

Module VI (Exam 5): Advanced Financial Planning (AFP) **(Also the Challenge Status Exam)**

Testing Objectives, Learning Objectives & Detailed Topic List

Testing Objectives:

The test presents a simulated environment for the candidate to have an understanding of the entire financial situation of a client, the household. The immediate and future cash flow situation, assets and liabilities, financial goals of the client to meet in the near and long term, the parameters related to the economy, the market and life are all considered in arriving at appropriate solutions. The emphasis is on recognizing the laid down strategies as possible alternatives to seek the most appropriate solutions. The strategies outlined present the situation before a prospective financial planner to assess and analyze the given information within the ambit of certain constraints and look out for possible opportunities. Also envisaged is the critical evaluation of the strategies for the desired pathway to a financial plan as well as the development of alternative strategies to modify the plan.

Learning Objectives:

The candidate pursuant to qualifying in this exam shall be eligible to receive CFP^{CM} certification subject to the fulfillment of the experience criterion and the adherence to laid down Code of Ethics and Professional Responsibility. Post certification, the candidate shall be entitled to work as CFP^{CM} professional preparing, executing and reviewing financial plans of the clients. Thus, a candidate should be able to enter into an engagement with a client to provide services with respect to one or more components of financial planning or a comprehensive financial plan which may include its execution and review as well, under a laid down financial planning process.

The detailed testing methodology as required in different sections for a candidate to prepare is as follows:

Section – I: Financial Planning Process, Practice Standards and Professional Responsibility

Testing Objective	<ul style="list-style-type: none"> • Theoretical testing knowledge: 'Grade 1' • Theoretical testing clarity of concepts or basic numerical skills: 'Grade 2'
Total weight to Exam 5 (each study)	14%
Nature of Test Items	2 items: 2 marks each 1 item : 3 marks

Sub-section 1: Financial Planning environment	Testing and Difficulty grade 'Grade 1'
Detailed Topics	
1.1 The 6-Step Financial Planning Process	
1.2 Client engagement rules, conflicts resolution and documentation	
1.3 Financial Planning Practice Standards	
1.4 Financial Planner Code of Ethics and Professional Responsibility, Model Rules of Conduct	
1.5 CFP Mark Usage	

Sub-section 2: Financial situation analysis, basic risk profiling and factors in financial prudence	Testing and Difficulty grade 'Grade 2'
Detailed Topics	
2.1. Risk Profiling of the client 2.2. Asset profiling, its allocation, liquidity and returns profile 2.3. Financial behavior and financial decision making 2.4. Debt Management 2.5. Personal Financial Statement Analysis 2.6. Net Worth and Financial Ratios 2.7. Loan schedules 2.8. Allocation of resources, cash flow to laid down goals 2.9. Basic and goal-specific asset allocation	

Section – II: Risk Analysis and Insurance Planning

Testing Objective	<ul style="list-style-type: none"> • Theoretical testing knowledge: 'Grade 1' • Theoretical testing clarity of concepts or basic numerical skills: 'Grade 2' • Numerical testing analytical skills: 'Grade 3'
Total weight to Exam 5 (each study)	18%
Nature of Test Items	1 item: 2 marks 1 item: 3 marks 1 item: 4 marks

Sub-section 1: Insurance as a risk mitigation tool, its outreach, legal aspects and provisions	Testing and Difficulty grade 'Grade 1'
Detailed Topics	
1.1 Insurance concepts and perception of risk 1.2 Assessment and identification of risk exposure 1.3 Types of personal risk covers – Assets, Life, Health 1.4 Insurance contracts and their legal discharge 1.5 Insurance provisions and basis of valuation	

Sub-section 2: Risk assessment and basis of various risk covers	Testing and Difficulty grade 'Grade 2'
Detailed Topics	
2.1 Assessment and identification of risk exposure 2.2 Selection of insurance products – purpose, type, coverage and duration 2.3 Basis of various risk covers – reinstatement 2.4 Individual health insurance and family health protection covers 2.5 Critical illness and disability covers 2.6 Various business specific covers	

Sub-section 3: Insurance needs analysis, sufficiency and efficiency of coverage	Testing and Difficulty grade 'Grade 3'
Detailed Topics	
3.1 Analysis of insurance needs	

- 3.2 Economic value of human life
- 3.3 Coverage of expected future income stream
- 3.4 Replacement of future expenses of survivors
- 3.5 Risk cover based on future expenses, financial liabilities and major financial goals
- 3.6 Methods of taking cover to ensure maximum insurance efficiency

Section – III: Retirement Planning and Employee Benefits

Testing Objective	<ul style="list-style-type: none"> • Theoretical testing clarity of concepts or basic numerical skills: 'Grade 2' • Numerical testing advanced analytical skills, strategy evaluation & synthesis: 'Grade 4'
Total weight to Exam 5 (each study)	16%
Nature of Test Items	1 item: 3 marks 1 item: 5 marks

Sub-section 1: Assessment of retirement needs and options at various life stages of a client	Testing and Difficulty grade 'Grade 2'
Detailed Topics	
<ul style="list-style-type: none"> 1.1 Retirement solutions appropriate to the life stage of client 1.2 Time horizons pre-and-post-retirement 1.3 Profile of fixed and financial assets on retirement 1.4 Income generating potential of various assets 1.5 Other income streams supporting retirement expenses 1.6 Assessment and analysis of various pension instruments available – Annuities, NPS, PPF, EPF 1.7 Consistent savings towards retirement and its monitoring 	

Sub-section 2: Accumulation and management of retirement corpus; factors influencing decisions	Testing and Difficulty grade 'Grade 4'
Detailed Topics	
<ul style="list-style-type: none"> 2.1 Critical assessment of all parameters – economic and client-specific 2.2 Financial objectives on retirement and correct estimation of corpus 2.3 Retirement corpus to accommodate charity, gifts during survival and bequeathing 2.4 Monitoring of allocated savings to the retirement corpus 2.5 Estimation of required rate of return and risk management 2.6 Estimation of withdrawal rate and possible retrenchment 2.7 Management of retirement funds near retirement with focus on capital protection 2.8 Choosing the right annuity product on retirement and diversifying income streams 2.9 Tax efficiency of retirement income streams 2.10 Reverse mortgage as a possible retirement income alternative 2.11 Case for preponing or postponing retirement 	

Section – IV: Investment Planning

Testing Objective	<ul style="list-style-type: none"> • Theoretical testing knowledge: 'Grade 1' • Numerical testing analytical skills: 'Grade 3' • Numerical testing advanced analytical skills,
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	strategy evaluation & synthesis: 'Grade 4'
Total weight to Exam 5 (each study)	32%
Nature of Test Items	1 item: 2 marks 1 item: 4 marks 2 items: 5 marks each

Sub-section 1: Understanding various products and their profile for goal based investing	Testing and Difficulty grade 'Grade 1'
Detailed Topics	
1.1 Investment products – Fixed income, equity, mutual funds, derivatives, commodities, small savings, etc. 1.2 Investment risks associated with various products 1.3 Risk profiling of products suited to client's profile and goal 1.4 Real Estate as an asset category and investment class	

Sub-section 2: Asset allocation, measurement of portfolio risk and returns	Testing and Difficulty grade 'Grade 3'
Detailed Topics	
2.1 Investing funds in the appropriate Asset Allocation 2.2 Changing asset allocation with change in life stages 2.3 Monitoring progress of investment portfolio 2.4 Measurement of portfolio risks and returns 2.5 Valuation of securities 2.6 Performance analysis of securities, market and portfolios	

Sub-section 3: Investment strategies; goal-based portfolio construction, analysis, rebalancing and optimization	Testing and Difficulty grade 'Grade 4'
Detailed Topics	
3.1 Goal-specific investing in strategic asset allocation 3.2 Monitoring of investment portfolio to assess goal achievement 3.3 Analysis of portfolio returns 3.4 Investment strategies – active and passive 3.5 Systematic investments and Value averaging methods 3.6 Investment styles 3.7 Ascertaining appropriate return to meet goals and devise diversified portfolio 3.8 Income generating potential of portfolios 3.9 Portfolio rebalancing 3.10 Portfolio optimization 3.11 Systematic redemption of portfolio near goals	

Section – V: Tax Planning and Estate Planning

Testing Objective	<ul style="list-style-type: none"> • Theoretical testing knowledge: 'Grade 1' • Theoretical testing clarity of concepts or basic numerical skills: 'Grade 2' • Numerical testing advanced analytical skills, strategy evaluation & synthesis: 'Grade 4'
Total weight to Exam 5	20%

(each study)	
Nature of Test Items	1 item: 2 marks 1 item: 3 marks 1 item: 5 marks each

Sub-section 1: Tax incidence and relative tax efficiency; Understanding and execution of succession strategies	Testing and Difficulty grade 'Grade 1'
Detailed Topics	
1.1 Comparative tax advantage of various investment products 1.2 Tax compliances 1.3 Tax incidence of various transactions 1.4 Tax efficiency in the transfer of assets 1.5 Characteristics and efficiency of various Estate vehicles 1.6 Provisions of Hindu and Indian Succession Act 1.7 Succession efficiency of all asset transactions 1.8 Estate planning for family business and family trust	

Sub-section 2: Tax structure of investment, portfolio, business forms, status, etc.	Testing and Difficulty grade 'Grade 2'
Detailed Topics	
2.1 Taxability of various securities transactions 2.2 Tax adjusted returns of investments 2.3 Residency rules and taxation aspects of various status 2.4 Treatment of allowances and perquisites 2.5 Incidence of capital gains and their taxation 2.6 Carry forward and netting of capital gains 2.7 Tax structure of business forms 2.8 Trust structure for Estate planning and tax efficiency	

Sub-section 3: Tax liability of various income of clients, business income, investment income and capital gains, transaction deals	Testing and Difficulty grade 'Grade 4'
Detailed Topics	
3.1 Tax aspects of redemption from investments, portfolios 3.2 Tax liability computation of individual clients 3.3 Tax liability computation of business forms 3.4 Income from house property – self-occupied and rented house 3.5 Taxability of mutual funds – income, capital gains of debt schemes including dividend reinvestment options 3.6 Bonus and dividend stripping rules while computing capital gains 3.7 Taxability of off-market transactions	