSET ALLOCATION

It is based on Risk Profiling. Risk Profiling is the method of assessing risk appetite of an Investor through Questionnaire. As the age of the Investor increases the Debt component in the portfolio also increases. This is a portfolio strategy that involves sticking to long-term asset allocation. Optimal Asset Allocation - best strategy to achieve the investors financial goals considering all factors like time to goal, value of the financial goal, the investor's current and future resources, Life stage, wealth stage, dependants, risk appetite, etc. Strategic asset allocation is also known as Optimal Asset Allocation.

TACTICAL ASSET ALLOCATION

Tweaking Strategic Asset Allocation based on Market Conditions is known as Tactical Allocation. An element of prediction of the markets behavior is always involved in Tactical allocation.
It is a better idea as there is a possibility to exploit various opportunities available if one has the ability to identify and exploit those. An active portfolio management strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors.
The major difference between the two is that strategic asset allocation ignores the anomalies in the stock or bond or other markets and focuses only on the investor's needs. Tactical asset allocation believes that the various markets keep offering opportunities that can be exploited to enhance the portfolio returns.
Dynamic asset allocation (DAA) works on the basis of a pre-specified model which does a mechanical rebalancing between asset classes. The allocation to each asset class is not a fixed percentage but varies depending on the performance of chosen asset class variables. Several mathematical models have been proposed and used in DAA.

Ways to rebalance a Portfolio

Sell off investments from over-weighted asset categories and use the proceeds to purchase investments of under-weighted asset categories. A review or a rebalancing of the portfolio is required based on the investment objectives of the client. Change in the investment products performance and changing goals, change in the earning and the expense pattern, change in the assets and liabilities structure of the client makes rebalancing necessary.

An Overview of different asset classes

Cash or Liquid asset - Generally required for meeting day to day and emergency requirements. Bonds are debt securities in which an issuer owes the holder of the security a debt. It has different terms attached to it including interest and repayment of principal on maturity.

Government bonds provide returns which are fixed and backed by central or state governments. Those issued by Central Government are considered to be risk-free as it is believed that a Government will not default on its obligations towards its own citizens. Risk and return characteristics of bond are relatively lower than equity and hence suitable for an investor seeking regular income flows with minimal risk. Risk Tolerance is about how much risk a person can take before the same can impact his decision.
Some of the external factors which need to be considered for effecting changes in an individual's financial plan are: Inflation, Interest rates, Stock Markets, Regulations, and New Products

A stock represents ownership in a company. Volatility is higher in this asset class than cash and bonds as an asset class.

Chapter 9 – INSURANCE PLANNING

What is an asset? - Anything of monetary value that is owned by a person.
Assets can include bank accounts, stocks, mutual funds, personal property. Assets are classified into Financial & Physical. Assets may get damaged due to accidental occurrences called as PERIL.

Risk – Events with uncertain outcome. Risk implies a condition where there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for.

Insurance

- Loss of Few Shared by Many. Transferring risk from an individual to a group.
- It is a contract between the insurer & the insured.

- The insurer agrees to pay the insured for financial losses arising out of any unforeseen events in return for a regular payment known as "premium".
- Insurance is called a risk cover. It financially compensates for losses.

Need for Insurance and its advantages

- Sense of security against Risk & uncertainties
- Protection against Financial loss to dependants
- Insurance financially compensates. Indemnity - Insured is restored to his or her approximate financial position prior to the occurrence of the loss.

Requirements of an Insurable Risk

- The proposer should have Insurable Interest in the subject matter of Insurance. **the person insuring must be the one who will suffer** should the loss occur.
- There must be a **large number of similar risks** which need not be identical and are subject to the same peril or group of perils.
- Risk to be insured against should be Accidental or unintentional - **Fortuitous losses.**
- Determinable & measurable and not catastrophic. Chance of loss must be calculable.
- Premium must be economically feasible.
- Does not involve any prospect of profit and is not against public policy.

Endowment Insurance is a Level Premium Plan. Here Sum assured and Bonus will be given either at the time of death or at maturity. More expensive when compared to whole life plans. Term ranges from 5 – 30 years. Non-participating Endowment Plan (no profits) is also available with cheaper premium.

Whole Life insurance: Life insurance cover for the entire life. Same premium amount throughout the lifetime.

Double sum assured rider, which provides twice the amount insured in case the death happens due to the specific reason such as accidental death while the policy is in force.

Critical illness rider, which provides a sum that could be double the sum assured on diagnosis of a life-threatening illness.

Accident or disability rider, which enables the insured to receive a periodic payout if temporarily disabled, for a limited period of time.

Waiver of premium rider, which is triggered if there is a disability or loss of income that makes it difficult to pay the premium.

Guaranteed insurability option rider, which enables enhancing the insurance cover without further medical examination

The premium paid for all health and critical illness riders in case of a term or group policy should not exceed 100% of the premium paid on the base policy.
In case of all other riders it should not exceed 30% of the premium paid on the base policy. The benefit from each rider cannot exceed the basic sum assured.

IMPORTANT TERMINOLOGIES IN INSURANCE

Premium – Amount to be paid to an insurance company for transferring the risk.
Term – The tenure for which an insurance policy is taken. This will be the period for which the risk cover will be provided by the policy.
Nomination – The process of selection a person by the insured who has the right to receive the policy money in the event of death of the life assured. The nominee does not have the right on the money received out the insurance claim. Nominee only has the right of valid discharge.
Sum Assured – This is the amount of money that the insurance company guarantees to pay. This is also referred to as cover or coverage and is the total amount the individual is insured for.
Death Benefit – The amount that is payable by the insurance company to the nominee of the policy on death of the insured.
Maturity Benefit – The amount that the insurance company pays to the policy holder at the end of term of the policy or policy maturity.
Survival Benefit – The amount payable at the end of pre-specified periods during the term of the policy. The amount paid is usually a percentage of the sum assured and the percentage is predetermined as well. Survival benefits typically do not reduce the death benefit in the policy. Example is Money Back Plans.
Bonus – A share of the profits made by the company is passed on to the policy holders in the form of bonuses. Bonuses may be paid every year (reversionary bonus), in between a policy year (interim bonus) and at the end of the term of the policy (terminal bonus).
No claim bonus is the benefit of lower premiums enjoyed in subsequent years for each year of no claims being made.

Lapse – A policy is said to lapse when premiums are not paid when due. A policy lapse means that the contract between the insurer and the insured is terminated. There will be no risk cover for a lapsed policy.
Surrender Value – The amount that is paid to the policy holder when the policy is surrendered or discontinued. The policy ceases to exist once this amount is paid.
Paid Up Value – The value that the policy acquires when premium payment is stopped after 3 full years are paid. No further premiums can be paid into a paid up policy and no further benefits will be payable as well.
Paid Up Value = (Sum Assured * No of Premiums Paid) / No. of Premiums payable
Foreclosure – A policy will be foreclosed if premiums are not being paid and the value of the policy is not sufficient to carry the charges in the same.
Revival – Revival is the process by which the lapsed benefits of a policy are revived by paying the dues within a specified period of time.
Assignment – This is the act of transferring the rights of the property in the policy from one person to another. On assignment, the benefits of the policy becomes payable only to the assignee, the owner of the policy.
Loan – An owner of an insurance policy which has a cash value may be able to borrow against it for quick cash at very low interest.
Riders – Riders are add-on benefits that can be attached to policies in case of eventualities. These options allow for enhancement of risk cover and extra protection against death, illnesses, etc.
Claim is a demand on the insurer to redeem its obligation or promise made in the contract.
Participating Policy – A policy which participates in the ‘profits’ of the insurance company and earns a part of the profits.
Non-participating Policy neither participates in the ‘profits’ of the insurance company nor gets any of the profits.
Reinsurance is transferring portions of risk to other insurers by the Insurance Company.
Deductible is a term used to denote the portion of the claim that is met by the insured

Chapter 10 – RETIREMENT PLANNING

Task of deciding how much money one would require upon retirement. Retirement Corpus can be calculated using Income Replacement method or Expense method. Inflation, Life Style and Life Expectancy, Risk Profile, Time to retirement are the factors which affect retirement planning.

DEFINED BENEFIT PLAN

- Benefit to be paid to the employee is defined or fixed at the beginning of the plan

- The employer funds the plan and the employee reaps the rewards upon retirement.
- The investment risk is borne by the employer in the defined benefit plan. e.g. final year's salary multiply by number of years of service.

DEFINED CONTRIBUTION PLAN

- Contribution to the pension plan by the employee is fixed. Contribution by the Employer also.
- The investment risk is borne by the employee in the defined contribution plan. e.g. 12% of salary as contribution. Contribution to PF is an example.

GRATUITY - Gratuity is a Defined Benefit Plan.
Gratuity is paid when an employee completes 5 or more years of continuous service.

- The period of 5 years is not necessary if the termination of the employee is because of death or disablement. In the case of death the amount is paid to the legal heirs
- For government employees, all retirement and gratuity benefits received is exempt from tax u/s 10(10)(I). For non-government employees, any gratuity received by such employees is exempt from tax to the extent of the least of the following:
    a. Half month's average salary for each completed year of service.
    b. Rs. 20,00,000/-
    c. Actual Gratuity received

Annuities

1. An annuity is a contract between the insurer & an individual whereby the insurer agrees to pay a specified amount in future in exchange for the money now paid by the individual. Annuities are also popularly known as 'pension plans'.
2. Investing Period is known as Accumulation phase.
3. Period when the annuitant receives the payments is known as the 'distribution phase'.

Deferred Annuity – Money is invested for a specified period of time until an annuitant starts taking withdrawals, typically upon retirement. A deferred annuity accumulates money. Also, they accumulate interest on the investment. Period during which investments are made is known as accumulation period or Deferment period. The age at which the annuitant starts receiving pension is known as Vesting period.

Immediate Annuity – ANNUITANT begin to receive payments from the insurer immediately. For example, upon retirement, an individual can purchase an immediate

annuity with his accumulated retirement corpus. Payment will start as immediately at end of the month.

Fixed annuity where the pay-out is a fixed sum or fixed amount. Fixed annuities are essentially debt instruments issued by the insurer. High surrender charges and returns not being able to keep pace with inflation are the major drawbacks.

Variable annuity –Pay-out is based on underlying investment which could be stocks or gold etc. The value of annuity depends on the performance of the underlying product.

- Annuity payable for remainder of life
- Annuity payable for a guaranteed period (5/10/15/20 years) and life after that
- Joint life and last survivor annuity to the annuitant and spouse under which annuity payable to the spouse on death of the purchaser will be either 100% or some other fixed percentage of the annuity payable to the annuitant.
- Life annuity with a return of purchase price on death of the annuitant
- Life annuity increasing at a specified simple rate every year.

IRDAI requires the minimum pay out in an annuity to be Rs.1000 per month.

National Pension System

PFRDA – Pension Fund Regulatory & Development Authority is the regulator. It is a Defined Contribution Scheme. Investment in NPS is to be maintained until the age of sixty. National Pension System applies to an individual who has joined Central Gov Service on or after Jan 2004.

Who are not covered?

Employees already covered under PF act.
An individual who has joined Central Government service before 01 January 2004, or Employees of the Indian Armed Forces

Features of National Pension Scheme

1. Tier I A/c known as Pension A/c is Non Withdrawable
2. Tier II A/c known as Savings A/c is withdrawable
3. Tier I account is a pre-requisite for opening a Tier II account
4. PRAN – Permanent Retirement Account Number
5. Investors can invest through Points of Presence (POP).
6. Contributions in Tier II A/c will not enjoy any tax advantages.
7. ACTIVE CHOICE – 3 PORTFOLIO OPTIONS
8. E: High return, High risk – Investments predominantly in Equity market
9. C: Medium return, Medium risk- Predominantly in fixed income instruments

10. G: Low return, Low risk- Investments purely in fixed investment products
11. A:Alternative Investment Schemes including instruments such as REITs, Alternative Investment Funds, Mortgage Backed Securities and other approved investments.
12. A subscriber can choose to invest the entire corpus in C or G.
13. Investment in E is capped at 75 % and upto a maximum of 5% in asset class A.
14. Auto choice also known as Lifecycle Fund is based on the Age of the Investor.
15. LC75 - Aggressive Lifecycle Fund. Exposure to equity 75% till age 35 and then gradually reduces as per the age of the subscriber
16. LC50 - Moderate Lifecycle Fund. Exposure to equity 50% till age 35 and then gradually reduces as per the age of the subscriber.
17. LC25 - Conservative Lifecycle Fund. Exposure to equity 25% till age 35 and then gradually reduces as per the age of the subscriber.
18. The default option - Moderate Lifecycle Fund.
19. Minimum amount per contribution - Rs 500. Minimum contribution per year - Rs 1,000. Minimum number of contributions - 01 per year.
20. Central Recordkeeping Agency (CRA) would recover charges for maintenance of your accounts, at the same time PFM(s) (Pension Fund Managers) would be paid for managing the savings. The fees and charges by the CRA and Portfolio Managers will be regulated by the PFRDA.

REVERSE MORTGAGE

Reverse Mortgage is Opposite to Mortgage where the payment stream is reversed, that is instead of the borrower making monthly payments to the lender, the lender makes payments to the borrower.

1. Senior Citizens aged 60 or above are eligible for Reverse Mortgage Scheme.
2. The amount of loan available under RML depends on the age of the borrower, appraised value of the house and the prevalent interest rates of the lending institution.
3. Joint Loan facility is available. In this case at least one should be aged 60.
4. Residual Life of the property should be Minimum 20 years. No minimum period of Ownership is required.
5. The residence should be permanent primary residence & not commercial premises.
6. Maximum monthly payment is capped at Rs 50,000. The maximum lump sum payment shall be restricted to 50% of the total eligible amount of loan subject to a cap of Rs.15 lakh, to be used for medical treatment for self, spouse and

dependants, if any. The balance loan amount would be eligible for periodic payments.

7. The property should be self-acquired, self-occupied and having clear title in favor of the borrower.
8. All receipts under RML shall be exempt from income tax under Section 10(43) of the
9. Any transfer of a capital asset in a transaction of reverse mortgage shall not be regarded as a transfer.
10. Capital Gains are applicable to borrower only on alienation of the mortgaged property.
11. The maximum tenure of an RML will be 20 years.
12. Revaluation of property shall be done at least once in 5 years.
13. Payment options – Monthly, Quarterly, Half Yearly, Annual
14. The Reverse Mortgage loan can be prepaid at any time during the term of the loan. On clearance of all the dues, all the title deeds will be returned by the lender.
15. Rate of interest and the nature of interest (fixed or floating) will be decided by the lender.
16. An RML will become due and payable only when the last surviving borrower dies or permanently moves out of the house.
17. Costs to be paid by the client to the Housing Finance Company include loan processing charges, documentation charges, commitment fees on undrawn loan amount etc.

Chapter 11 – TAXATION

Previous Year and Assessment Year: The year in which income is earned is known as the previous year and the next year in which income is taxable is known as the assessment year.

Resident Status - Resident Individuals

1. In India for a period of 182 days or more in the relevant previous year
2. In India during relevant previous year for 60 days or more & presence in India for 365 days or more during 4 years immediately preceding the relevant previous year.

An Indian citizen or a person of Indian origin, who is not a resident as defined above, is called an NRI (Non-Resident Indian) for the purpose of taxation.

PIO Person of Indian Origin as per Indian Income Tax Act if he or she:

- Has held an Indian passport at any time, or
- Is a grandchild of citizens of India, or
- Is a spouse of an Indian citizen, or
- Is a spouse of a person covered under the first two points above

Sources of Income – Salary, Income from house property, Profits and gains of business or profession, Capital gains, Income from other sources

Section 80C - Individual / HUF - 100% of the amount invested or Rs. 1,50,000/- whichever is less is available as Income Tax Deduction.

The marginal rate of tax refers to the rate applicable at the highest slab, given the taxable income of the investor.

Effective Rates of Tax - The actual income tax to be payable may be increased by imposing a surcharge or a cess. The effective rate of Income Tax goes up when such charges are imposed.

Signing of Income Tax Return - Section 140 of the IT Act

Individual's return - by the individual himself/ herself/by some person duly authorized in this behalf.
HUF - by the karta and in his absence by any other adult member.
Partnership Firm – Managing Partner / Any other partner who is not a minor
Company – Managing Director / Any other director

Capital Gains

- Capital Gain arises when a property in nature like plot, house, Jewellery etc or shares/MF units/Bonds are sold for a profit.
- Capital Asset doesn't include Stock in trade, Raw materials held in Business, Rural Agricultural Land, personal assets like furniture, Car, Agricultural land.

Asset	Long Term Capital Asset	Short Term Asset
Equity	After 12 months	Less than or Equal to 1 Year
Non Equity	After 36 months	Less than or Equal to 3 years.
Land/Building	After 24 months	Less than or Equal to 24 months

GAINS	EQUITY	NON EQUITY
LTCG	10% for gains exceeding Rs 1 Lakh (if STT is Paid)	20% after INDEXATION

STCG	15% (if STT is paid)	Added to income & taxed as per the slab

Long Term Capital Gain in case of Indexation is calculated as follows
LTCG = Sale Price – Indexed Cost of Acquisition
Indexed Cost of acquisition is as follows
(Cost of Acquisition * Cost Inflation Index of Year Sold) / Inflation Index of Year bought

In case the return is not filed within due date, a belated return can be filed at any time before the expiry of 1 year from the end of the relevant assessment year.

SET OFF & CARRY FORWARD OF LOSSES

Loss	INCOME HEADS					
	Salary	House Property	Business		Capital Gains	Other Sources
			Speculative	Non Speculative		
House Property	Yes	Yes	Yes	Yes	Yes	Yes
Speculative Business	No	No	Yes	No	No	No
Non Speculative Business	No	Yes	Yes	Yes	Yes	Yes
Capital Loss	No	No	No	No	Yes	No

Capital Loss	Set Off Against
Short Term	Long Term / Short Term Gain
Long Term (Debt)	Long Term Gain (Debt), Long term Equity
Long Term Equity	Long Term Gain (Debt), Long term Equity

1. Unabsorbed Loss can be Carry Forwarded for a Period of 8 years.
2. Unabsorbed Speculative Loss can be carry forwarded only for 4 years.
3. Unabsorbed depreciations in Business can be forwarded without any limitation of time.
4. Loss can be Carry Forwarded only if returns has been filed with in due date (except Loss from House Property and Depreciation).

Income from House Property

Net Annual Value = Gross Annual Value of the property Less Municipal Taxes and Unrealized rent
Income from House Property = Net Annual Value Less Standard deductions and/or interest payable
For Self Occupied Property - the interest paid subject to a maximum of Rs 2 lakhs is allowed as Deduction from Net Annual Value.

Gifts

A gift is a transfer of movable or immovable property made voluntarily and without consideration. The person making the gift is called donor; the person receiving a gift is called the donee. Any income earned from the gift after such transfer will be subject to tax routinely in the hands of the donee.
Gifts are taxable as income from other source, subject to exemptions provided under Income Tax Act. This includes gifts received from relatives such as spouse, siblings of self and spouse, parents, grandparents, children, grandchildren, among others. Any gift received on the occasion of marriage or inherited under a will is exempt from tax.

Wills

A will is explained as a legal declaration made in writing by a person who clearly sets out the manner in which he/she would like his or her property (movable or immovable) wherever situated to be distributed after his death.
Codicil - A testator can change the contents of the will any number of times, before his death. Such changes to the will are called 'Codicils'. A will can also be revoked by the testator at any time before his death.
Testator is the person who makes the will. Testatrix is used to refer to a female.
Probate is a copy of the will certified under the seal of a component Court.
Beneficiary is a person who inherits the property under a will.
Legatee The person who is named in a will to receive a portion of the deceased person's estate is known as a legatee.
Executor is the legal representative for all purposes of the deceased person and all property under the will vests in him. The person named in the will to administer the estate of the deceased person.
Oral Wills are wills that are not documented and is made orally. Such wills are mostly prevalent in the armed forces. A will has to be written and signed in the presence of two witnesses except oral wills. A registered will cannot ordinarily be tampered with, destroyed, mutilated, lost or stolen. If a will is registered, no person can examine the will and copy the contents without an express permission in writing of the testator.

General POA – Enables the donee to act on all matters for the donor. The general list of matters covered in this category includes management of bank accounts, sale of property, attending dealings in court, etc.
Specific POA – restricts the donee's authority to act only on a specific transaction, e.g. POA granted to a person to deal with the renting out of an apartment only.

Chapter 12: REGULATORY ENVIRONMENT AND ETHICAL ISSUES

Investment Advisor – Criteria and Obligations

1. Any person who proposes to provide investment advice shall be required to obtain a registration certificate from SEBI in order to continue to do this activity.
2. The certificate of registration granted under SEBI (Investment Adviser) Regulations, 2013 shall be valid till it is suspended or cancelled by SEBI.
3. An investment adviser needs to apply for renewal of his registration certificate, three months before expiry of the original certificate of registration.
4. Investment advisers who are non-individuals shall have a net worth of not less than **fifty lakh rupees**.
5. Investment advisers who are individuals shall have net tangible assets of value not less than **five lakh rupees**.
6. The investment adviser should not carry out transaction contrary to his advice to clients on his own account unless 15 days have passed from the date of providing the advice.
7. An investment adviser is required to maintain records in physical or electronic format for a minimum period of five years:
8. An individual investment adviser shall not provide distribution services
9. The family of an individual investment adviser shall not provide distribution services to the client advised by the individual investment adviser and no individual investment adviser shall provide advice to a client who is receiving distribution services from other family members.
10. Investment advisers cannot provide free trial for any products/services to prospective clients.
11. IAs shall accept fees strictly by account payee crossed cheques / demand draft or by way of direct credit into their bank account through NEFT/ RTGS/IMPS/UPI. IAs cannot accept cash deposits.
12. if an investment adviser fails to comply with the regulations penalty which shall not be less than Rs.1 lakh but which may extend to Rs. 1 lakh for each day during which such failure continues subject to a maximum of Rs.1 crore
13. An investment adviser which is a body corporate or a partnership firm shall appoint a compliance officer

Exemptions

1. General comments on financial trends, economic situation which is not stock/product specific.
2. Insurance agents or brokers providing investment advice only in insurance products,
3. Pension advisors offering investment advice only on pension products,
4. MF distributor, providing investment advice incidental to distribution of mutual fund products.
5. Advocates, Solicitors, member of ICAI, ICSI, ICWA, Actuarial Society of India or any other professional body providing investment advice incidental to their professional service.
6. Stock broker or sub-broker, Portfolio manager registered with SEBI, Merchant bankers providing investment advice incidental to their primary activity.
7. Fund managers of mutual funds, alternative investment funds.
8. A person providing investment advice only to clients based out of India, not being Non Resident Indians or Persons of Indian Origin.

Investment advice given through newspaper, magazines, any electronic or broadcasting or telecommunications medium, which is widely available to the public shall not be considered as investment advice for the purpose of these regulations.

Section 12 of PMLA stipulates that every reporting entity (i.e. a banking company, financial institution, intermediary or a person carrying on a designated business or profession) **shall maintain a record of all transactions for a period of five years** from the date of transaction between a client and the reporting entity.

The main problems/investor grievance areas in the advisory business
1. Advisor's lack of focus on understanding client specific situations.
2. Advisors lack of understanding of the financial product which he/she is selling
3. Advisors lack of information about overall market and other financial products
4. Adopting wrong practices like frequent switching from one product to another to increase earnings from commissions.
5. Not educating/informing the investor about risks; uncertainties about financial products that are sold, while highlighting only the good features of the product.
6. Poor after sales service

BFS - Board for Financial Supervision
The Prevention of Money-Laundering Act, 2002 (PMLA)
SCORES (SEBI Complaint Redress System).

Integrated Grievance Management System (IGMS).
Central Grievance Management System (CGMS)
International Financial Services Centres (IFSC)
Anti-Money Laundering (AML)
Combating the Financing of Terrorism (CFT)

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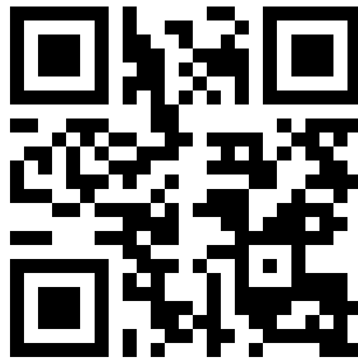

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