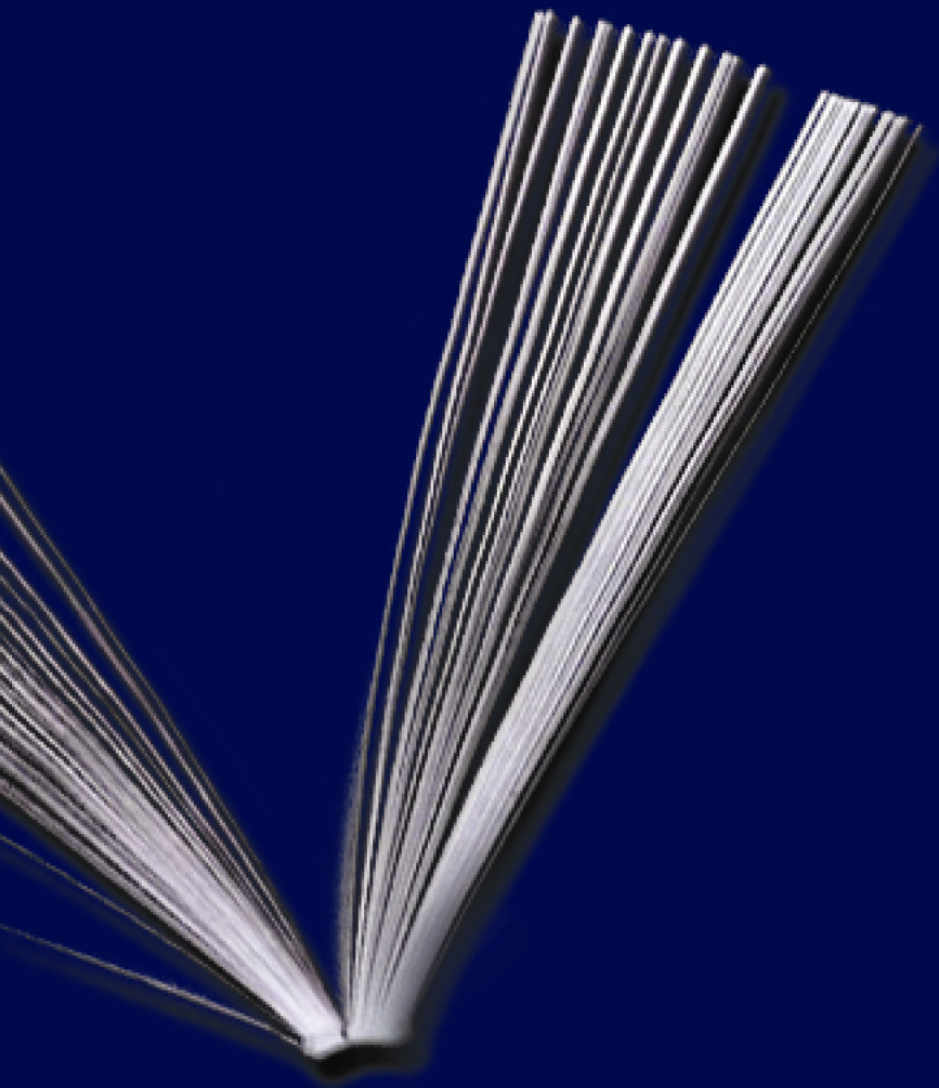




# STUDY GUIDE:

## CFP<sup>CM</sup> Certification



CFP<sup>CM</sup>, CERTIFIED FINANCIAL PLANNER<sup>CM</sup>, ,  CERTIFIED FINANCIAL PLANNER<sup>TM</sup>, AFP<sup>TM</sup>, ASSOCIATE FINANCIAL PLANNER<sup>TM</sup>,  AFP, and  ASSOCIATE FINANCIAL PLANNER<sup>®</sup> are certification marks and / or trademarks owned outside the U.S. by Financial Planning Standards Board Ltd. The Institute of Financial Planners of Hong Kong is the marks licensing authority for the CFP marks and AFP marks in Hong Kong and Macau, through agreement with FPSB.



Institute of Financial  
Planners of Hong Kong  
香港財務策劃師學會

2017

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## INTRODUCTION

This study guide is designed to help candidates prepare to take **CFP<sup>CM</sup> Certification Examination**. This study guide provides information about CFP Certification Examination and some helpful tips for students to perform their best.

**About IFPHK:** The IFPHK was established in June 2000 as a non-profit organization for the fast-growing financial industry. It aims to be recognized in the region as the premier professional body representing financial planners that uphold the highest standards to benefit the public. The Institute is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP certification and AFP certification to qualified financial planning professionals in Hong Kong and Macau. It represents more than 7,500 financial planning practitioners in Hong Kong from such diverse professional backgrounds as banking, insurance, independent financial advisory, stock-broking, accounting, and legal services. Currently there are over 161,000 CFP professionals in 26 countries/regions; the majority of these professionals are in the U.S., Canada, China, Australia and Japan, with more than 4,600 CFP professionals in Hong Kong.

**About CFP Certification:** The CFP Certification is the world's oldest, highest and most recognized advanced certification program for financial planners. CFP professionals are required to meet initial and ongoing competency, ethics and practice standards and agree to abide by professional conduct rules and ongoing competency and practice requirements. CFP Certification Examination are designed to assess the ability of examinees to apply financial planning knowledge to financial planning situations, thereby protecting the public by assuring that CFP certificants are at the appropriate level of competency required for practice. CFP Certification Examination consists of the 3 levels: Foundation Level, Level 1 and Level 2.

**Getting started:** The HOW TO USE THE STUDY GUIDE section on page 4 outlines the contents in each section, lists the materials you should have available as you study for the CFP Certification Examination, and suggests some steps for preparing for the CFP Certification Examination.

**Enquiries:** IFPHK will update information about the CFP Certification Program from time to time. Please check IFPHK website for announcements.

Website	: <a href="http://www.ifphk.org">www.ifphk.org</a>
Hotline	: 2982 7888
Fax	: 2982 7777
Email:	
General enquiry	: <a href="mailto:info@ifphk.org">info@ifphk.org</a>
Examination enquiry	: <a href="mailto:exam@ifphk.org">exam@ifphk.org</a>
Certification enquiry	: <a href="mailto:cert@ifphk.org">cert@ifphk.org</a>

## HOW TO USE THIS STUDY GUIDE

This study guide is designed to help candidates prepare to take the CFP Certification Examinations. It gives candidates valuable information about the examinations, explains how to prepare to take the examination, and provides some opportunities to practice for the examinations. The study guide is organized into four major sections. Each section focuses on a different aspect of the CFP Certification Examinations.

The **CERTIFICATION** section gives information about the overall structure of the CFP Certification and the Cross-Border CFP Certification. The respective 4E requirements will be explained. This information can help candidates better understand the certification process and what candidates will be asked to do.

The **EXAMINATION HANDBOOK** section gives information about the examinations, especially on the examination dates, time, question format, number of questions, regulations and syllabus of the CFP Certification Examination (Foundation Level, Level 1 and 2) and the Cross-Border CFP Certification.

The **ESSENTIAL READINGS** section gives candidates an overview of the coverage of the CFP Certification Examinations. This part of the study guide should be used in conjunction with the required textbooks and other relevant reference materials as illustrated in the section.

Exercise questions provided at the end of each part of the ESSENTIAL READINGS gives candidates opportunities to test their understanding on that area of study.

The **SAMPLE QUESTIONS** section provides sample exercise to help candidates familiarize themselves with the form and style of question which they may see in the CFP Certification Examinations.



# CERTIFICATION:

CFP<sup>CM</sup> Certification

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING

FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING

FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING

FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING

FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT

CFP<sup>CM</sup>, CERTIFIED FINANCIAL PLANNER<sup>CM</sup>, ,  **CERTIFIED FINANCIAL PLANNER<sup>TM</sup>**, AFP<sup>TM</sup>, ASSOCIATE FINANCIAL PLANNER<sup>TM</sup>,  **AFP**, and  **ASSOCIATE FINANCIAL PLANNER<sup>®</sup>** are certification marks and / or trademarks owned outside the U.S. by Financial Planning Standards Board Ltd. The Institute of Financial Planners of Hong Kong is the marks licensing authority for the CFP marks and AFP marks in Hong Kong and Macau, through agreement with FPSB.



Institute of Financial  
Planners of Hong Kong  
香港財務策劃師學會

## ABOUT CFP CERTIFICATION



**World-class.** In 26 countries and territories around the world, financial industry practitioners seek to stand out from the crowd with the financial planning industry's mark of world-class professional distinction that is CFP certification.

**Gold standard.** CFP certification is the world's oldest and most-recognized advanced certification for financial planners. It is the pinnacle of financial planning excellence and CFP professionals are required to meet initial and ongoing standards on competence, ethics and practice.

**Ethical.** Regulators and consumer protection groups around the world call for the highest standards of conduct from financial industry practitioners. CFP professionals are well-equipped to meet consumers' demands because they adhere to the Principles of Integrity, Objectivity, Fairness, Professionalism, Competence, Confidentiality and Diligence enshrined in a code of ethics and professional responsibility.

## WHY SHOULD YOU GET CFP CERTIFICATION?

**Preferred by clients.** CFP professionals consistently distinguish themselves from competitors by providing consumers with professional, appropriate and trusted advice for their financial planning needs.

**Commitment to financial planning excellence.** Invest in yourself and commit to excellence in financial planning through meeting rigorous certification requirements. Becoming a CFP professional is a smart career move that demonstrates your belief in striving for the best.

**Respected.** CFP certification helps you gain respect from your peers, employers and clients alike by reinforcing the value of your services and enhancing your credibility as a financial planning professional.

## PRE-REQUISITES

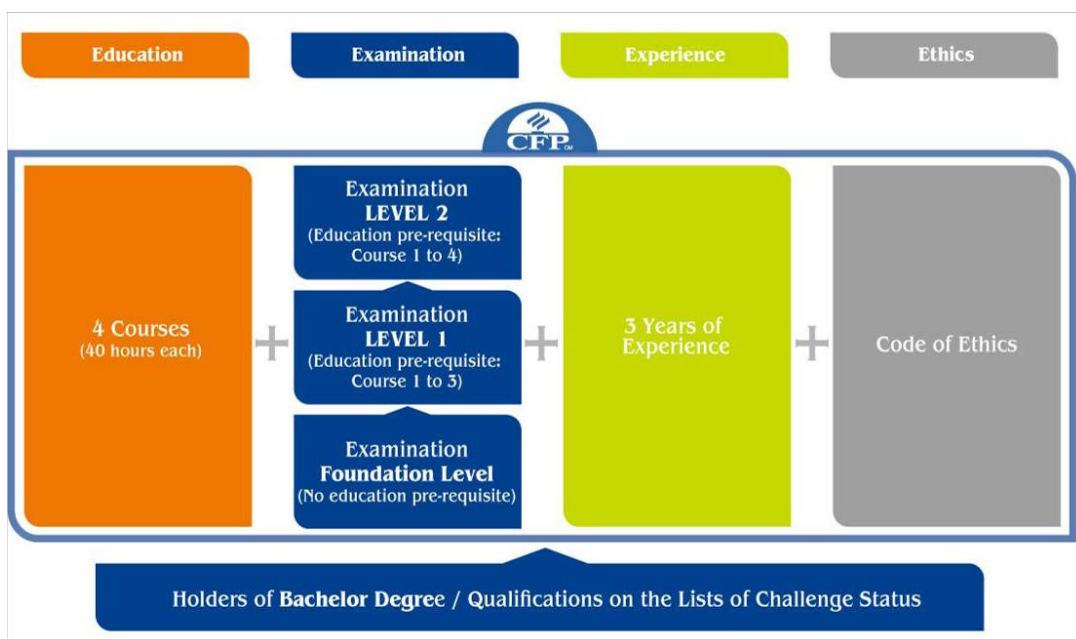
- Be an IFPHK Candidate<sup>1</sup>; AND
- Possess any one of the following academic or professional qualifications:
  - Bachelor degree or above from accredited education institutions; or
  - Qualifications listed in the Lists of Challenge Status (e.g. AFP Certification).

**NON DEGREE HOLDER?<sup>2</sup>**

**UNIVERSITY STUDENTS?<sup>3</sup>**

## THE “4E” REQUIREMENTS

As the certification body awarding the CFP Certification in Hong Kong and Macau, the IFPHK requires all CFP certificants to satisfy the rigorous certification requirements, including Education, Examination, Experience and Ethics. These are the “4E” standards and they indicate that financial planners are committed to providing competent and ethical financial planning services to clients. The “4E” standards assure the public that they will receive objective financial planning advice from CFP certificants who will help them meet their life goals.



<sup>1</sup> It is compulsory for all individuals to register with IFPHK as a candidate before one is eligible to proceed with his/her CFP Certification. One must process valid candidacy before he/she can enroll to an education program or register for an examination. IFPHK candidates will, from time to time, receive useful study tools such as sample questions, exercises, study guides, education, examination schedules and much more.

<sup>2</sup> Non degree holders may fulfill the pre-requisite by first obtaining other qualifications listed on the Challenge status List. Qualifications offered by IFPHK include FAIQ and AFP Certification. AFP Certification involves a 120-hour education program, a 3-hour examination, a 1-year experience and ethics requirements. For details, please refer to the IFPHK website.

<sup>3</sup> Students studying towards a bachelor degree awarded by an accredited education institution are eligible for CONDITIONAL admission to the certification process. Candidates may directly attempt the CFP Certification Examination (Foundation Level). However please note that this admission to the examination DOES NOT imply fulfillment of the pre-requisite requirement for CFP Certification. Candidates admitted through this path are required to show evidence of completion of the relevant degree program (or any other qualification eligible for exemption) upon certification.



## 1. Education

To earn CFP Certification, candidates must successfully complete the CFP Certification Education Program. Candidates will be trained with skills in financial management, financial planning principles, investments, insurance, risk management, retirement, tax planning and estate planning.

CFP Certification Education Program consists of FOUR courses, each of 40-hour duration:

- Course 1: Investment Planning and Asset Management
- Course 2: Insurance Planning and Risk Management
- Course 3: Tax Planning and Estate Planning
- Course 4: Financial Planning Practice

### Exemption from the CFP Certification Education Program

Candidates may qualify for exemption from some or all of the courses of the required educational courses if they meet one of the following requirements:

#### 1. Challenge Status<sup>4</sup>:

- Master Degree Holders in Business/Economics<sup>5</sup> or holders of a certain professional credential on Challenge Status List C may qualify for exemption from the CFP Certification Education Program (Course 1 to 3).
- Doctoral degree in Business/Economics or a certain professional credential on Challenge Status List D may qualify for exemption from the CFP Certification Education Program (Course 1 to 4).

Please refer to the lists of Challenge Status for qualifications eligible for the exemption.

#### 2. Transcript Review:

- Candidates who have taken comparable degree-level courses from accredited education institutions may apply for transcript review to waive some or all of the required educational courses of the CFP Certification Education Program (Course 1 to 3).
- Exemption through transcript review is NOT available for CFP Certification Education Program (Course 4)

Please refer to the Transcript Review section of IFPHK webpage for the updated list of Pre-approved courses for Transcript Review.

### Validity of CFP Certification Education Records

There is no expiry date of education records, thus allowing candidates with flexibility to schedule their education program according to their own needs.

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<sup>4</sup> Candidates must provide proof of the relevant academic or professional credential.

<sup>5</sup> The Master Degree program must substantially cover topics of the CFP Certification Education Program (course 1 to 3)



### Approved Education Providers

Currently, the education programs are provided by the IFPHK's Approved Education Providers. These Approved Education Providers comply with a rigorous approval process to ensure quality and standardization. The IFPHK also provides education providers with study materials and comprehensive guidelines. The Approved Education Providers are:

1. Li Ka Shing Institute of Professional and Continuing Education (LiPACE), The Open University of Hong Kong
2. Institute for Entrepreneurship (IfE), The Hong Kong Polytechnic University
3. School of Continuing and Professional Education (SCOPE), The City University of Hong Kong
4. School of Professional and Continuing Education (SPACE), The University of Hong Kong

## 2. Examination

To earn the CFP Certification, all candidates must successfully complete **THREE** levels of examination:

- CFP Certification Examination (Foundation Level)<sup>6</sup>
- CFP Certification Examination (Level 1)
- CFP Certification Examination (Level 2)

The examinations are designed to assess examinees' ability in applying the financial planning knowledge and skills learned from the education programs. Examination questions are based on the Financial Planner Competency Profile and are developed by academia and industry experts to ensure the questions reflect real-world financial planning. Passing the examinations demonstrate an examinee's proficiency in knowledge and skills related to financial planning.

All examinations are in the format of multiple choice questions. Both the Foundation Level and Level 1 Examination are provided **FOUR** times a year. The Level 2 Examination is provided **TWICE** a year.<sup>7</sup>

### Pre-requisites to the examinations

The CFP Certification process starts with Foundation Level Examination. There is no education pre-requisite to this examination.

Candidates are eligible to enroll to the Level 1 Examination after they have

- passed, or are exempted from the Foundation Level Examination; and
- completed, or are exempted from Course 1, 2 and 3 of the Education Program

Candidates are eligible to enroll to the Level 2 Examination after they have

- passed, or are exempted from the Foundation Level Examination; and
- passed from the Level 1 Examination; and
- completed, or are exempted from Course 1, 2, 3 and 4 of the Education Program

<sup>6</sup> Formerly known as the "AFP Certification Examination" (prior to 2014).

<sup>7</sup> IFPHK may adjust the frequency of the above Certification Examinations at its discretion.

**Exemption from the examinations**

Candidates may qualify for exemption from the Foundation Level Examination if they are holders of certain academic or professional credential<sup>8</sup> (e.g. AFP Certification). Please refer to the lists of Challenge Status for qualifications eligible for the exemption.

No exemption is allowed for the Level 1 and Level 2 Examination.

**Re-examination and Time Limit**

Re-sit examinees may enjoy a 40% examination fee reduction (Note: The examination fee reduction is subject to review and change by the IFPHK from time to time). There is no limit on the maximum number of re-sit examinations that an examinee can take.

For details of the examinations, including examination syllabi and exam regulations, please refer to the Examination Handbook.

**3. Experience**

Experience earned by working directly with clients in the financial planning industry is a key criterion to attaining CFP Certification. Candidates' work experience will be reflected in their expertise in financial planning. Experience is essential to complement the financial planning knowledge as candidates practice their trade.

To qualify as a CFP certificant, candidates must possess THREE years full-time qualified work experience.

To ensure the high standards of CFP certificants, the IFPHK will only award the CFP Certification to those who have qualified work experience, defined as experience working in the financial services industry. It is envisaged that candidates employed in the financial services industry will meet the experience requirement. These include those having worked in accounting firms, banks, financial planning companies, insurance companies, law firms and related legal services, mutual fund companies, securities and brokerage houses, trust companies, and universities. If necessary, the IFPHK will include additional types of employment or business to the definition of financial services industry.

Candidates need to demonstrate that they are involved in all or some parts of the six-steps in the financial planning process:

- Establishing client-planner relationships – explaining the issues and concepts related to the personal financial planning process.
- Gathering client data and determining goals and expectations – interviewing or questioning the client about various aspects of his or her financial resources, obligations and expectations; determining the client's goals, needs and priorities; assessing the client's values and attitudes; and determining the client's time horizons and risk tolerance; collecting applicable client records and documents.
- Determining the client's financial status by analyzing and evaluating client's information – analyzing and evaluating client data such as current cash flow needs, risk management, investments, taxes, retirement, employee benefits, estate planning and/or special needs.

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<sup>8</sup> Candidates must provide proof of the relevant academic or professional credential.

- Developing and presenting the financial plan – presenting and reviewing the plan with the client; working with the client to ensure that the plan meets his or her goals and expectations, and revising the recommendations as necessary.
- Implementing the financial plan – coordinating with other professionals, such as accountants, attorneys, real estate agents, investment advisors, stockbrokers and insurance agents.
- Monitoring the financial plan – discussing with the client any changes in his or her personal circumstances, evaluating changing tax laws, and making recommendations based on new or changing conditions.

#### 4. Ethics

Candidates of the CFP Certification must agree to abide by a strict code of professional conduct that sets forth the professional ethical responsibilities to the public, clients and employers.

The components of the IFPHK's professional code and standards include:

1. The IFPHK's **Code of Ethics and Professional Responsibility** combines and modifies the FPSB's Global Code of Ethics, and the FPSB Model Rules of Conduct, to the Hong Kong business environment. It is based on eight ethical principles: Best interest of clients; Integrity, Objectivity, Fairness, Professionalism, Competence, Confidentiality and Diligence.
2. The IFPHK's **Financial Practice Standards** adopts and modifies the FPSB's Global Financial Planning Practice Standards. The standards clarify the detailed process that the IFPHK expects a CFP certificant to follow in a financial planning engagement.

The IFPHK's professional code and practice standards are part of the certification programs. Candidates have to agree to abide by and adhere to the code and the practice standards to be able to obtain their certifications.


The IFPHK enforces the code and investigates complaints against both certificants and candidates.

The IFPHK also performs a background check when candidates apply for their certifications and each candidate must disclose any investigations or legal proceedings related to his/her professional or business conduct. This is enforced through the **Disciplinary Rules and Procedures**.

Details of the **IFPHK's Code of Ethics and Professional Responsibility** and the **Financial Planning Practice Standards** are available on the IFPHK website, [www.ifphk.org](http://www.ifphk.org).

## BECOMING A CFP CERTIFICANT

After meeting the '4E' requirements for CFP certification, candidates are eligible to apply for CFP Certification with the IFPHK. Once application has been approved candidates will officially become CFP certificants, and will be granted the right to use the CFP trademarks

including CFP<sup>CM</sup>, CERTIFIED FINANCIAL PLANNER<sup>CM</sup>,  CFP<sup>CM</sup>,  CERTIFIED FINANCIAL PLANNER<sup>TM</sup>, in accordance with the guidelines established by the IFPHK. CFP certificants' names will be added to the IFPHK's database for members of the public to verify their professional status.

## ANNUAL RECERTIFICATION AS A CFP CERTIFICANT

To continue using the CFP marks, CFP certificants are required to renew their certification annually. For recertification, CFP certificants are required to

- complete a minimum of 15 hours of continuing education credits (2 of which must be obtained from continuing education programs on compliance or ethics) every year in order to stay up-to-date with developments in the financial planning profession; and
- agree to abide by the IFPHK's professional code and standards.

## OPTIONAL CERTIFICATION

Upon passing the CFP Certification Examination (Foundation Level), candidates may choose to obtain AFP Certification as a midway award recognized by the public, clients and employers. To obtain AFP Certification, candidates must:

- possess ONE year of full-time qualified work experience; and
- agree to abide by the IFPHK's professional code and standards.

For details, please refer to the IFPHK website for the requirements of AFP Certification.

**FEES<sup>9</sup>**

<b>IFPHK Candidacy</b>	<b>Fee</b>
First time Candidacy application fee	\$300
Candidacy Annual Fee <sup>10</sup>	\$500

<b>Assessment (if applicable)</b>	<b>Fee</b>
Pre-requisite Qualification / Challenge Status	\$1,000
Transcript Review ( per course )	\$800
Transcript Review ( per course ) for pre-approved courses	\$100

<b>Education</b>	
Please check with the approved education providers as their fees vary.	

<b>Examination</b>	<b>Fee</b>
CFP Certification Examination (Foundation Level)	\$2,000
CFP Certification Examination (Level 1)	\$2,500
CFP Certification Examination (Level 2)	\$2,500
A 40% examination fee reduction is available for examinees re-sitting the same examination (Note: The examination fee reduction is subject to review and change by the IFPHK from time to time).	

<b>Certification</b>	<b>Fee</b>
Application	\$1,000
Annual Certification Fee <sup>11</sup>	\$2,450

<sup>9</sup> IFPHK reserves the rights to review the fees as and when needed. Changes will be posted at the IFPHK website and be publicized through other means it deems appropriate. You are advised to closely observe the latest announcements on the IFPHK website.

<sup>10</sup> For application submitted between 1 Jul and 31 Dec, a half-year annual fee of \$250 will be charged on that year. Annual fee is on a calendar year basis

<sup>11</sup> For application submitted between 1 Jul and 31 Dec, a half-year certification fee (equivalent to 50% of full year certification fee) will be charged instead. Annual fee is on a calendar year basis

## CROSS-BORDER CFP CERTIFICATION

An individual using the CFP Marks in other territories can become certified across border in Hong Kong by obtaining CFP certification from IFPHK and abiding by the certification renewal requirements of both IFPHK and the FPSB Affiliate in the Home Territory.

### Who should apply?

Any CFP professional who wishes to display the CFP Marks in Hong Kong other than the Home Territory in which he or she was first certified while delivering, directly supporting or supervising the financial planning process or to hold himself or herself out as a CFP professional in Hong Kong.

### Pre-requisites

- Be certified by the FPSB Affiliate in the Home Territory

### Required documents

An individual must provide to IFPHK the following documents to be eligible for the Cross-Border Certification:

- Proof of residency; CFP certificants who misrepresent their residency may be subject to disciplinary action by either or both FPSB Affiliate(s);
- A letter of good standing from the FPSB Affiliate in the Home Territory, confirming the CFP professional's:
  - i. date of initial certification;
  - ii. pathway to the CFP Certification Examination (registered education program, transcript review or challenge status), confirming that the candidate passed the CFP Certification Examination in the Home Territory;
  - iii. business contact information;
  - iv. certification identification number; and
  - v. disciplinary history with the FPSB Affiliate in the Home Territory.
- A declaration indicating the country(ies) or region(s) in which s/he conducts business, regardless of whether s/he holds out as a CFP professional in that territory;
- Signed declarations (in the FPSB Affiliate's initial application and renewal forms for CFP certification in the new territory) attesting to the accuracy of the information provided; and
- A declaration indicating that s/he has read and understands his or her obligations to the FPSB Affiliate

### The 4E requirements

#### 1. Education

Eligible candidates can fulfill the education requirements through self-study mode. Syllabus and reference materials can be found in the Examination Handbook and the Study Guide for Cross-Border CFP Certification.

## 2. Examination

The Cross-Border CFP Certification Examination focuses on Hong Kong local laws and regulations. Details of the Examination can be found in the Examination Handbook. The Cross-Border CFP Certification Examination is scheduled to be held once a year subject to demand.<sup>12</sup>

## 3. Experience

No additional experience requirement is imposed for examinees of the Cross-Border CFP Certification Examination.

## 4. Ethics

Candidates must agree to abide by a strict code of professional conduct that sets forth the ethical responsibilities to the public, clients and employers.

## 5. Annual Recertification as a CFP Certificant

To continue using the CFP marks, CFP certificants are required to renew their certification annually. For recertification, candidates are required to

- complete a minimum of 15 hours of continuing education credits (2 of which must be obtained from continuing education programs on compliance or ethics) every year in order to stay up-to-date with developments in the financial planning profession; and
- agree to abide by the IFPHK's professional code and standards.

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<sup>12</sup> IFPHK reserves the right to cancel the Cross-Border Examination at its discretion if less than 15 candidates register.





# EXAM HANDBOOK:

CFP<sup>CM</sup> Certification  
AFP<sup>TM</sup> Certification

FINANCIAL MANAGEMENT  
FINANCIAL PLANNING PRINCIPLES  
INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE  
FINANCIAL MANAGEMENT  
FINANCIAL PLANNING PRINCIPLES  
INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE  
FINANCIAL MANAGEMENT  
FINANCIAL PLANNING PRINCIPLES  
INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE

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## I. EXAMINATION STRUCTURE

### 1. Structure

The CFP<sup>CM</sup> Certification Examinations are designed to assess the ability of examinees to apply financial planning knowledge to financial planning situations, thereby protecting the public by assuring that CFP certificants are at the appropriate level of competency required for practice.

The Certification Examination consists of the following 3 levels:

- CFP Certification Examination (Foundation Level)\*;
- CFP Certification Examination (Level 1); and
- CFP Certification Examination (Level 2).

\*The *Foundation Level* examination paper (known as the “AFP<sup>TM</sup> Certification Examination” prior to 2014) also serves to satisfy the “Examination” element of the 4Es requirement for AFP<sup>TM</sup> certification. All references to the *Foundation Level* examination in this Examination Handbook also apply to Candidates/examinees for AFP Certification.

### 2. Sequence of Examinations

Examinees are expected to pass the *Foundation Level* examination prior to proceeding to *Level 1*. Similarly, individuals must pass the *Level 1* examination before being allowed to take the *Level 2* examination.

### 3. Language of Examinations

The CFP Certification Examinations are all set in ONE of two languages: English and Traditional Chinese. The examination questions of each examination of these two versions are the same, and examinees can choose to take each examination in ONE of the languages. They are required to confirm their preferred examination language when submitting their examination application online or using form. No change of the examination language is allowed after the examination application is submitted.

### 4. Duration

The examination time of each of the three levels of CFP Certification Examination is 3 hours.

### 5. Grading

Each examination is graded independently and the result of one examination does not affect another. Each examination is graded as follows:

- a. *Foundation Level*: All questions in the examination are of equal marks.
- b. *Level 1*: All questions in the examination are of equal marks.
- c. *Level 2*: All questions in the examination are of equal marks.

### 6. Re-examination and Time Limit

Examinees are only required to re-sit the examination that they have failed. There is no limit on the maximum number of re-sit examinations that one examinee can take for any one of the examinations.

## **7. Frequency**

*Foundation Level* and *Level 1* examinations are offered four times a year; and *Level 2* examination is offered twice a year. IFPHK may adjust the frequency of the above CFP Certification Examinations at its discretion.

## **8. Overseas Certificants / International Reciprocity**

For CFP Certificants who were first certified in territories other than Hong Kong, and wishes to display the CFP Marks while delivering, directly supporting or supervising the financial planning process or to hold himself or herself out as a CFP professional in Hong Kong, he or she will need to pass the Cross-Border Examination designed to assess examinees' understanding on Hong Kong local laws and regulations. For details, please refer to Appendix 4 of this Examination Handbook and Part V of the Certification Section of the Study Guide for CFP<sup>CM</sup> Certification.

## II. EXAMINATION CONTENT AND FORMAT

### 1. Core Content Coverage

The following table compares the core contents between the *Foundation Level*<sup>13</sup> and *Level 1/2 examinations*:

Core Content	Foundation Level	Level 1 and Level 2
Professional skills	✓	✓
Financial planning 6-step process	✓	✓
Integration of financial planning components (Comprehensive financial planning)		✓
Financial management	✓	✓
Retirement planning	✓	✓
Investment products	✓	✓
Portfolio management		✓
Insurance policy for personal risk management	✓	✓
Insurance planning		✓
Tax planning		✓
Estate planning		✓

### 2. Cognitive Levels\*

The cognitive levels that are tested in the *Foundation Level* are:

- Knowledge/Comprehension
- Application/Analysis
- Synthesis/Evaluation (in very limited subject areas only)

The cognitive levels that are tested in *Level 1* and *Level 2* are:

- Knowledge/Comprehension
- Application/Analysis
- Synthesis/Evaluation

\*Please refer to the Syllabus – Descriptive Content Coverage for details.

<sup>13</sup> Known as “AFP™ Certification Examination” prior to 2014.

### 3. Balance of Emphasis

*Foundation Level* will test examinees' knowledge, skills and abilities in five discrete subject areas, namely Financial Planning Principles, Financial Management, Retirement Planning, Introduction to Investments and Fundamentals of Insurance.

*Level 1* will test examinees' knowledge, skills and abilities in four discrete subject areas, namely Investment Planning & Asset Management, Insurance Planning & Risk Management, Tax Planning and Estate Planning. Examinees are also expected to demonstrate that they have met the cognitive requirement/learning outcomes as articulated in the examination syllabus for the *Foundation Level*.

*Level 2* will test examinees' knowledge, skills and abilities in integrating all of the financial planning subject areas that are included in the *Foundation Level* and *Level 1*. Questions in the examinations may focus on discrete subject areas, or require integrated knowledge, skills and abilities in several subject areas.

The following table summarizes the subject areas examinable in different levels of the CFP Certification Examinations:

Examination	Subject areas covered	Examination syllabus
Foundation Level	<ul style="list-style-type: none"> <li>■ Financial Planning Principles</li> <li>■ Financial Management</li> <li>■ Retirement Planning</li> <li>■ Investment Planning and Asset Management (Introduction to Investments)</li> <li>■ Insurance Planning and Risk Management (Fundamentals of Insurance)</li> </ul>	Appendix 1
Level 1	<ul style="list-style-type: none"> <li>■ Investment Planning and Asset Management</li> <li>■ Insurance Planning and Risk Management</li> <li>■ Tax Planning and Estate Planning</li> </ul>	
Level 2	Integrated topics of financial planning: <ul style="list-style-type: none"> <li>■ Financial Planning Principles</li> <li>■ Financial Management</li> <li>■ Retirement Planning</li> <li>■ Investment Planning and Asset Management</li> <li>■ Insurance Planning and Risk Management</li> <li>■ Tax Planning and Estate Planning</li> </ul>	

#### **4. Question Format**

All three levels of the CFP Certification Examinations are pencil-and-paper examinations. All questions are presented in a multiple-choice format with four answer options that may include a combination of possible answers.

See Appendix 1 for the examination syllabus that provides information on the question distribution by topics.

#### **5. Update of Rules and Regulations**

From time to time, there will be updates and changes to the laws governing the financial industry as well as rules and requirements of the Institute of Financial Planners of Hong Kong. Examinees taking the CFP Certification Examinations are expected to apply their knowledge of current laws, rules and requirements which, at the time of the examination, have been published or released by the relevant authority for 6 months or longer. This refers to the date such laws, rules and requirements were released and not their effective date.

#### **6. Information Provided in Examination Paper**

An Allowances and Tax Rate Table will be provided in *Level 1* and *Level 2* examinations for reference. Please refer to Appendix 5 for a sample.

#### **7. Sample Examination Questions**

Past examination papers are not released. However, IFPHK has prepared the following sample questions for examinees (Please refer to IFPHK website and the candidates corner for the latest information):

- Standalone Sample Questions for *Foundation Level, Level 1 and Level 2*
- Sample Case and Questions for *Level 2*

For subject areas and topics covered in each examination, please refer to the Examination Syllabus of the CFP Certification Examinations at Appendix 1.



### III. EXAMINATION POLICY

#### 1. Examination Regulations

Examinees should carefully read the latest version of the Examination Regulations sent to them with the Admission Card (provided in Appendix 2 for reference) before attending the examination. Failure to observe any of these regulations may lead to disqualification from the examination. In the event of discrepancies between Appendix 2 and the latest version of the examination regulations sent together with the Admission Card, the latter shall prevail.

Incidences of reported cheating will be investigated by IFPHK. If an examinee is found to have cheated and/or aided or abetted a cheater, or violated any other examination policy, the examinee may be disqualified and he/she will be subject to disciplinary action taken by IFPHK.

Depending on the seriousness of the violation, the examinee may be barred from taking any IFPHK CFP Certification Examinations for a period of one year from the date of the incident, up to a lifetime ban. The IFPHK Examination Committee reserves the right to report the violation to the relevant authorities and professional bodies if necessary. Examination-related disciplinary sanctions on an examinee may be considered by relevant department(s) of IFPHK in processing his/her CFP Certification application, if any, in the future.

#### 2. Examination Scoring

- All examination questions in the CFP Certification Examinations are compulsory.
- Only answers marked on the answer sheet with an HB pencil will be scored. No credit will be given for answers written or noted in the examination question book.
- Select only one answer for each question. Multiple responses to a single question will not be scored. Incompletely erased marks on the answer sheet will be deemed to be multiple responses.
- An examinee's score is based on the number of questions answered correctly. No points will be deducted for wrong answers.
- Only correct answers will earn marks.

#### 3. Pass Score

While questions in the CFP Certification Examinations (Foundation Level), (Level 1), (Level 2) and the Cross Border CFP Certification Examination are developed in accordance with the topics and cognitive requirements in the Examination Syllabus/Syllabus - Descriptive Content Coverage for that particular examination, the difficulty level of any one examination is likely to vary slightly from previous examinations because of the different questions used. With the objective of consistent and fair treatment to all the examinees, the standard-setting procedures adopted to determine the pass marks for the CFP Certification Examinations are in line with those established for certification examinations. There is no quota for passing examinees and those who attain the required standard will pass. Because of the procedures adopted, the pass marks for the CFP Certification Examinations may well vary from examination to examination and are therefore not disclosed.

#### 4. Re-examination Policy

Examinees are only required to re-sit the examination in which they failed. There is no limit on the maximum number of re-sit examinations that an individual can take for any one of the examinations.

(To safeguard the integrity and security of examination questions, examinees who have passed an examination will NOT normally be permitted to sit for the same examination again at any time.)

#### 5. Enquiries on Examination

After taking the examination, examinees may complete and file an Examination Enquiry Report/Examination Administration Report (downloadable from IFPHK's website) for either of the following:

- If they believe that an examination question contains an error, they can fill in an **Examination Enquiry Report** and submit the information via mail to IFPHK within 5 calendar days of the examination. The submission will be acknowledged but examinees will not receive a separate response to the submission.
- If they have comments about examination administration, they can fill in and submit an **Examination Administration Report** within 14 calendar days of the examination.

#### 6. Examination Review

For security reasons, examination materials are not available for review. Examinees may however request a hand-scoring of their valid CFP Certification Examination answer sheet if they suspect that it was scored incorrectly. They must complete and file an Examination Review Request Form (downloadable from IFPHK's website) for requesting hand-scoring to IFPHK within 30 calendar days after the release of the examination results to examinees, with a HK\$500 processing fee. Requests made after the 30 days will not be accepted.

The examination review report will be available within 4-6 weeks after the request is received. Please note that the report will only indicate: 1) if there is any difference between hand-scored and machine-scored marks; and 2) if there is any change in examination result status given the hand-scored marks. No information on examination scores or grades is provided in the examination review report. In the event that there is a discrepancy between the hand-scored and machine-scored results, hand-scored results will prevail and the full processing fee will be refunded.

Examinees should bear in mind that the closing date for registration for the next examination may be before the date of the examination review report provided by IFPHK.

#### 7. Notice Relating to the Personal Data (Privacy) Ordinance

Individuals are advised to read the Notice Relating to the Personal Data (Privacy) Ordinance in Appendix 3 to understand their rights and obligations in respect of the supply of personal data to IFPHK, and the ways in which IFPHK may use or handle such data.

## **8. Non-discrimination Policy**

IFPHK observes anti-discrimination laws in force in Hong Kong and adopts policies and procedures to ensure fair and equitable treatment of all individuals in the examination process.

IFPHK will endeavour to make reasonable accommodation for examinees who, because of disability, will need special arrangements in order to be able to sit for the CFP Certification Examinations. Such examinees are required to provide proof from a qualified physician as to the nature of their disability, and the arrangements needed.

## **9. Reservation of Right to Cancel Examination**

IFPHK may decide to change the date, time, conditions of the administration of the examination(s) or cancel the administration of the examination(s), either entirely or of a particular examination, if IFPHK in its sole discretion decides that any such action is necessary to protect the integrity of the CFP Certification Examinations, or because administration of the examination is hindered by any cause that could not be reasonably prevented by IFPHK, including but not limited to fire, flood or other natural disasters.

## **10. Amendments**

IFPHK reserves the right to make changes to the examination regulations, the Syllabus - Descriptive Content Coverage, the examination syllabus, subject areas, topic coverage and any other information presented in this examination handbook when necessary.

## IV. REGISTRATION PROCEDURES

### 1. Application

#### 1.1 Eligibility

Before applying for the CFP Certification Examinations, individual must register as a Candidate with IFPHK and hold a valid candidacy which should be renewed annually with IFPHK. For details of Candidacy Registration, please visit IFPHK's website.

To sit for the CFP Certification Examinations, examinees must have passed and fulfilled the respective education requirements of the Certification Education Program with all the required supporting documents as stipulated in the application form / website in hand before submitting any examination application.

Individuals with certain academic qualifications and professional credentials are considered as having fulfilled the education requirement and may challenge the CFP Certification Examinations directly. However, the challenge status of these individuals must first be assessed by IFPHK during the Candidacy Registration and before they apply for any examination. An assessment fee will apply to challenge status candidates in addition to the candidacy fee.

To sit for the Cross-Border CFP Certification Examination, examinees must provide to IFPHK (i) proof of residency in Hong Kong; (ii) a letter of good standing from the FPSB Affiliate in the Home Territory and other relevant documents as suggested in the application form.

#### 1.2 Submission of Application

After successful registration of candidacy, examinees who have completed the pre-requisite education courses or have been approved to challenge the specific examination may use their login names and passwords to enrol for the examination online through IFPHK's website.

Alternatively, examinees may apply for the examination by completing an application form, which is available on IFPHK's website during application period. The application form is printed in 2 different languages. Examinees are required to fill out the form in the language that corresponds with their desired examination language. They must submit the completed form by mail or in person. The IFPHK will NOT be responsible for the loss of application forms and documents sent by mail, or postal packets with insufficient postage.

Completed applications with supporting academic records (attendance certificate or assessment result) must be received by the application deadline. Applications submitted after the deadline will not be accepted and incomplete applications will not be processed. An acknowledgement of receipt will be sent to examinee's email address.

Examinees for Cross-Border Examination can skip the candidacy registration and submit their examination applications directly.

#### 1.3 Application Deadline

The application deadline for each examination is approximately 6-8 weeks prior to the examination date. The exact deadline will be provided on the IFPHK website.

## 2. Payment

### 2.1 Examination Fee

- *Foundation Level*<sup>14</sup>: HK\$2,000
- *Level 1*: HK\$2,500
- *Level 2*: HK\$2,500
- *Cross-Border*: HK\$2,500  
(Note: IFPHK reserves the right to cancel the Cross-Border CFP Certification Examination at its own discretion if less than 15 examinees register)

### 2.2 Pre-examination Assessment Fee

#### 2.2.1 Challenge Status

The assessment fee will be charged during the Candidacy Registration or during the re-assessment for the updating of candidacy status.

#### 2.2.2 Cross-Border CFP Certification Examination

There is no pre-examination assessment fee for examinees applying for the Cross-Border CFP Certification Examination.

### 2.3 Payment Method

The examination fee of online examination enrolment will be paid via Credit Card during the time of submission of application. For application submitted by application form, the examination fee will be paid by one of the following methods:

- Credit Card; or
- Cheque (payable to the “Institute of Financial Planners of Hong Kong Limited” or “IFPHK Ltd”)

### 2.4 Refund / Withdrawals Policy

- Examination fee is non-transferable.
- No refund of any examination fee will be made for withdrawals.
- Absence from the examination will result in a forfeiture of the entire examination fee.
- Examinees must meet the pre-requisite education requirements before submitting their examination applications. An administration fee of \$300 per examination will be incurred for unqualified applications which do not fulfill the pre-requisite requirements for enrolling in any specific certification examinations.

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<sup>14</sup> Known as “AFP<sup>TM</sup> Certification Examination” prior to 2014.

### 2.5 Medical or Other Emergencies

In case of medical or other emergencies, examinees may apply for a waiver of the examination fee forfeiture if the following conditions are met:

- the request must be made in writing and supported by appropriate documentation (original copy) such as a physician's letter; and
- the request must be received within 10 calendar days following the examination date.

If the request for waiver of the examination fee forfeiture is accepted, examinees may be granted with a ONE-TIME deferral arrangement to next available examination subject to the settlement of an administration fee of HK\$500.

## 3. Examination Correspondence

### 3.1 Application Result Notice

- The examination application result will be sent by email to applicants at least THREE WEEKS before the examination.
- If the application is approved, a confirmation email will be sent from IFPHK indicating that the examinee is qualified to sit for the CFP Certification Examinations under the applied category. This confirmation email from IFPHK serves as official proof of examination candidacy.
- If the application is rejected because the applicant does not meet the requirements for sitting the Certification Examinations, the examinee will need to submit a new application with appropriate fees to sit for subsequent examinations.

### 3.2 Personal Particulars

- Examinees may login to IFPHK's website to update their contact information online (except for email address which is used as the login name).
- If there is any wrong information on the name, gender, date of birth or identification document number, examinees must notify IFPHK immediately by submitting a complete Change of Personal Particulars Form and appropriate supporting documents (such as HKID copy) via email or fax or mail for correction of the data. The Change of Personal Particulars Form can be downloaded from IFPHK website.
- For the purpose of issuing examination admission card, examinees are required to provide IFPHK their latest information no later than 15 days before the examination. IFPHK will prepare the admission card with the records kept on its database at the time of two weeks before the examination.
- Failure to provide IFPHK the latest information by the stated deadline with which requires the re-issuance of admission card subsequently will incur administrative charges of HK\$300 to the examinee.

### 3.3 Admission Card

- If the examination application is approved, an admission card will be mailed to the examinee at least TEN DAYS before the examination.
- The admission card will include the exact time and location of the examination.
- Examinees should carefully examine their admission card and notify IFPHK immediately by fax or email of any problems at least FIVE DAYS before the examination.
- If qualified examinees do not receive the admission card FIVE DAYS before the examination, they should contact IFPHK immediately. Examinees will not be permitted entry to the examination hall without an admission card and valid identification.

## V. RESULTS AND CERTIFICATES

### 1. Examination Results

- Examination results are normally available within SIX WEEKS after the examination. Examinees can go to IFPHK's website and check their results online. A notification email will be sent to examinees to notify them the release of examination results.
- The CFP Certification Examinations are graded PASS or FAIL. Failed examinees are provided with individual examinee performance analysis reports to help them improve their performance when they re-sit the examination.
- Examinees who are unable to attend the examination will be regarded as ABSENT.
- The IFPHK may at its discretion award examinees who have attained high scores in an examination with a score award.
- To protect the privacy of examinees and to maintain confidentiality of examination results, no result information will be released over the telephone, nor will they be faxed.

### 2. Statement of Result

Examinees who wish to obtain an official printout of CFP Certification Examination Result(s) can apply by filling out and submitting the Statement of Result Request Form. An administration fee of HK\$150 will be charged for each request. It normally takes two weeks to process the application. The Statement of Result Request Form can be downloaded from IFPHK website.



## APPENDIX 1: Information on Examination Papers and Examination Syllabus

### Part 1: EXAMINATION QUESTION DISTRIBUTION

Number of questions and percentage distribution by broad subject area\*:

	Foundation Level <sup>15</sup>	Level 1	Level 2	
Duration	3 hours	3 hours	3 hours	
Number of multiple-choice examination questions (MCQs)	90 – 100 MCQs	75 – 85 MCQs	65 – 75 MCQs (about 40% are standalone MCQs and about 60% are case-related questions based on 2 to 3 cases)	
Distribution of examination question by subject areas:				
Subject Area	Percentage (%) in Examination	Percentage (%) in Examination	Standalone MCQs	Case-related MCQs
A. Financial Planning Principles	27%	--	18%	60% (Integrated topics of financial planning)
B. Financial Management	23%	--	10%	
C. Retirement Planning	10%	--	12%	
D. Investment Planning/Asset Management	20%	31%	--	
E. Insurance Planning/Risk Management	20%	31%	--	
F. Tax Planning	---	20%	--	
G. Estate Planning	---	18%	--	
	100%	100%	100%	

\*This table is for reference only. The Institute of Financial Planners of Hong Kong may change the table from time to time.

<sup>15</sup> Known as "AFP™ Certification Examination" prior to 2014.

## Part 2: Examination Syllabus

The below Examination Syllabus must be read together with the [Syllabus - Descriptive Content Coverage](#) for a more complete view of the indicative number of questions for each topic in the relevant CFP Certification Examination, the subtopics under each main topic, and the cognitive requirement/learning outcomes for the various subtopics. The [Syllabus - Descriptive Content Coverage](#) can be found in the Study Guide made available to students who enroll in the CFP Certification Education Program/AFP Certification Education Program.

The below Examination Syllabus indicates in the three right hand columns the possible number of Multiple Choice Questions that may be examined under each topic. The number of Multiple Choice Questions is not provided for the CFP Certification Examination (Level 2) as it is an examination that covers integrated topics and consists of individual questions as well as case-related questions.

Information on the number of Multiple Choice Questions for each CFP Certification Examination is for general indicative reference only. IFPHK has the discretion to modify the number of Multiple Choice Questions without prior notice.

Subject Area <sup>ψ</sup>	Topic number (TN)	Topic <sup>π</sup>	No. of Multiple Choice Question(s)		
			Foundation Level <sup>16</sup>	Level 1	Level 2
FPP	1	Step 1 of the Financial Planning Process – Establishing and defining the relationship with a client	1-3	--	Synthesis Of All topics
FPP	2	Step 2 of the Financial Planning Process - Gathering client data	1-3	--	
FPP	3	Step 3 of the Financial Planning Process - Analysing and evaluating the clients' financial status	1-3	--	
FPP	4	Step 4 of the Financial Planning Process - Developing and presenting the financial planning recommendations	1-3	--	
FPP	5	Step 5 of the Financial Planning Process - Implementing the financial planning recommendations	1-3	--	
FPP	6	Step 6 of the Financial Planning Process - Monitoring	1-3	--	
FPP	7	Regulatory requirements for AFP certificants and CFP certificants	1-2	--	
FPP	8	Ethical and professional considerations in financial planning	2-3	--	

<sup>ψ</sup> FPP - Financial Planning Principles ; FM - Financial Management  
 INS - Insurance Planning and Risk Management ; RET - Retirement Planning  
 INV - Investment Planning and Asset Management ; TAX - Tax Planning  
 EST - Estate Planning

<sup>π</sup> Please refer to the "Syllabus - Descriptive Content Coverage" for sub-topic details.

<sup>16</sup> Known as "AFP<sup>TM</sup> Certification Examination" prior to 2014.

Subject Area <sup>ψ</sup>	Topic number (TN)	Topic <sup>π</sup>	No. of Multiple Choice Question(s)		
			Foundation Level	Level 1	Level 2
FPP	9	Assessment of risk and client behavior	1-3	--	Synthesis Of All Topics
FPP	10	Financial planning for special needs	2-3	--	
INV	11	Economic environment and indicators	2-4	--	
FM	12	Calculate and interpret the time value of money	5-6	--	
FM	13	Asset valuation for financial planning functions	1-2	--	
FM	14	Forms of business ownership in Hong Kong	1-3	--	
---	15	Ways of taking title to property (embedded under Topic Number 85)			
FPP	16	Legal aspects of financial planning	1-3	--	
FM	17	Budgeting	1-3	--	
FM	18	Personal use-asset management	2-4	--	
INS	19	Principles of insurance	2-4	1-3	
INS	20	Identification of life, health, homeowners, auto and other property and liability risk exposures	2-4	2-3	
INS	21	Legal aspects of insurance	2-3	1-3	
INS	22	Insurance industry regulation	2-3	--	
INS	23	Property and liability policy analysis	--	4-6	
INS	24	Policy analysis	0-1	2-4	

<sup>ψ</sup> FPP - Financial Planning Principles ; FM - Financial Management  
 INS - Insurance Planning and Risk Management ; RET - Retirement Planning  
 INV - Investment Planning and Asset Management ; TAX - Tax Planning  
 EST - Estate Planning

<sup>π</sup> Please refer to the "Syllabus - Descriptive Content Coverage" for sub-topic details.

Subject Area <sup>ψ</sup>	Topic number (TN)	Topic <sup>π</sup>	No. of Multiple Choice Question(s)		
			Foundation Level	Level 1	Level 2
INS	25	Life insurance policy analysis	5-6	2-4	Synthesis Of All Topics
INS	26	Annuity policy analysis	2-3	1-2	
INS	27	Health insurance policy analysis	2-4	--	
---	28	Taxation of insurance products (Deleted)			
INS	29	Selecting Insurance Companies and Agencies	1-2	--	
---	30	Client Assessment (embedded in other topics)			
---	31	Marketability/liquidity (embedded in other topics)			
INV	32	Types of investment risks	2-4	1-2	
INV	33	Measurement of risk	1-2	1-2	
INV	34	Influence of time on investment risk	1-3	1-2	
FPP	35	Government regulation of securities and markets	2-3	--	
INV	36	Investment vehicles	3-5	2-3	
FM/INV	37	Types and measures of investment returns <sup>#</sup>	3-5	2-3	
FM/INV	38	Bond and stock valuation methods <sup>#</sup>	3-5	1-2	
INV	39	Portfolio performance measurement	--	2-3	
INV	40	Formula investing	0-1	1-2	

<sup>ψ</sup> FPP - Financial Planning Principles ; FM - Financial Management  
 INS - Insurance Planning and Risk Management ; RET - Retirement Planning  
 INV - Investment Planning and Asset Management ; TAX - Tax Planning  
 EST - Estate Planning

<sup>π</sup> Please refer to the "Syllabus - Descriptive Content Coverage" for sub-topic details.

<sup>#</sup> This Topic Number categorized as Financial Management (FM) for the purposes of the CFP<sup>CM</sup> Certification Examination (Foundation Level).

Subject Area <sup>ψ</sup>	Topic number (TN)	Topic <sup>π</sup>	No. of Multiple Choice Question(s)		
			Foundation Level	Level 1	Level 2
INV	41	"Active" and "passive" strategies	0-1	1-3	Synthesis Of All topics
INV	42	Leverage and use of borrowed funds for investing	1-2	--	
INV	43	Hedging and options strategies	1-3	2-4	
INV	44	Asset allocation: active and passive	--	1-3	
INV	45	Pricing models	--	2-4	
INV	46	Efficient market hypothesis (EMH)	--	2-3	
INV	47	Investment vehicles match to client	2-4	2-3	
---	48	Tax impact on time value analysis of investment (Deleted)			
INV	49	International finance and foreign exchange	2-4	--	
TAX	50	Ethical considerations in tax planning	--	0-1	
TAX	51	Income tax fundamentals	--	3-5	
TAX	52	Tax compliance matters	--	2-3	
TAX	53	Taxation terminology	--	1-2	
TAX	54	International tax planning	--	0-1	
TAX	55	Tax calculations and special rules	--	1-3	
TAX	56	Tax accounting	--	0-1	

<sup>ψ</sup> FPP - Financial Planning Principles ; FM - Financial Management  
 INS - Insurance Planning and Risk Management ; RET - Retirement Planning  
 INV - Investment Planning and Asset Management ; TAX - Tax Planning  
 EST - Estate Planning

<sup>π</sup> Please refer to the "Syllabus - Descriptive Content Coverage" for sub-topic details.

Subject Area <sup>ψ</sup>	Topic number (TN)	Topic <sup>π</sup>	No. of Multiple Choice Question(s)		
			Foundation Level	Level 1	Level 2
TAX	57	Tax characteristics of business forms	--	2-4	Synthesis Of All topics
---	58	Tax-related write-off concepts (Deleted)			
TAX	59	Tax management and planning techniques	--	2-3	
TAX	60	Non-taxable transactions	--	0-1	
---	61	Interest and penalty taxes and other charges (embedded under other topics)			
---	62	Tax pitfalls (embedded under other topics)			
INS	63	Social benefits	--	0-1	
---	64	Ethical considerations in retirement planning and employee benefits (embedded under other topics)			
RET	65	Types of retirement plans	2-4	--	
RET	66	Qualified plan characteristics	2-4	--	
---	67	Distributions and distributions options (embedded under other topics)			
RET	68	Retirement needs analysis	2-4	--	
RET	69	Recommendation of the most appropriate type of retirement plan	1-3	--	
---	70	Suitability of an investment portfolio for a qualified plan situation (embedded under other topics)			
INS	71	Life, medical and disability plans in employee benefit programs	--	2-4	
INS	72	Statutory employee benefits	--	1-3	

<sup>ψ</sup> FPP - Financial Planning Principles ; FM - Financial Management  
 INS - Insurance Planning and Risk Management ; RET - Retirement Planning  
 INV - Investment Planning and Asset Management ; TAX - Tax Planning  
 EST - Estate Planning

<sup>π</sup> Please refer to the "Syllabus - Descriptive Content Coverage" for sub-topic details.

Subject Area <sup>ψ</sup>	Topic number (TN)	Topic <sup>π</sup>	No. of Multiple Choice Question(s)		
			Foundation Level	Level 1	Level 2
INS	73	Business applications of individual life and disability insurance	--	0-1	Synthesis Of All topics
EST	74	Estate planning overview	--	3-5	
---	75	Estate planning pitfalls and weaknesses (embedded under other topics)			
EST	76	Will as a method for property transfer at death	--	1-3	
---	77	Estate planning documents (embedded under other topics)			
EST	78	Probate	--	2-3	
---	79	Liquidity planning (embedded under other topics)			
EST	80	Powers of appointment in estate planning	--	1-2	
EST	81	Features of trusts	--	1-3	
---	82	Taxation of trusts and estates (Deleted)			
EST	83	Life insurance for estate planning	--	0-1	
EST	84	Gifts and charitable contributions	--	0-1	
EST	85	Intra-family property transfers	--	1-2	
EST	86	Planning for incapacity	--	1-2	
EST	87	Special topics in estate planning	--	0-1	

<sup>ψ</sup> FPP - Financial Planning Principles ; FM - Financial Management  
 INS - Insurance Planning and Risk Management ; RET - Retirement Planning  
 INV - Investment Planning and Asset Management ; TAX - Tax Planning  
 EST - Estate Planning

<sup>π</sup> Please refer to the "Syllabus - Descriptive Content Coverage" for sub-topic details.



## **APPENDIX 2: CFP<sup>CM</sup> Certification Examination Regulations (Version 17.1)**

### **I. Misconduct**

An examinee may be subject to disciplinary sanctions, including but not limited to being disqualified from the examination and/or being permanently barred from taking the IFPHK CFP<sup>CM</sup> Certification Examinations if he or she:

1. cheats or attempts to cheat in whatever manner;
2. improperly obtains knowledge of an examination book prior to the examination;
3. copies from notes, books, electronic or other devices not allowed to be brought into the examination hall, or from the work of another person during the examination;
4. takes the examination on behalf of or in the name of another person or allows another person to take the examination on his/her behalf (Note: Impersonation is a criminal offence liable to prosecution);
5. communicates or attempts to communicate whether via telephone, the internet, in person or other any means with any person other than invigilators inside or outside the examination hall during the examination in any manner whatsoever;
6. takes away, or attempts to take away from the examination hall any examination materials such as the examination book or any pages from it, the answer sheets or any other examination materials including examination questions in any form whatsoever;
7. reveals specific questions in the examination to parties not authorized by the IFPHK to receive such information;
8. possesses any Non-allowable Items at his or her examination seat during the examination;
9. does anything or has on the body or at the seat or at the designated area for personal belongings any item, device or thing which causes disturbance or distraction to other examinees or disruption to the examination;
10. fails to follow the General Rules and Regulations or the instruction of the Presiding Officer or invigilators in the examination.

Note: CFP Certification Examination-related disciplinary sanction(s) on an examinee may be considered by relevant department(s) of IFPHK in processing his/her AFP/CFP Certification application, if any, in the future.

### **II. General Rules and Regulations**

1. Only examinees with valid proof of identity, namely, i) the admission card with ii) a current and valid photo identification card issued by the government (or a valid passport) will be admitted to the examination hall.
2. Examinees are allowed to bring only Allowable Items (see "List of Allowable Items") to their examination seats. Items not on this list are Non-allowable Items and must not be brought to the examination seat for any reason whatsoever.
3. Calculators brought to the examination seats must be on the list of calculators approved by IFPHK (see "List of Authorized Calculators"). Examinees must clear all the memory of their programmable calculators prior to entering the examination hall.
4. All items brought into the examination hall are subject to inspection by invigilators.
5. Examinees are not allowed to deface or write on the Admission Card before the examination or during the examination.

6. Examinees must sit according to their designated seat numbers and remain seated quietly at all times unless otherwise approved/instructed by an invigilator.
7. Once admitted into the examination hall, examinees must follow strictly the instructions of the invigilators until dismissed. In general, once admitted, examinees may only leave the examination hall after the start of the examination within the permitted times.
8. Once seated in their examination seats, examinees will not be permitted to access their personal belongings and Non-allowable Items in the designated area until the end of the examination.
9. Only essential stationery as defined in the "List of Allowable Items", authorized calculator (without cover), admission card and identity card/passport are allowed to be placed on examinees' desk. These items must remain on the desk and must be clearly visible. All other Allowable Items must be placed on the floor beneath examinees' chairs.
10. All examination materials are the property of IFPHK. Examinees must not damage any examination materials and/or remove them from the examination hall.
11. No examinee will be admitted to the examination hall 30 minutes after the scheduled starting time of the examination.
12. No examinee will be permitted to leave the examination hall during the first 60 minutes after the start of the examination and during the final 15 minutes before the end of the examination.
13. Examinees must not unseal or open an examination book or start working on the examination before being instructed to do so. Examinees must not continue working on the examination after being told to put pens down at the end of the examination.
14. Only answers marked on the answer sheet with an HB pencil will be scored. Multiple responses to a single question will not be scored.
15. No eating, gum-chewing or smoking is allowed at any time in the examination hall.
16. Examinees must not give/receive assistance to/from person(s) other than the invigilator(s) during the examination.
17. Examinees must sign the following pledge on the cover of the examination book:  
*I confirm that: (a) I have read, understood and agreed to be bound by the Examination Regulations as set out by IFPHK; (b) I acknowledge IFPHK's copyright in all examination materials and will not reproduce them in any form whatsoever; and (c) I will not give/receive any assistance to/from person(s) other than the invigilator(s) during the examination.*
18. Examinees must read and agree to be bound by these Examination Regulations before examination.
19. Examinees must read and agree to be bound by IFPHK examination-related policies including the arrangements with regard to typhoon and black rainstorm signals before the examination.
20. These Examination Regulations and examination related-policies are subject to change by IFPHK without notice.
21. On all matters concerning the interpretation of the Examination Regulations and examination related-policies, the decision of IFPHK shall be final.

#### List of Authorized Calculators

Brand	Model
Casio :	FC100 / FC200 / FC100V / FC200V
Hewlett Packard :	10B / 10BII / 12C / 12C Platinum
Texas Instrument :	BA II Plus / BA II Plus Professional

**List of Allowable Items**

- identity card/passport
- arrival card issued by the Hong Kong government (where the examinee is not a Hong Kong resident/passport holder).
- admission card (does not include IFPHK letter or envelope)
- essential stationery: pencil, pencil sharpener, rubber, correction fluid, ruler, pen and highlighter. Items not listed are deemed to be non-essential stationery. Non-essential stationery is not allowed and it includes but is not limited to: any type of boxes, cases, non-transparent bags, correction tapes, or paper or similar material of any sort (scratch paper, note pads, note strips (whether adhesive or not), and items of essential stationery that contain any of the foregoing).
- authorized calculators (without cover) and calculator batteries
- wallet (money purse)
- noiseless wrist-watches without internet or bluetooth connectivity functionality
- eyeglasses
- plain eyeglasses cleaning cloth without marking or pattern
- earplugs
- pure drinking water in a transparent (coloured or colourless) plastic bottle
- tissues
- necessary medicines\*
- small colour or colourless transparent bag (not exceeding the size of 30cm x 21cm)

Remarks: Examinees are NOT allowed to bring mobile phones (even if switched off) to their examination seats.

\* To avoid administrative issues or disputes during the examination and to facilitate the making of appropriate arrangements (if necessary), examinees who need to bring medicines such as tablets, capsules, lozenges, linctus, liquids, sprays, inhalers and the like to their examination seats should report to the Help Desk as soon as possible and before entering the examination hall for administrative processing. Examinees who need to bring any other types of medically-necessary items or things are strongly advised to notify IFPHK well before the exam and as early as possible on the nature of such items required. Please also refer to IFPHK's non-discrimination policy in the examination handbook.

**Arrangements with regard to Information on typhoon and black rainstorm signals**

1. If the typhoon signal No.8 (or above) or black rainstorm signal is still hoisted or remains in force after 8:00 a.m., the morning section of the examination on that day will be rescheduled.
2. If the typhoon signal No.8 (or above) or black rainstorm signal is still hoisted or remains in force after 12:30 p.m., the afternoon section of the examination on that day will be rescheduled.
3. If a typhoon signal No.8 (or above) or black rainstorm signal is hoisted while the examination is in progress, the examination will continue until the scheduled time is up.
4. On the scheduled day of the examination, examinees should pay attention to public announcements if they have any doubts regarding the examination arrangement.
5. If an examination is rescheduled due to typhoon and/or rainstorm, IFPHK will notify examinees of the new date and time of the examination within 1 week of the original scheduled examination date. Examinees in such case are not required to re-register. Applications for refund and/or transfer of the examination fee(s) will NOT be accepted.
6. IFPHK reserves the right to postpone and/or cancel an examination at its own discretion under extraordinary circumstances for the purpose of protecting the safety of examinees and/or the integrity of the examination.

### Explanatory Notes to Examination Regulations

The purpose of the following Explanatory Notes is to help examinees to understand the Examination Regulations of the IFPHK CFP Certification Examinations:

1. Examinees must ensure that they attend the enrolled examination at the scheduled examination time and venue.
2. Examinees are allowed to bring only items on the “List of Allowable Items” to their examination seats. It is examinees’ responsibility to ensure that they have such Allowable Items as they may need in the examination.
3. The “List of Authorized Calculators” and “List of Allowable Items” will be updated by IFPHK from time to time. The latest version of the Lists will be sent to the examinees with the Admission Card (provided in Appendix 2 for reference).
4. Passports brought into the examination hall are subject to inspection by invigilators. Examinees should make sure that no examination-related information is printed/written on the passport. Examinees must not flip open the passport during the examination.
5. All items brought into the examination hall are subject to inspection by invigilators. Invigilators have the right to remove Non-allowable Items from examinees and to inspect and/or make a record of such items. Examinees will not have access to such items during the examination. Non-allowable Items refer to any item not listed under the “List of Allowable Items”. Examples of Non-allowable Items include: mobile phones (even if switched off), smart watches, activity trackers or similar devices,, any bag other than the small transparent bag described under the List of Allowable Items, food, paper of any sort (including but not limited to scratch paper, note pads, note strips whether adhesive or not, and IFPHK letter or envelope), clocks, calculators other than authorized calculators, detachable calculator covers, textbooks, notes, dictionaries, electronic diaries, personal data assistants, cameras, computers, listening devices, recording devices, photographic devices, any devices which produce any sound or noise.
6. Possession of and/or the use of unauthorized items is a violation of IFPHK’s Examination Regulations and will result in disciplinary actions including disqualification and being barred from taking the CFP Certification Examinations.
7. Examinees are strongly advised to leave their mobile phones and valuable personal belongings at home. An area inside or outside the away from examination hall, if available, will be designated for examinees’ personal belongings; however IFPHK will NOT be responsible for the loss, theft or damage of personal property left in that area.
8. Failure by the invigilators to detect an unauthorized item prior to the start of the examination does not imply that the item is an allowable item or that the examinee who possesses the item will not be subject to disciplinary actions.
9. No timing device will be provided in the examination hall, examinees should keep the time using their own noiseless wrist-watches. The Presiding Officer will make announcements on the official starting and ending times of the examination.
10. Announcements made by the Presiding Officer during the examination will be in English and supplemented in Cantonese.
11. No scratch paper will be provided during the examination; scratch work and calculations should be done on the examination book.
12. All examination materials, including but not limited to examination books and answer sheets, are the property of IFPHK. Examinees must not tear off any page from the examination book or remove any examination material from the examination hall. By taking the examination, examinees are also deemed to acknowledge IFPHK’s intellectual property rights in all examination materials and should not copy and/or reproduce and/or create derivative works from them. IFPHK reserves the right to take legal action against any examinee who removes any examination material and/or reproduces any part of it in any manner or form whatsoever.

13. To protect the integrity of examination questions, examinees are prohibited at all times from revealing the detailed content of examination questions to avoid misrepresentation to parties not involved in the examination. IFPHK reserves the right to take appropriate action against persons who infringe the copyright and/or other intellectual property rights in the examination questions, such actions include but are not limited to being barred from taking the examination, or any other appropriate civil and/or criminal legal action.
14. Examinees are recommended to report to IFPHK if they are requested by any unauthorized parties to reveal specific examination questions (as opposed to a general impression of the examination).
15. Examinees will not receive any assistance from invigilators with regard to examination questions, the borrowing of stationery/calculators or the repairing of such items. Since examinees are, once they have been admitted into the examination hall, generally not allowed to leave, they must ensure that they have the Allowable Items that they might need for the examination before they enter the examination hall.
16. Should any discrepancy and/or inconsistency exist between the Examination Regulations and the Explanatory Notes and IFPHK's examination-related policies, the Examination Regulations shall prevail.
17. Should any discrepancy and/or inconsistency exist between the English and Chinese versions of the Examination Regulations, the English version shall prevail.

### **APPENDIX 3: NOTICE RELATING TO THE PERSONAL DATA (PRIVACY) ORDINANCE ("THE ORDINANCE")**

This notice is to help individuals understand their obligations and rights in respect of the supply of their personal data to IFPHK, and the way in which IFPHK may use or handle such data.

1. Examinees are required to keep IFPHK informed of any changes in their personal data once they enrolled as examinees for an examination, and until such time as they have received notification of their examination result.
2. IFPHK will use supplied personal data for the following purposes:
  - i. administering the examination;
  - ii. delivering information about the examination;
  - iii. releasing information to the relevant third parties for the conduct and/or administration of the examination;
  - iv. maintaining examinees' record;
  - v. distributing examination results to examinees concerned;
  - vi. informing examinees of any courses, examinations, products or services which IFPHK believes may be of interest to them;
  - vii. research or statistical analysis; and
  - viii. any other related purposes.
3. IFPHK will keep the personal data of examinees confidential. Nevertheless, IFPHK may, as permitted by law, compare, match, transfer or exchange such data with related data already in IFPHK's possession or obtained at any time.
4. Examinees have the right to request access to or correction of any personal data provided as per the manner and limitations prescribed under the Ordinance. In this connection, the papers and documents used by examinees in an examination will be confidentially destroyed immediately after the purposes for which they are held have been fulfilled.
5. As permitted under the Ordinance, IFPHK has the right to charge a reasonable fee for the processing of any data access request.
6. Examinees who wish to make a data access/correction request, or to modify their consent with regard to personal data supplied, or to enquire about the handling of personal data by IFPHK may write to the Operations Department of IFPHK.

## **APPENDIX 4: CROSS-BORDER EXAMINATION**

For a CFP Certificant who was first certified in territories other than Hong Kong, and wishes to display the CFP Marks while delivering, directly supporting or supervising the financial planning process or to hold himself or herself out as a CFP professional in Hong Kong, he or she will need to pass the Cross-Border Examination designed to assess examinees' understanding of Hong Kong local laws and regulations in relation to financial planning practice in Hong Kong.

### **1. Language of Examination**

The examination paper is set in three languages: English, Traditional Chinese and Simplified Chinese (depending on examinees' preference). The examination questions of these three versions are the same, and examinees can choose to take the exam in ONE of the languages. They are required to confirm their examination language when submitting their examination application. No change of the examination language is allowed after the examination application is received by IFPHK.

### **2. Duration**

The examination time of the Cross-Border Examination is 3 hours.

### **3. Question Format and Grading**

The Cross-Border Examination is a pencil-and-paper examination. All examination questions will be set in multiple-choice format with 4 answer options that may include a combination of possible answers. The examination consists of 75-85 multiple choice questions, each carrying equal marks.

### **4. Frequency**

The examination is scheduled to be held once a year subject to demand.<sup>δ</sup>

### **5. Re-examination and Time Limit**

There is no limit on the maximum number of re-sit examinations that one examinee can take.

### **6. Information Provided in Examination Paper**

An Allowances and Tax Rate Table will be provided in the Cross-Border Examination for reference. Please refer to Appendix 5 for a sample.

### **7. Examination Policy**

Unless otherwise stated, all examination policy as stated in the Examination Handbook applies to examinees for the Cross-Border Examination. Examinees should carefully read the examination regulations in the Appendix before attending the examination. Failure to observe any of these regulations may lead to disqualification from the examination.

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<sup>δ</sup> IFPHK reserves the right to cancel the Cross-Border Examination at its discretion if less than 15 examinees register.

## 8. Syllabus

Subject Area <sup>ψ</sup>	Topic number (TN)	Topic*	Questions Distribution
FPP	7	Regulatory requirements for AFP certificants and CFP certificants	5.0%
FPP	8	Ethical and professional considerations in financial planning	
FM	14	Forms of business ownership in Hong Kong	5.0%
FPP	16	Legal aspects of financial planning	5.0%
INS	21	Legal aspects of insurance	12.5%
INS	22	Insurance industry regulation	
FPP	35	Government regulation of securities and markets	10.0%
TAX	51	Income tax fundamentals	22.5%
TAX	52	Tax compliance matters	
TAX	53	Taxation terminology	
TAX	54	International tax planning	
TAX	55	Tax calculations and special rules	
TAX	56	Tax accounting	
TAX	57	Tax characteristics of business forms	
TAX	59	Tax management and planning techniques	
TAX	60	Non-taxable transactions	
RET	66	Qualified plan characteristics	17.5%
INS	72	Statutory employee benefits	5.0%
EST	74	Estate planning overview	17.5%
EST	76	Will as a method for property transfer at death	
EST	78	Probate	
EST	80	Powers of appointment in estate planning	
EST	81	Features of trusts	
EST	83	Life insurance for estate planning	
EST	84	Gifts and charitable contributions	
EST	85	Intra-family property transfers	
EST	86	Planning for incapacity	
EST	87	Special topics in estate planning	

<sup>ψ</sup> FPP - Financial Planning Principles ; FM - Financial Management  
 INS - Insurance Planning and Risk Management ; RET - Retirement Planning  
 INV - Investment Planning and Asset Management ; TAX - Tax Planning  
 EST - Estate Planning

<sup>π</sup> Please refer to the "Syllabus - Descriptive Content Coverage" for sub-topic details.



## APPENDIX 5: SAMPLE OF INFORMATION TO BE PROVIDED IN EXAMINATION PAPER - Allowances and Tax Rate Table (for the year of assessment 2016/17 onwards)<sup>#</sup>

Allowances and Tax Rate Table

1. Allowances							
<u>Year of Assessment</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17 onwards</u>
	\$	\$	\$	\$	\$	\$	\$
Basic Allowance	108,000	108,000	120,000	120,000	120,000	120,000	132,000
Married Person's Allowance	216,000	216,000	240,000	240,000	240,000	240,000	264,000
Child Allowance (For each dependant)							
The 1 <sup>st</sup> to 9 <sup>th</sup> child	50,000	60,000	63,000	70,000	70,000	100,000	100,000
For each child born during the year, the Child Allowance will be increased by	50,000	60,000	63,000	70,000	70,000	100,000	100,000
Dependent Brother or Sister Allowance (For each dependant)	30,000	30,000	33,000	33,000	33,000	33,000	33,000
Dependent Parent and Dependent Grandparent Allowance (For each dependant)							
Parent/grandparent aged 60 or above or qualified parent/grandparent	30,000	36,000	38,000	38,000	40,000	40,000	46,000
Parent/grandparent aged 55 or above but below 60	15,000	18,000	19,000	19,000	20,000	20,000	23,000
Additional Dependent Parent and Dependent Grandparent Allowance (For each dependant)							
Parent/grandparent aged 60 or above or qualified parent/grandparent	30,000	36,000	38,000	38,000	40,000	40,000	46,000
Parent/grandparent aged 55 or above but below 60	15,000	18,000	19,000	19,000	20,000	20,000	23,000
Single Parent Allowance	108,000	108,000	120,000	120,000	120,000	120,000	132,000
Disabled Dependant Allowance (For each dependant)	60,000	60,000	66,000	66,000	66,000	66,000	66,000

2. Table Showing Tax on Net Chargeable Income			
<u>Year of Assessment</u>	<u>2010/11 to 2016/17 onwards</u>		
	Net Chargeable Income	Rate	Tax
	\$		\$
On the First	40,000	2%	800
On the Next	40,000	7%	2,800
	80,000		3,600
On the Next	40,000	12%	4,800
	120,000		8,400
Remainder		17%	
Net Chargeable Income = Income - Deductions - Allowances			

3. Standard Rates of Taxes		
<u>Year of Assessment</u>	<u>Salaries Tax Standard Rate<sup>^</sup></u>	<u>Property Tax Standard Rate</u>
2010/11 to 2016/17 onwards	15%	15%
<sup>^</sup> Tax payable is calculated at progressive rates on your net chargeable income or at standard rate on your net income (before deduction of the allowances), whichever is lower. It is further reduced by the tax reduction, subject to a maximum.		

**Tax Reduction**

<u>Year of Assessment and Applicable Tax Types</u>	<u>% of Tax Reduction</u>	<u>Maximum Per Case (\$)</u>
2010/11 salaries tax and tax under personal assessment	75%	6,000
2011/12 salaries tax, profits tax and tax under personal assessment	75%	12,000
2012/13 & 2013/14 salaries tax, profits tax and tax under personal assessment	75%	10,000
2014/15 salaries tax, profits tax and tax under personal assessment	75%	20,000
2015/16 salaries tax, profits tax and tax under personal assessment	75%	20,000

<sup>#</sup> This is a sample reference only, candidates please refer to [www.ird.gov.hk/eng/tax/ind.htm](http://www.ird.gov.hk/eng/tax/ind.htm) for the most up-to-date information.



# ESSENTIAL READINGS :

CFP<sup>CM</sup> Certification

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT

This **ESSENTIAL READINGS** section aims to give candidates opportunities to test their understanding on different areas of study.

This section is sub-divided into the following three sub-sections:

**Sub-section X: Foundation Level**

- Part X1: Financial Management
- Part X2 Personal Financial Planning
- Part X3 Retirement Planning
- Part X4 Investment Planning
- Part X5 Insurance Planning
- Part X6 Ethical and Regulatory Requirements
- Part X7 Management of a Financial Planning Practices

**Sub-section Y: Level 1**

- Part Y1: Investment Planning and Asset Management
- Part Y2: Insurance Planning and Risk Management
- Part Y3: Tax Planning and Estate Planning

**Sub-section Z: Level 2**

- Part Z: Financial Planning Practice

To understand the coverage of the CFP Certification Examinations, examinees should refer to the Examination Syllabus (Appendix 1 of the Examination Handbook) and the Syllabus - Descriptive Content Coverage (Annex of the Study Guide) for full details of the cognitive requirement, learning outcomes, topic headings and subtopics etc.

This part of the study guide should be used in conjunction with the following required textbooks and other relevant reference materials as illustrated:

Subject Area	Textbook(s)
Financial Planning Principles	<ul style="list-style-type: none"> <li>■ Cheng, <i>Fundamentals of Financial Planning</i>, McGraw Hill Education (Asia), 2006 (IFPHK edition)</li> <li>■ Supplementary Notes for AFP Certification Examination</li> </ul>
Financial Management	<ul style="list-style-type: none"> <li>■ Cheng, <i>Fundamentals of Financial Planning</i>, McGraw Hill Education (Asia), 2006 (IFPHK edition)</li> <li>■ Supplementary Notes for AFP Certification Examination</li> </ul>
Investment Planning and Asset Management	<ul style="list-style-type: none"> <li>■ Bodie, Kane and Marcus, <i>Essentials of Investments</i>, McGraw-Hill/Irwin, 2006 (IFPHK edition)</li> <li>■ Supplementary Notes for AFP Certification Examination</li> </ul>
Insurance Planning and Risk Management	<ul style="list-style-type: none"> <li>■ <i>Fundamentals of Risk and Insurance</i>, John Wiley &amp; Sons (Asia), 2006 (IFPHK edition)</li> <li>■ Supplementary Notes for AFP Certification Examination</li> </ul>
Retirement Planning	<ul style="list-style-type: none"> <li>■ <i>Employee Benefits and Estate Planning</i>, John Wiley &amp; Sons, (Asia), 2007 (IFPHK edition)</li> </ul>
Tax Planning and Estate Planning	<ul style="list-style-type: none"> <li>■ Ayesha Macpherson Lau and Garry Laird, <i>Hong Kong Taxation - Law &amp; Practice</i>,</li> </ul>

	<p>The Chinese University Press, latest edition;</p> <ul style="list-style-type: none"> <li>■ Supplementary note for Taxation and Tax Planning (2015 Edition)</li> <li>■ <i>Employee Benefits and Estate Planning</i>, John Wiley &amp; Sons, (Asia), 2007 (IFPHK edition)</li> </ul>
Integrated topics of financial planning	<ul style="list-style-type: none"> <li>■ All the abovementioned textbooks; plus</li> <li>■ <i>Advanced Financial Planning – Case Analysis and Suggested Approach</i>, IFPHK, 2009</li> </ul>

The textbook order form is downloadable from IFPHK's website.

Examinees may also refer to the following references and website relevant sections on local ordinances, the taxation regime and regulatory framework of the financial services industry:

- AFP Certification Renewal Policy and Guidelines on Continuing Education Requirements
- Candidacy Renewal Policy
- CFP Certification Manual
- CFP Certification Renewal Policy and Guidelines on Continuing Education Requirements
- Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission Securities, SFC
- Code of Ethics and Professional Responsibility
- Disciplinary Rules and Procedures
- Financial Planning Practice Standards
- FPSB Financial Planner Competency profile, FPSB
- Guide to use the AFP Marks
- Guide to use the CFP Marks
- IIQE - Study Notes for the General Insurance Examination (2008 Edition), OCI
- IIQE - Study Notes for the Investment-link Long Term Insurance Examination (2015 Edition), OCI
- IIQE - Study Notes for the Long Term Insurance Examination (2011 Edition), OCI
- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), OCI
- IFPHK Practice Guide for financial Planners, IFPHK
- OCI Annual Report 2009 – Other measures for Customer protection
- Study note for MPF Intermediaries Examination (8th Edition), MPFA
- Department of Justice, Bilingual Laws Information System: [www.legislation.gov.hk](http://www.legislation.gov.hk)
- Hong Kong Monetary Authority: [www.info.gov.hk/hkma/](http://www.info.gov.hk/hkma/)
- Inland Revenue Department: [www.info.gov.hk/ird](http://www.info.gov.hk/ird)
- Mandatory Provident Fund Schemes Authority: [www.mpfahk.org](http://www.mpfahk.org)
- Office of the Commissioner of Insurance: [www.info.gov.hk/oci/](http://www.info.gov.hk/oci/)
- Securities and Futures Commission: [www.sfc.hk](http://www.sfc.hk)
- Officer of the Privacy Commissioner for Personal Data: [www.pcpd.org.hk](http://www.pcpd.org.hk)
- Social Welfare Department: [www.swd.gov.hk](http://www.swd.gov.hk)
- Civil Service Bureau: <http://www.csb.gov.hk>
- Education Bureau: <http://www.edb.gov.hk>

## Part X1 Financial Management

<b>A</b>	<b>Functions of financial management</b>
<b>B</b>	<b>Forms of business</b>
<b>C</b>	<b>Financial statements analysis</b>
<b>D</b>	<b>Personal financial statement analysis</b>
<b>E</b>	<b>Time value of money</b>
<b>F</b>	<b>Application of time value of money</b>
<b>G</b>	<b>Valuation principle</b>
<b>H</b>	<b>Discounted cash flow analysis</b>
<b>I</b>	<b>Advanced topics in discounted cash flow</b>
<b>J</b>	<b>Education funding</b>
<b>K</b>	<b>Financing asset acquisitions</b>

### LEARNING OUTCOMES

After studying this part, you should be able to:

- ☐ describe the three major financial decisions faced by a firm;
- ☐ define the different forms of business organizations;
- ☐ list and describe the financial statements of a corporation;
- ☐ describe and calculate the major financial ratios;
- ☐ describe cash management and liquidity management;
- ☐ understand the concepts of time value of money;
- ☐ apply the principles of time value of money in amortized loans;
- ☐ know the basic valuation principle under no-arbitrage condition;
- ☐ understand and apply basic concepts in discounted cash flow analysis;
- ☐ understand and apply advanced concepts in discounted cash flow analysis;
- ☐ know the general principles of education funding;
- ☐ understand the concepts in home buying and mortgage.

## Essential Readings for Part X1

### A FUNCTIONS OF FINANCIAL MANAGEMENT

- A1 MANAGING SHORT TERM CASH NEEDS ( Syllabus topic 17d )
  - Supplementary Notes for AFP Certification #001
- A2 MAKING LONG TERM INVESTMENT DECISIONS ( Syllabus topic 17d )
  - Supplementary Notes for AFP Certification #002
- A3 MAKING LONG TERM FINANCING DECISIONS ( Syllabus topic 17d )
  - Supplementary Notes for AFP Certification #003

### B FORMS OF BUSINESS

- B1 SOLE PROPRIETORSHIP ( Syllabus topic 14a )
  - Supplementary Notes for AFP Certification #004
- B2 PARTNERSHIP ( Syllabus topic 14b )
  - Supplementary Notes for AFP Certification #005
- B3 CORPORATIONS ( Syllabus topic 14c )
  - Supplementary Notes for AFP Certification #006
- B4 PUBLIC COMPANY ( Syllabus topic 14c )
  - Supplementary Notes for AFP Certification #007

### C FINANCIAL STATEMENTS

- C1 STATEMENT OF FINANCIAL POSITION ( Syllabus topic 13a )
  - Supplementary Notes for AFP Certification #008
  - Essentials of Investments, Ch. 12.1, 12.2
- C2 INCOME STATEMENT ( Syllabus topic 13a )
  - Supplementary Notes for AFP Certification #009
  - Essentials of Investments, Ch. 12.1,
- C3 CASH FLOW STATEMENT ( Syllabus topic 13a )
  - Supplementary Notes for AFP Certification #010
  - Essentials of Investments, Ch. 12.1,
- C4 SOURCES AND USES OF CASH ( Syllabus topic 13a )
  - Supplementary Notes for AFP Certification #011
- C5 RATIO ANALYSIS ( Syllabus topic 13b )
  - Supplementary Notes for AFP Certification #012
  - Essentials of Investments, Ch. 12.3, 12.4 & 12.6

- C6 CORPORATE FINANCIAL PLANNING AND FORECASTING ( Syllabus topic 17d )
- Supplementary Notes for AFP Certification #013

## D PERSONAL FINANCIAL STATEMENT ANALYSIS

- D1 PERSONAL VS. CORPORATE FINANCIAL STATEMENTS ( Syllabus topic 18a, 18b, 18c )
- Supplementary Notes for AFP Certification #014
  - Essentials of Investments, Ch. 12
- D2 DIFFERENCES BETWEEN IFRS AND HOUSEHOLD ACCOUNTING ( Syllabus topic 18a, 18b, 18c )
- Supplementary Notes for AFP Certification #015
- D3 STATEMENT OF FINANCIAL POSITION ( Syllabus topic 18a )
- Fundamentals of Financial Planning, Ch. 4.2, 4.3 (p.98-101) & 13.4 (p.394-395)
- D4 INCOME STATEMENT ( Syllabus topic 18c )
- Fundamentals of Financial Planning, Ch. 13.4 (p.395-396) & 13.6 (p.402-403) (describe the estimation of status quo projections)
- D5 CASH FLOW STATEMENT ( Syllabus topic 18b )
- Fundamentals of Financial Planning, Ch. 4.3 (p.101-105), 7.1 (p.208-210) & 13.4 (p.397-398)
- D6 SOURCES AND USES OF CASH ( Syllabus topic 18b )
- Fundamentals of Financial Planning, Ch. 4.1 & 7.1 (p.209-213)
- D7 RATIO ANALYSIS ( Syllabus topic 18a )
- Fundamentals of Financial Planning, Ch. 4.3 (p.103), 7.1 (p.210-211) & 13.5

## E TIME VALUE OF MONEY

- E1 TIMELINE ( Syllabus topic 12f )
- Supplementary Notes for AFP Certification #016
- E2 COMPOUNDING AND FUTURE VALUE( Syllabus topic 12b )
- Fundamentals of Financial Planning, Ch. 3.1
- E3 DISCOUNTING AND PRESENT VALUE ( Syllabus topic 12a )
- Fundamentals of Financial Planning, Ch. 3.2
- E4 ANNUITIES AND GROWING ANNUITIES ( Syllabus topic 12c )
- Fundamentals of Financial Planning, Ch. 3.4 (p. 53-57)
  - Supplementary Notes for AFP Certification #017
- E5 PERPETUITIES AND GROWING PERPETUITIES ( Syllabus topic 12c )
- Fundamentals of Financial Planning Ch. 3.4 (p. 52-53)
  - Supplementary Notes for AFP Certification #018

- E6 ORDINARY ANNUITY VS. ANNUITY DUE ( Syllabus topic 12c )
  - Fundamentals of Financial Planning, Ch. 3.4 (p. 57-62)
- E7 UNEVEN CASH FLOWS ( Syllabus topic 12c )
  - Fundamentals of Financial Planning, Ch. 3.3
- E8 INTEREST RATE OF THE CASH FLOWS ( Syllabus topic 12c, 12d, 12e )
  - Fundamentals of Financial Planning, Ch. 3.5 & 3.6
- E9 NUMBER OF PERIODS ON THE TIMELINE( Syllabus topic 12 )
  - Supplementary Notes for AFP Certification #019
- E10 USE OF FINANCIAL CALCULATOR ( Syllabus topic 12 )
  - Supplementary Notes for AFP Certification #020
- E11 USE OF SPREADSHEET ( Syllabus topic 12 )
  - Supplementary Notes for AFP Certification #021

## **F APPLICATION OF TIME VALUE OF MONEY**

- F1 TYPES OF INSTALLMENT LOANS ( Syllabus topic 12g )
  - Supplementary Notes for AFP Certification #022
- F2 AMORTIZED LOAN ( Syllabus topic 12g )
  - Supplementary Notes for AFP Certification #023
- F3 AMORTIZED LOAN PAYMENTS AND OUTSTANDING BALANCE ( Syllabus topic 12g )
  - Supplementary Notes for AFP Certification #024

## **G VALUATION PRINCIPLE**

- G1 COSTS AND BENEFITS ANALYSIS ( Syllabus topic 13c )
  - Supplementary Notes for AFP Certification #025
- G2 COMPETITIVE MARKET AND MARKET PRICE ( Syllabus topic 11a, 13c )
  - Supplementary Notes for AFP Certification #026
- G3 CONVERSION OF FUTURE CASH FLOWS TO DOLLARS TODAY( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #027
- G4 OPPORTUNITY COST ( Syllabus topic 11a, 13c )
  - Supplementary Notes for AFP Certification #028
- G5 ARBITRAGE AND THE LAW OF ONE PRICE ( Syllabus topic 13c )
  - Supplementary Notes for AFP Certification #029
- G6 NO-ARBITRAGE PRICE OF AN INVESTMENT ( Syllabus topic 13c )
  - Supplementary Notes for AFP Certification #030



## H DISCOUNTED CASH FLOWS ANALYSIS

- H1 EVALUATION FOR STANDALONE PROJECTS ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #031
- H2 NET PRESENT VALUE ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #032
- H3 INTERNAL RATE OF RETURN ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #033
- H4 MODIFIED INTERNAL RATE OF RETURN ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #034
- H5 PAYBACK PERIOD ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #035

## I ADVANCED TOPICS IN DISCOUNTED CASH FLOW

- I1 CHOOSING MUTUALLY EXCLUSIVE PROJECTS WITH DIFFERENCES IN TIMING OF CASH FLOWS OR SCALES ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #036
- I2 THE CROSSOVER POINT OR INCREMENTAL IRR ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #037
- I3 APPLYING INVESTMENT DECISION RULES FOR MUTUALLY EXCLUSIVE PROJECTS WITH DIFFERENCES IN TIMING OF CASH FLOWS OR SCALES ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #038
- I4 CHOOSING MUTUALLY EXCLUSIVE PROJECTS WITH DIFFERENT LIVES( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #039
- I5 EQUIVALENT ANNUAL ANNUITY ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #040
- I6 BREAKEVEN ANALYSIS ( Syllabus topic 12h )
  - Supplementary Notes for AFP Certification #041

## J EDUCATION FUNDING

- J1 NEEDS ANALYSIS AND PROJECTION ( Syllabus topic 36k )
  - Supplementary Notes for AFP Certification #042
  - Fundamentals of Financial Planning, Ch. 8.1 (p.254-256)
- J2 SOURCES OF FINANCIAL AID ( Syllabus topic 36k )
  - Supplementary Notes for AFP Certification #043
  - Fundamentals of Financial Planning, Ch. 8.1 (p.256-258)

**K FINANCING ASSET ACQUISITIONS**

- K1 HOME AFFORDABILITY ( Syllabus topic 13d )
  - Supplementary Notes for AFP Certification #044
- K2 TYPES OF MORTGAGE ( Syllabus topic 13d )
  - Supplementary Notes for AFP Certification #045
  - Essentials of Investments, Ch. 19.3
- K3 MORTGAGE SELECTION ( Syllabus topic 13d )
  - Supplementary Notes for AFP Certification #046
- K4 RESIDENTIAL FINANCIAL ANALYSIS ( Syllabus topic 13d )
  - Supplementary Notes for AFP Certification #047
- K5 MORTGAGE REFINANCING DECISION ( Syllabus topic 13d )
  - Supplementary Notes for AFP Certification #048
- K6 COST OF PURCHASING VS. RENTING A HOME ( Syllabus topic 13d )
  - Supplementary Notes for AFP Certification #049

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## Part X1

### EXERCISE QUESTIONS

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#### Q01

Which of the following statement describing the general principle determining a firm's financial mix is(are) correct?

- I. A firm should choose a financial mix that maximize its value.
  - II. A firm should choose a financial mix that matches financing sources to the types of assets to be funded.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 

#### Q02

Which of the following statements describing sole proprietorship is(are) correct?

- I. It is owned by one individual.
  - II. It is a legal entity.
  - III. It is relatively easy and least expensive to form.
- A. I and II only
  - B. I and III only
  - C. II and III only
  - D. All are correct
- 

#### Q03

Describe briefly the differences between public company and listed company.

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#### Q04

Which of the following statements in relation to balance sheet is(are) correct?

- I. Balance Sheet reports major classes of income, expenses, assets, liabilities and stockholders' equity of a firm at the end of a financial year.
  - II. The assets of a firm must be the same as the sum of its liabilities and stockholders' equity in the balance sheet.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
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**Q05**

Describe the difference between an income statement and a cash flow statement.

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**Q06**

Andrew plans to buy a car 3 years later, which is expected to cost \$300,000 by then. Given a guaranteed annual rate of return of 5%, how much should Andrew invest today in order to accumulate sufficient fund for the car-purchase?

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**Q07**

Assume a can of soft drink cost \$6 today. How much would it cost 10 years later if the inflation rate is expected to be 5% per year in the future?

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**Q08**

William borrows \$50,000 from a friend today and agrees to repay a total sum of \$100,000 to him five years later. What is the rate of interest (per year) in this loan agreement?

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**Q09**

Cindy decides to save \$12,000 at the beginning of each year for 10 years. The first installment starts today. Given an annual saving rate of 5% , how much will she have at the end of year 10?

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**Q10**

For a sum of \$100,000 today, an investment plan offers its investor to receive \$25,000 at the end of each year for the next 5 years. What is the annual rate of return of this investment?

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**Q11**

Ethan would like to borrow some cash to fund his traveling plan. A bank pre-approved a 12-month installment loan to him at a rate of 1% per month (not monthly flat rate). He estimates that he can afford to repay a maximum \$5,000 at the end of each month, for how much can he borrow from the bank today?

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**Q12**

Freda has \$100,000 in her bank account that pays an interest rate of 4% per annum. If Emily's goal is to have \$200,000 in her bank account 1 year later, how much extra (in addition to the \$100,000 she has now) should she deposit to the bank account today?

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**Q13**

Frankie wants to buy a watch 3 years later. He estimates that the watch will cost \$300,000 three years later. The balance in his bank saving account is currently \$100,000, which pays 4% per annum. How much should Frankie deposit into the bank account at the end of each of the coming 3 years to achieve his goal?

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Use the following information for the next **Q14** to **Q16**.

George bought a flat at \$6,000,000 three years ago. He borrowed 70% of the price through a mortgage loan. The loan was to be repaid by monthly installments for 13 years. The mortgage rate was 6% p.a. (APR).

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**Q14**

What is the monthly installment amount?

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**Q15**

What is the outstanding balance of the loan as of today?

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**Q16**

The mortgage rate has been reduced to 3% p.a. (APR) today. If George would like to maintain the original repayment period, what is the new monthly installment amount?

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Use the following information for the next **Q17** to **Q18**.

Investment X and Investment Y each require an initial investment of \$100,000 today. Investment X provides investor an amount of \$40,000 at the end of each for the next 4 years. Investment Y provides investor an amount of \$50,000 at the end of each of the next 3 years.

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**Q17**

Which investment provides a higher annual rate of return?

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**Q18**

If Investment X would like to provide the same annual rate of return as Investment Y, how much should it give the investor at the end of each of the next 4 years?

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**Q19**

Which of the following statements in relation to the use of net present value (NPV) and internal rate of return (IRR) in evaluating whether an investment project is/are correct?

- I. A project with a positive IRR should be chosen.
  - II. A project with a positive NPV should be chosen.
  - III. A project with an IRR that is higher than the opportunity cost of capital should be chosen.
  - IV. A project with a NPV that is lower than the opportunity cost of capital should be chosen.
- 
- A. I and III only
  - B. I and IV only
  - C. II and III only
  - D. II and IV only
- 

Use the following information for the next **Q20** to **Q23**.

An investment project requires an initial deposit of \$100,000. The project is expected to generate the following cash flow at the end of next 5 years. The opportunity cost of capital is 8%.

End of	Cash flow
year 1	\$10,000
year 2	\$20,000
year 3	\$30,000
year 4	\$40,000
year 5	\$50,000

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**Q20**

What is the NPV (net present value) of the investment project?

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**Q21**

What is the IRR (internal rate of return) of the investment project?

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**Q22**

What is the MIRR (modified internal rate of return)?

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**Q23**

What is the (undiscounted) payback period of the investment project?

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Use the following information for the next **Q24** to Q2.

Mr. Wong's daughter Sylvia is 4 years old. Mr. Wong would like to send Sylvia to Canada for university when she is 18 years old. He has collected the following information.

Living expense for 1 year in Canada now	CAD12,000
University tuition fee per year now	CAD15,000
Expected inflation rate for living expense and tuition fee in Canada	2% p.a.
Projected investment rate of return from a Hong Kong dollar education fund	6% p.a. for both before and after Sylvia attends university
Exchange rate of Hong Kong dollar to Canadian dollar today	HKD7.9 to CAD1

**Q24**

How much in Hong Kong dollar will be needed (based on today's exchange rate) for the first year of living expense plus first year of university tuition fee when Sylvia is 18 years old?

**Q25**

How much in Hong Kong dollar will be needed (based on today's exchange rate) for 4 years of living expense plus 4 years of university tuition fee when Sylvia is 18 years old?

**Q26**

In order to achieve the amount in the previous question, how much (in lump sum) should Mr. Wong invest into the education fund today?

**Q27**

Mrs. Lee just borrowed a mortgage loan of \$3,500,000 from her bank today. The loan is to be repaid by monthly installments for 15 years. The monthly installment is \$27,314.50. What is the interest rate of the mortgage in annual percentage rate (APR)?



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**Q28**

Miss Cheung is considering purchasing a flat in Hong Kong. She would like to borrow a mortgage loan of 10 years. She is able to repay \$25,000 per month to the mortgage loan. The interest rate of the mortgage loan is 6% p.a. (APR). She already has \$2,000,000 in her bank account. Based on the above information, what is the maximum price of a flat Miss Cheung can afford?

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**Q29**

Mr. Kwok borrowed a mortgage loan of \$1,500,000 three years ago. The original repayment period was 10 years and the interest rate was 3.6% p.a. (annual percentage rate, APR). The original monthly repayment amount is \$14,903.25. Mr. Kwok needs \$1,000,000 cash now and decides to refinance the mortgage to borrow the \$1,000,000. If interest rate and the original repayment period are to remain unchanged, what is his new monthly repayment amount?

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## Part X2 Personal Financial Planning

<b>A</b>	<b>Introduction to personal financial planning</b>
<b>B</b>	<b>Financial planning process</b>
<b>C</b>	<b>The financial planning industry and profession</b>
<b>D</b>	<b>Overview of financial planning components</b>
<b>E</b>	<b>Advisory essentials</b>

### LEARNING OUTCOMES

After studying this Part, you should be able to:

- ☐ know the basics of personal financial planning;
- ☐ understand the six steps of the financial planning process;
- ☐ know the IFPHK Practice Standards;
- ☐ describe the financial planning industry and profession;
- ☐ understand the basics of the planning components in the financial planning process;
- ☐ understand the essentials of the advisory services provided by a financial planner;

## Essential Readings for Part X2

### A INTRODUCTION TO PERSONAL FINANCIAL PLANNING

- A1 HISTORY AND EVOLUTION OF FINANCIAL PLANNING
  - Fundamentals of Financial Planning, Ch. 5.2
- A2 OBJECTIVES AND BENEFITS OF FINANCIAL PLANNING
  - Fundamentals of Financial Planning, Ch. 6.1
- A3 COMPONENTS OF FINANCIAL PLANNING
  - Fundamentals of Financial Planning, Ch. 6.3
- A4 FUNCTIONS OF FINANCIAL PLANNING
  - Supplementary Notes for AFP Certification #050
  - FPSB Financial Planner Competency Profile
- A5 CONTENT OF A COMPREHENSIVE FINANCIAL PLAN ( Syllabus topic 4b, 4c )
  - Fundamentals of Financial Planning, Ch. 14.2 & 14.3

### B FINANCIAL PLANNING PROCESS

- B1 OVERVIEW OF THE FINANCIAL PROCESS AND THE IFPHK PRACTICE STANDARDS ( Syllabus topic 1e )
  - Fundamentals of Financial Planning, Ch. 11.1
- B2 STEP 1: ESTABLISHING CLIENT-PLANNER RELATIONSHIPS ( Syllabus topic 1 )
  - Fundamentals of Financial Planning, Ch. 11.2
- B3 STEP 2: GATHERING CLIENT DATA AND DETERMINING GOALS AND EXPECTATIONS ( Syllabus topic 2 )
  - Fundamentals of Financial Planning, Ch. 12.1
- B4 STEP 3: DETERMINING THE CLIENT'S FINANCIAL STATUS BY ANALYZING AND EVALUATING CLIENT INFORMATION (Syllabus topic 3 )
  - Supplementary Notes for AFP Certification #051
  - Fundamentals of Financial Planning, Ch. 4.1, 4.2, 13.1 – 13.3
- B5 STEP 4: DEVELOPING AND PRESENTING THE FINANCIAL PLAN ( Syllabus topic 4 )
  - Fundamentals of Financial Planning, Ch. 14
- B6 STEP 5: IMPLEMENTING THE FINANCIAL PLAN ( Syllabus topic 5 )
  - Supplementary Notes for AFP Certification #052
  - Fundamentals of Financial Planning, Ch. 15.1 (p.445-446) & 15.2
- B7 STEP 6: MONITORING THE FINANCIAL PLAN ( Syllabus topic 6 )
  - Supplementary Notes for AFP Certification #053
  - Fundamentals of Financial Planning, Ch. 15.1 (p.447-448) & 15.3

## **C THE FINANCIAL PLANNING INDUSTRY AND PROFESSION**

- C1 GLOBAL, REGIONAL AND LOCAL ENVIRONMENT
  - Fundamentals of Financial Planning, Ch. 5.3 (p. 138-142)
- C2 CAREER AS A FINANCIAL PLANNER
  - Fundamentals of Financial Planning, Ch. 5.1
- C3 CERTIFICATION OF PROFESSIONALS
  - Fundamentals of Financial Planning, Ch. 5.4 (p.144-147)
- C4 PARTICIPANTS AND KEY PLAYERS
  - Fundamentals of Financial Planning, Ch. 5.5

## **D OVERVIEW OF FINANCIAL PLANNING COMPONENTS**

- D1 FINANCIAL MANAGEMENT
  - Fundamentals of Financial Planning, Ch. 7.1 (p.208-212)
- D2 RISK MANAGEMENT
  - Fundamentals of Financial Planning, Ch. 7.3 (p. 230)
- D3 ASSET MANAGEMENT
  - Fundamentals of Financial Planning, Ch. 8.1 (p. 248-249)
- D4 RETIREMENT PLANNING
  - Fundamentals of Financial Planning, Ch. 8.2 (p.258-260)
- D5 TAX PLANNING
  - Fundamentals of Financial Planning, Ch. 7.2 (p.213-215)
- D6 ESTATE PLANNING
  - Fundamentals of Financial Planning, Ch. 8.3 (p.269-270)

## **E ADVISORY ESSENTIALS**

- E1 PERSONAL PROFILING ( Syllabus topic 9c )
  - Fundamentals of Financial Planning, Ch. 10.1
- E2 RISK PROFILING ( Syllabus topic 9a )
  - Fundamentals of Financial Planning, Ch. 10.2
- E3 LIFE CYCLE ANALYSIS ( Syllabus topic 9b, 10a – 10f )
  - Fundamentals of Financial Planning, Ch. 10.3
- E4 PRINCIPLES OF COMMUNICATION ( Syllabus topic 1b )
  - Fundamentals of Financial Planning, Ch. 11.4
- E5 TRUST BUILDING ( Syllabus topic 1c )
  - Fundamentals of Financial Planning, Ch. 11.3 & 15.3 (p.453-454)

- E6 ESTABLISHING CLIENT OBJECTIVES AND GOALS ( Syllabus topic 2a )
  - Fundamentals of Financial Planning, Ch. 12.2
- E7 MECHANICS OF DATA GATHERING ( Syllabus topic 2b, 2d )
  - Fundamentals of Financial Planning, Ch. 12.3

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## Part X2

### EXERCISE QUESTIONS

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#### Q01

List FOUR items that should be included in a Scope of Engagement letter.

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#### Q02

Rank the following items from highest priority to the lowest based on the financial planning pyramid:

- ✓ Estate planning;
- ✓ Retirement planning;
- ✓ Life and asset protection (insurance);
- ✓ Basic consumption, tax and liabilities;
- ✓ Short-term/medium-term goals such as children's education fund.

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#### Q03

Which of the following ratio analysis of a client implies potential financial problems of a client?

- I. A very low savings ratio.
- II. A very low liquidity ratio.
- III. A very low solvency ratio.
- IV. A very low debt to income ratio.
- V. A very low debt to total asset ratio.

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#### Q04

A written financial plan should include:

- I. Scope of engagement.
  - II. Financial objectives of the client.
  - III. Assumptions the financial planner has made in his calculations.
- 
- A. I only
  - B. I and III only
  - C. II and III only
  - D. I, II and III
-

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**Q05**

Which of the following items are the responsibilities of a financial planner in Step 5 of the Six-Steps Financial Planning Process?

- I. Identify the necessary activities for implementation of the financial plan
  - II. Refer the client to other professionals as needed
  - III. Select products/services
- 
- A. I only
  - B. I and II only
  - C. II and III only
  - D. I, II and III
- 
- 

**Q06**

Which of the following items are macro-level factors that may affect the projected results of a client's financial planning strategy?

- I. Inflation rate
  - II. GDP growth
  - III. Unemployment rate
  - IV. Relocation to overseas office
- 
- A. II only
  - B. III and IV only
  - C. I, II and III only
  - D. I, II, III and IV
- 
-

## Part X3 Retirement Planning

<b>A</b>	<b>Classification of retirement plans</b>
<b>B</b>	<b>Retirement plans in HK</b>
<b>C</b>	<b>Mandatory Provident Fund Scheme</b>
<b>D</b>	<b>Challenges and risk in retirement planning</b>
<b>E</b>	<b>Cash flow management</b>
<b>F</b>	<b>Retirement planning recommendations</b>

### LEARNING OUTCOMES

After studying this Part, you should be able to:

- ☐ describe various type of retirement plan;
- ☐ know the retirement plans found in HK;
- ☐ describe the HK MPF retirement scheme;
- ☐ know the fundamentals of cash flow management.
- ☐ describes challenges and risk in retirement planning
- ☐ know the steps of retirement planning;
- ☐ calculate the retirement needs;
- ☐ calculate the retirement capital and income;
- ☐ know how to meet the retirement goals.



## Essential Readings for Part X3

### A CLASSIFICATION OF RETIREMENT PLANS

- A1 DEFINED BENEFIT PLANS AND DEFINED CONTRIBUTION PLANS ( Syllabus topic 65a )
  - Fundamentals of Financial Planning, Ch. 8.2 (p.263-265)
  - Fundamentals of Risk and Insurance, Ch. 17 (p.299-300)
- A2 KEY FEATURES OF RETIREMENT PLANS ( Syllabus topic 65a )
  - Fundamentals of Financial Planning, Ch. 8.2 (p.265-266)

### B RETIREMENT PLANS IN HK

- B1 MANDATORY PROVIDENT FUND SCHEMES ( Syllabus topic 66c )
  - Study note for MPF Intermediaries Examination (8th Edition), Ch. 1.1-1.3
- B2 OCCUPATIONAL RETIREMENT SCHEMES ORDINANCE SCHEMES ( Syllabus topic 66b )
  - Study note for MPF Intermediaries Examination (8th Edition), Ch. 6.1
- B3 INTERFACE ARRANGMENTS BETWEEN ORSO SCHEMES AND THE MPF SYSTEM ( Syllabus topic 66b )
  - Study note for MPF Intermediaries Examination (8th Edition), Ch. 6.2-6.6
- B4 CIVIL SERVANT PENSION SCHEMES ( Syllabus topic 66a )
  - Civil Service Bureau - Civil Service Pension Schemes
  - Civil Service Bureau - Civil Service Provident Fund Scheme
- B5 RETIREMENT SAVINGS PRODUCTS ( See Part 3F)
- B6 SOCIAL SECURITY AND OTHER GOVERNMENT PLANS ( Syllabus topic 66d )
  - Education Bureau - Grant/Subsidized Schools Provident Fund

### C MANDATORY PROVIDENT FUND SCHEMES

- C1 KEY FEATURES OF MPF SYSTEM ( Syllabus topic 66c )
  - Study note for MPF Intermediaries Examination (8<sup>th</sup> Edition), Ch. 3.1, 3.2, 3.4 - 3.15
- C2 TYPE OF MPF SCHEMES ( Syllabus topic 66c )
  - Study note for MPF Intermediaries Examination (8<sup>th</sup> Edition), Ch. 3.3
- C3 CONSTITUENT FUNDS ( Syllabus topic 66c )
  - Study note for MPF Intermediaries Examination (8th Edition), Ch. 5.3

## **D CHALLENGE AND RISK IN RETIREMENT PLANNING**

- D1 CHALLENGE AND RISK IN RETIREMENT PLANNING ( Syllabus topic 20a. 68c, 69c )**
- Fundamentals of Financial Planning, Ch. 8.2 (p.260-261)
  - Fundamentals of Risk and Insurance
  - Ch. 18 An Overview of the retirement risk

## **E CASH FLOW MANAGEMENT**

- E1 INCOME PROJECTION AND PURCHASING POWER ( Syllabus topic 17b )**
- Supplementary Notes for AFP Certification #054
  - Fundamentals of Financial Planning, Ch. 4.4 (p.105)
- E2 EMERGENCY FUND ADEQUACY ( Syllabus topic 17c )**
- Supplementary Notes for AFP Certification #055
  - Fundamentals of Financial Planning, Ch. 4.4 (p.107)
- E3 BUDGETING TECHNIQUES ( Syllabus topic 17b )**
- Supplementary Notes for AFP Certification #056
  - Fundamentals of Financial Planning, Ch. 4.4
- E4 SAVINGS ANALYSIS AND STRATEGY ( Syllabus topic 17b )**
- Supplementary Notes for AFP Certification #057
  - Fundamentals of Financial Planning, Ch. 4.5
- E5 DISCRETIONARY AND NON-DISCRETIONARY INCOME ( Syllabus topic 17a )**
- Supplementary Notes for AFP Certification #058
  - Fundamentals of Financial Planning, Ch. 4.3 (p.101-105)
- E6 LIQUIDITY VS. MARKETABILITY**
- Supplementary Notes for AFP Certification #059
- E7 LIQUIDITY SUBSTITUTES**
- Supplementary Notes for AFP Certification #060

## **F RETIREMENT PLANNING RECOMMENDATIONS**

- F1 STEPS IN RETIREMENT PLANNING ( Syllabus topic 68a )**
- Supplementary Notes for AFP Certification #061
  - Fundamentals of Financial Planning, Ch. 8.2 (p.266-267)
  - Fundamentals of Risk and Insurance
  - Ch. 18 An Overview of the Retirement Planning Process
- F2 RETIREMENT NEEDS ANALYSIS AND PROJECTIONS ( Syllabus topic 68b )**
- Supplementary Notes for AFP Certification #062
  - Fundamentals of Risk and Insurance
  - Ch. 18 Estimating Retirement Needs

**F3 PROJECTION OF RETIREMENT CAPITAL AND RETIREMENT INCOME**

( Syllabus topic 68a )

- Supplementary Notes for AFP Certification #063
- Fundamentals of Financial Planning, Ch. 8.2 (p.261-265)
- Fundamentals of Risk and Insurance
- Ch. 18 Planning the Accumulation

**F4 MEETING RETIREMENT GOALS ( Syllabus topic 68a, 68b )**

- Supplementary Notes for AFP Certification #064
- Fundamentals of Risk and Insurance
- Ch. 18 Managing the Distribution

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## Part X3

### EXERCISE QUESTIONS

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#### Q01

What is Defined Contribution Retirement Scheme?

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#### Q02

Which of the following statements in relation to defined benefits retirement scheme is CORRECT?

- A. It allocates employer contributions into individual employee accounts.
- B. It is more complicated to administer than defined contribution schemes.
- C. The investment risk of the schemes rests on both employer and employees.
- D. It can be funded jointly by employer and employees or by the employer alone.

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#### Q03

Which of the following statements with respect to ORSO schemes is/are CORRECT?

- I. It is not an offence not to apply to have the retirement scheme exempted or registered under ORSO.
  - II. For an MPF-Exempted ORSO Scheme, existing members must be given a right to opt between the existing ORSO scheme and an MPF scheme.
- A. I only
  - B. II only
  - C. Both I & II
  - D. None of the above

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#### Q04

A company wound up their original ORSO scheme and replaced it with an MPF scheme for their scheme members to join the new scheme before 1 December 2000. With this arrangement, the accrued benefit of the original scheme:

- A. was transferred to the new scheme.
  - B. was paid to the members.
-

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**Q05**

Which of the following statements regarding the vesting status of MPF contributions made by the employer is / are incorrect?

- I. Mandatory contributions are vested immediately to the employee.
  - II. Voluntary contributions are vested immediately to the employee.
- 
- A. I only
  - B. II only
  - C. Both I & II
  - D. Neither I nor II
- 
- 

**Q06**

Celina is a part-time cleaner of a local restaurant. She has been working on a weekly-paid basis for six months. Celina earned HK\$1,000 last week. Please describe the arrangement of her MPF contribution for last week's earnings?

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**Q07**

Which of the following benefits is considered relevant income for contributions under the MPF system?

- I. Tips collected by the employee
  - II. Allowance of reimbursement nature
- 
- A. I only
  - B. II only
  - C. Both I & II
  - D. Neither I nor II
- 
- 

**Q08**

In life annuity and life insurance, which kind of the risks does the insurer pool?

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**Q09**

Which of the following items about discretionary income is(are) CORRECT?

- I. Discretionary income is always higher than non-discretionary income
  - II. Discretionary income refers to the income before tax
- 
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 
- 

**Q10**

List the 7 steps in budgeting in sequence.

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**Q11**

What is the purpose of setting aside emergency fund in budgeting?

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**Q12**

How many months of living expense is the common suggestion for an emergency fund?

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**Q13**

True or False: Knowing the life expectancy is a must in retirement planning.

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**Q14**

True or False: In retirement planning, taking up a part-time job after retirement should not be recommended by financial planner.

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**Q15**

True or False: A responsible financial planner should never ask the client to consider an investment with higher risk than his/her risk profile for his retirement.

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## Part X4 Investment Planning

<b>A</b>	<b>Financial system and markets</b>
<b>B</b>	<b>Asset classes and financial instruments</b>
<b>C</b>	<b>Macroeconomic factors</b>
<b>D</b>	<b>Interest rates</b>
<b>E</b>	<b>Investment planning</b>
<b>F</b>	<b>Bond basics</b>
<b>G</b>	<b>Stock valuation and security analysis</b>
<b>H</b>	<b>Options and warrants</b>
<b>I</b>	<b>Pooled investments</b>
<b>J</b>	<b>Foreign exchange</b>
<b>K</b>	<b>Investment return and risk</b>

### LEARNING OUTCOMES

After studying this Part, you should be able to:

- ☐ define and describe the operations of a financial system and financial markets;
- ☐ list and describe major exchanges and stock market indices;
- ☐ define and describe different types and features of asset classes and financial instruments;
- ☐ define and describe major macroeconomic factors;
- ☐ understand and calculate different types of interest rates;
- ☐ describe the relationship between the term to maturity and the interest rates;
- ☐ know the relationship between risk and return/interest rates;
- ☐ describe the investment process;
- ☐ know the behavioral biases potentially committed by a client;
- ☐ understand the basics of bonds and their valuation;
- ☐ understand the basics of stocks and their valuation;
- ☐ describe the two analytical methods in security analysis;
- ☐ describe the basics of options and their payoffs at expiration;
- ☐ describe the types and functions of pooled investments;
- ☐ understand the basic principles in foreign exchange and the parity conditions;
- ☐ understand the types of risk and returns and how to measure them.



## Essential Readings for Part X4

### A FINANCIAL SYSTEM AND MARKETS

- A1 MONEY MARKET VS. CAPITAL MARKET ( Syllabus topic 36f )
  - Essentials of Investments, Ch. 2.1
  - Fundamentals of Financial Planning, Ch. 2.1 (p.10-11) & 2.2 (p.15-17)
- A2 PRIMARY MARKET VS. SECONDARY MARKET ( Syllabus topic 36b )
  - Essentials of Investments, Ch. 3.1 and 3.2
- A3 GLOBAL FINANCIAL SYSTEM ( Syllabus topic 11h )
  - Supplementary Notes for AFP Certification #065
  - Essentials of Investments, Ch. 1.3 – 1.8
- A4 MAJOR EXCHANGES AND STOCK MARKET INDICES ( Syllabus topic 11g, 36i )
  - Supplementary Notes for AFP Certification #066
  - Essentials of Investments, Ch. 2.4 & 22.3

### B ASSET CLASSES AND FINANCIAL INSTRUMENTS

- B1 TYPES OF EQUITY SECURITIES ( Syllabus topic 36a, 36b, 36d )
  - Essentials of Investments, Ch. 1.1, 1.2 & 2.3
  - Fundamentals of Financial Planning, Ch. 2.2 (p.23-24)
- B2 TYPES OF DEBT SECURITIES ( Syllabus topic 36a, 36b, 36e )
  - Essentials of Investments, Ch. 1.2 & 2.2
  - Fundamentals of Financial Planning, Ch. 2.2 (p.18-22)
- B3 TYPES OF DERIVATIVE SECURITIES ( Syllabus topic 36a, 36b )
  - Essentials of Investments, Ch. 1.2 & 2.5
  - Supplementary Notes for AFP Certification #067
- B4 TYPES OF ALTERNATIVE INVESTMENTS ( Syllabus topic 36a, 36b, 36j )
  - Supplementary Notes for AFP Certification #068
- B5 TRADING OF SECURITIES ( Syllabus topic 36b )
  - Essentials of Investments, Ch. 3.1, 3.2 and 3.3 – 3.7

### C MACROECONOMIC FACTORS

- C1 CHANGES IN UNEMPLOYMENT ( Syllabus topic 11i )
  - Supplementary Notes for AFP Certification #069
  - Fundamentals of Financial Planning, Ch. 1.1 (p.4-5)
- C2 GROSS DOMESTIC PRODUCT ( Syllabus topic 11i )
  - Supplementary Notes for AFP Certification #070

- Fundamentals of Financial Planning, Ch. 1.1 (p.3-4)

C3 RATE OF GROWTH ( Syllabus topic 11i )

- Supplementary Notes for AFP Certification #071

C4 INFLATION AND PRICE LEVELS ( Syllabus topic 11b, 11i )

- Supplementary Notes for AFP Certification #072
- Fundamentals of Financial Planning, Ch. 1.1 (p.6)

C5 ECONOMIC CYCLES ( Syllabus topic 11e )

- Supplementary Notes for AFP Certification #073
- Fundamentals of Financial Planning, Ch. 1.1 (p.7-8)

C6 INTEREST RATES ( Syllabus topic 11c )

- Supplementary Notes for AFP Certification #074
- Fundamentals of Financial Planning, Ch. 1.1 (p.5-6)

C7 MONETARY AND FISCAL POLICIES ( Syllabus topic 11d ]

- Fundamentals of Financial Planning, Ch. 1.1 (p.5)

## D INTEREST RATES

D1 EFFECTIVE ANNUAL RATE VS. ANNUAL PERCENTAGE RATE ( Syllabus topic 11c )

- Fundamentals of Financial Planning, Ch. 3.6
- Essentials of Investments, Ch. 5 (p.134-135)

D2 INFLATION AND NOMINAL VS. REAL RATES OF INTEREST ( Syllabus topic 11b, 11c )

- Fundamentals of Financial Planning, Ch. 3.5
- Essentials of Investments, Ch. 5 (p.146-147)

D3 TERM STRUCTURE ( Syllabus topic 11c )

- Essentials of Investments, Ch. 9.6 (concept only, no calculations)

D4 RISK AND INTEREST RATES ( Syllabus topic 11c )

- Essentials of Investments, Ch. 5.2 (concept only, no calculations)

## E INVESTMENT PLANNING

E1 STEPS IN INVESTING: THE INVESTMENT PROCESS ( Syllabus topic 47a, 47c – 47g)

- Supplementary Notes for AFP Certification #075
- Essentials of Investments, Ch. 16

E2 RISK PROFILING OF INDIVIDUAL INVESTORS ( Syllabus topic 47a )

- Supplementary Notes for AFP Certification #076
- Fundamentals of Financial Planning, Ch. 10.2

E3 EVALUATING CLIENT FINANCIAL SOPHISTICATION ( Syllabus topic 47a )

- Supplementary Notes for AFP Certification #077

- E4 INVESTMENT POLICY STATEMENT ( Syllabus topic 47a, 47h )
  - Supplementary Notes for AFP Certification #078
  - Fundamentals of Financial Planning, Ch. 8.1 (p.251)
- E5 INVESTOR BEHAVIORAL BIASES ( Syllabus topic 9c )
  - Supplementary Notes for AFP Certification #079
  - Essentials of Investments, Ch.17.1-17.3
- 1. E6 INVESTMENT STRATEGY ( Syllabus topic 41]
  - Fundamentals of Financial Planning, Ch. 8.1 (p.251-252)
- 2.
- 3. E7 LEVERAGE FOR INVESTING ( Syllabus topic 42a, 42b]
  - Essentials of Investments, Ch. 3.6, 3.7

## **F BOND BASICS**

- F1 CASH FLOWS OF COUPON BONDS ( Syllabus topic 38a )
  - Essentials of Investments, Ch. 9.1
- F2 BOND VALUATION AND PRICING ( Syllabus topic 38a )
  - Essentials of Investments, Ch. 9.2
- F3 YIELD TO MATURITY AND YIELD TO CALL ( Syllabus topic 37e, 37f )
  - Essentials of Investments, Ch. 9.3 (p.306-310)
- F4 TERM STRUCTURE AND ZERO-COUPON BONDS ( Syllabus topic 38a )
  - Essentials of Investments, Ch. 9.4
- F5 DEFAULT RISK AND BOND RATINGS ( Syllabus topic 38b )
  - Essentials of Investments, Ch. 9.5
- F6 BOND INDENTURES ( Syllabus topic 38b )
  - Essentials of Investments, Ch. 9.5 (p.318-320)
- F7 YIELD CURVE ( Syllabus topic 37c, 38a )
  - Essentials of Investments, Ch. 9.6
- F8 BOND DURATION ( Syllabus topic 34a )
  - Essentials of Investments, Ch. 10.1 (p.342-349) (concept only, no calculations)

## **G STOCK VALUATION AND SECURITY ANALYSIS**

- G1 PREFERRED STOCK VALUATION ( Syllabus topic 38c )
  - Essentials of Investments, Ch. 9.1 (p.300)
  - Supplementary Notes for AFP Certification #080
- G2 CASH FLOWS OF COMMON STOCKS ( Syllabus topic 38c )
  - Essentials of Investments, Ch. 11.1 & 11.2
- G3 DIVIDEND DISCOUNT MODELS ( Syllabus topic 38c )
  - Essentials of Investments, Ch. 11.3

- G4 VALUATION RATIO APPROACHES ( Syllabus topic 37b, 38c )
  - Essentials of Investments, Ch. 11.4
- G5 FUNDAMENTAL ANALYSIS ( Syllabus topic 40c )
  - Supplementary Notes for AFP Certification #081
  - Essentials of Investments, Ch. 8 (p.266-267)
- G6 TOP-DOWN VS. BOTTOM-UP APPROACH ( Syllabus topic 40c )
  - Supplementary Notes for AFP Certification #082
- G7 TECHNICAL ANALYSIS ( Syllabus topic 40c )
  - Essentials of Investments, Ch. 17.5-17.7

## **H OPTIONS, WARRANTS AND FUTURES**

- H1 TYPES AND CHARACTERISTICS OF OPTION CONTRACT ( Syllabus topic 43c )
  - Essentials of Investments, Ch. 2.5 & 13.1
- H2 OPTION-LIKE SECURITIES ( Syllabus topic 36g, 43c )
  - Essentials of Investments, Ch. 13.3
- H3 OPTION VALUATION AND TERMINOLOGY ( Syllabus topic 43a - d )
  - Essentials of Investments, Ch. 14.1 – 14.3
- H4 PAYOFFS OF OPTIONS AT EXPIRATION ( Syllabus topic 43b, 43d )
  - Essentials of Investments, Ch. 13.2

## **I POOLED INVESTMENTS**

- I1 INVESTMENT COMPANIES AND MUTUAL FUNDS ( Syllabus topic 36c )
  - Fundamentals of Financial Planning, Ch. 2 (p.24-27)
  - Essentials of Investments, Ch. 4.3-4.5, 4.7, 4.8
- I2 OPEN-END AND CLOSED-END FUNDS ( Syllabus topic 36c )
  - Fundamentals of Financial Planning, Ch. 2 (p.24-27)
  - Essentials of Investments, Ch. 4.2 (p.101-103)
- I3 UNIT INVESTMENT TRUSTS ( Syllabus topic 36c )
  - Essentials of Investments, Ch. 4.1 & 4.2 (p.101)
- I4 EXCHANGE-TRADED FUNDS ( Syllabus topic 36c )
  - Fundamentals of Financial Planning, Ch. 2 (p.27-28)
  - Essentials of Investments, Ch. 4.6
- I5 OTHER INVESTMENT ORGANIZATION ( Syllabus topic 36c )
  - Essentials of Investments, Ch. 4.2 (p.103-104)

## **J FOREIGN EXCHANGE**

- J1 FOREIGN EXCHANGE RATES AND QUOTATIONS ( Syllabus topic 49h )
  - Essentials of Investments, Ch. 20.1 – 20.5
  - Fundamentals of Financial Planning, Ch. 1.1 (p.6-7)
- J2 PURCHASING POWER PARITY CONDITION ( Syllabus topic 49g )
  - Essentials of Investments, Ch. 20.8 & 20.9
- J3 INTEREST RATE PARITY CONDITION ( Syllabus topic 49e )
  - Essentials of Investments, Ch. 20.8 & 20.10
- J4 INTERNATIONAL FISHER EFFECT ( Syllabus topic 49f )
  - Essentials of Investments, Ch. 20.11
- J5 EQUILIBRIUM CONDITIONS FOR PRICES, INTEREST RATES AND EXCHANGE RATES ( Syllabus topic 49c )
  - Essentials of Investments, Ch. 20.12
- J6 FORWARD-SPOT RELATIONSHIP ( Syllabus topic 49d )
  - Essentials of Investments, Ch. 20.6
- J7 EXCHANGE RATE RISK ( Syllabus topic 49i )
  - Essentials of Investments, Ch. 21.2

## **K INVESTMENT RETURN AND RISK**

- K1 TYPES OF INVESTMENT RISK ( Syllabus topic 32 )
  - Supplementary Notes for AFP Certification #083
  - Fundamentals of Financial Planning, Ch. 3.5
  - Essentials of Investments, Ch. 6.1, Ch. 10.1 (p340-342) & Ch. 21.2
- K2 MEASURES OF RISK ( Syllabus topic 33a, 37h )
  - Essentials of Investments, Ch. 5.2
- K3 DIFFERENT TYPES OF RETURN ( Syllabus topic 37a, 37g, 37i, 37j )
  - Essentials of Investments, Ch. 5.1 & 5.4 (p.146-147)
  - Fundamentals of Financial Planning, Ch. 8.1 (p.249-250)
- K4 RISK AND RETURN OF VARIOUS ASSET CLASSES AND FINANCIAL INSTRUMENTS ( Syllabus topic 36a )
  - Fundamentals of Financial Planning, Ch. 8.1 (p.249-250, Basic Investment Concepts)
  - Essentials of Investments, Ch. 5.3

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## Part X4

### EXERCISE QUESTIONS

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#### Q01

In general, money market debt securities have \_\_\_\_\_ term to maturity and \_\_\_\_\_ risk than capital market securities.

	<u>Term to maturity</u>	<u>Risk</u>
1.	Longer	Higher
2.	Longer	Lower
3.	Shorter	Higher
4.	Shorter	Lower

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#### Q02

Which of the following is/are capital market instruments?

- I. short-term debt securities
  - II. blue chip stocks.
  - III. options
  - IV. futures.
- 
- A. I only
  - B. II only
  - C. II, III and IV
  - D. All of the above
- 

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#### Q03

Which of the money market instruments match the following description?

- I. DESCRIPTION: PARTY A SELLS A SECURITY TO PARTY B WITH AN AGREEMENT TO BUY IT BACK FROM PARTY B ON THE NEXT DAY AT A SLIGHTLY HIGHER PRICE. WHAT IS THIS INSTRUMENT CALLED?
  - II. DESCRIPTION: DEBT SECURITIES ISSUED BY THE U.S. GOVERNMENT WITH INITIAL MATURITIES OF 28 DAYS, 91 DAYS AND 182 DAYS. WHAT ARE THEY CALLED?
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#### Q04

Name FOUR investment vehicles that belong to the money market.

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**Q05**

List TWO main **differences** between common stock and preferred stock.

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**Q06**

Which of the following statements in relation to Treasury notes and Treasury bonds is(are) CORRECT? Why and why not?

- I. Treasury notes have maturities up to 10 years and Treasury bonds have maturities up to 30 years.
  - II. Only Treasury bonds pay coupon.
  - III. Treasury notes are issued by the local governments in the United States and Treasury bonds are issued by the federal government in the United States.
- A. I only
  - B. II only
  - C. I and III only
  - D. II and III only

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**Q07**

Which of the following statements in relation to “market orders” and “limit orders” is(are) CORRECT?

- I. “Market orders” can only be placed when the market is open and “limits orders” can only be placed when the market is closed.
  - II. “Market orders” refer to any size of transactions and “limit orders” refer to large size transactions.
- 1. I ONLY
  - 2. II ONLY
  - 3. BOTH I AND II
  - 4. NEITHER I NOR II

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**Q08**

When a person buy stocks through margin:

- I. he makes profit when the stock price falls.
  - II. he buys stocks by borrowing part of the money.
  - III. he faces higher risk than buying stocks without margin.
  - IV. he has higher gain potential than buying stocks without margin.
- A. I and III only
  - B. II and IV only
  - C. I, II and III only

- D. II, III and IV only

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**Q09**

When an investor writes a call option on a stock:

- I. The investor receives a premium.
  - II. The investor has a right to sell the stock.
  - III. The investor has a right to buy the stock.
  - IV. The investor has to pay the strike price if the option is exercised.
  - V. The investor will receive the stock if the option is not exercised.
- 
- A. I only
  - B. I and IV only
  - C. II and III only
  - D. All of the above

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**Q10**

Name the 4 phases of economic conditions in a business cycle in the correct sequence. Start with "Recession".

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**Q11**

According to the business cycle model, in which phase of the business cycle would be the most appropriate for a client with a portfolio of cyclical stocks to sell his stock?

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**Q12**

Ronald was laid off by his employer recently. He found it difficult to gain re-employment without re-training in a different skill. Ronald would be classified as \_\_\_\_\_ unemployment.

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**Q13**

An increase in which of the following elements will cause an increase in GDP?

- I. Import
  - II. Government spending
  - III. Consumption expenditure
- 
- A. I and II only
  - B. I and III only
  - C. II and III only
  - D. I, II and III



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**Q14**

Which of the following statements in relation to interest rate is(are) CORRECT?

- I. Interest rate is determined by demand and supply of loanable fund in the market.
  - II. Changes in interest rate can be measured by Consumer Price Index.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II

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**Q15**

Calculate the Annual Percentage Rate and Effective Annual Rate of a loan that charges 1.5% per quarter.

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**Q16**

Given an inflation rate of 4% and a real interest rate of 1.923%, calculate the nominal interest rate for the same period.

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**Q17**

The yield curve of a bond is a graphic representation of the yield to maturity of the bond as a function of the \_\_\_\_\_ of the bond.

- A. face value
- B. coupon rate
- C. market price
- D. term to maturity

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**Q18**

An investment policy statement serves as a very important guideline to a financial planner for managing the client's investment portfolio. List 4 major sections to be included in the investment policy statement?

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**Q19**

The purpose of risk profiling is to find out:

- A. the risk level of a client's existing portfolio
  - B. the level of risk the client is willing to take
  - C. the rate of return required by the client
  - D. the average rate of return of a client's portfolio
- 
- 

**Q20**

Asset allocation is a process to calculate and determine the weights of different investment products in a portfolio:

- A. that suits client's risk tolerance level
  - B. that gives the highest return to the client
  - C. that gives the lowest level of risk
  - D. that gives the highest commission to the financial planner
- 
- 

**Q21**

Client's risk tolerance level is often assessed by questionnaires. What are the TWO important characteristics of a good questionnaire?

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**Q22**

Describe utility-based method and psychometric method in risk profiling.

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**Q23**

A conservative client would like to allocate his total assets in the proportion of 10%, 20%, 30% and 40%. How should his assets be allocated to the following assets in a conservative way?

Bond	_____ %
Cash	_____ %
Global Stock	_____ %
Hong Kong stock	_____ %

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**Q24**

Which of the following descriptions about the price of a bond is CORRECT?

- A. The price of the bond is the present value of all future coupon payments plus the present value of the face value of the bond.
  - B. The price of the bond is the present value of all future coupon payments plus the future value of the face value of the bond.
  - C. The price of the bond is the future value of all future coupon payments plus the present value of the face value of the bond.
  - D. The price of the bond is the future value of all future coupon payments plus the future value of the face value of the bond.
- 

**Q25**

JNP Group just issued a bond with 10 years time to maturity and a face value of \$1,000. The coupon rate is 6% p.a., paid annually. If the yield to maturity is 8%, at what price should the bond be selling?

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**Q26**

PNJ Group just issued a bond with 5 years time to maturity and a face value of \$1,000. The coupon rate is 2% p.a., paid annually. Calculate the yield to maturity if the bond is selling at \$1,020.

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**Q27**

Which of the following descriptions about the prices of zero coupon bond and coupon bond is(are) CORRECT?

- I. Price of a zero coupon bond is always below its face value before maturity.
  - II. Price of a coupon bond could be above, at or below its face value before maturity.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
-

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**Q28**

Calculate the price of a bond with the following features:

Credit rating	AA
Face Value	\$1,000
Time to Maturity	8 years
Coupon Rate	8% p.a.
Frequency of coupon payment	Semi-annual
Yield to Maturity	4%

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**Q29**

Kenneth pays \$925 to buy a bond with 7 years to maturity and a face value of \$1,000. The bond pays coupon on quarterly basis and the coupon rate is 6% p.a. Calculate the yield to maturity of this bond.

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**Q30**

Give 2 examples of bond indentures and describe how they increase the safety of the bond?

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**Q31**

A bond with BBB rating from Standard & Poor's is also called:

- I. an investment grade bond
  - II. a junk bond
  - III. a high yield bond
- 
- A. I only
  - B. II only
  - C. I and III only
  - D. II and III only
-

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**Q32**

Bond A has a credit rating of AA by Standard & Poor's. Bond B has a credit rating of BB by Standard & Poor's. Bond A and Bond B have the same time to maturity, coupon rate and face value. Which bond should be selling at a lower price? Why?

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**Q33**

Given a discount rate of 5% p.a., what should be the price of the preferred stock that pays a dividend of \$1.25 per year forever?

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**Q34**

Which of the following statements in relation to the price of a stock is CORRECT?

- A. The intrinsic value of a stock is the future value of all its future cash flows compounded by the dividend yield
- B. The intrinsic value of a stock is the future value of all its future cash flows discounted by the required rate of return
- C. The intrinsic value of the stock is the present value of all future cash flows discounted by the dividend yield
- D. The intrinsic value of the stock is the present value of all future cash flows discounted by the required rate of return

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**Q35**

A stock does not pay any dividend and is expected to be selling at \$80 per share 1 year later. If the required rate of return of the stock is 8%, what should be the intrinsic value of the stock?

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**Q36**

A stock will pay a dividend of \$5.6 per share at the end of the year, and is expected to be at \$56 per share after paying the dividend. Given a required rate of return of 8%, calculate the intrinsic value of the stock.

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**Q37**

A stock is expected to pay dividends of \$5.0, \$5.5 and \$6.0 per share at the end of year 1, 2 and 3 respectively. The value of the stock is expected to be \$65 after paying dividend at the end of year 3. Given a required rate of return of 7%, calculate the current price of the stock using dividend discount model.

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**Q38**

A stock just paid a dividend of \$12 per share today. The dividend is expected to grow at a rate of 5% forever. Given a required rate of return of 11%, calculate the intrinsic value of the stock using Constant Growth Dividend Discount Model.

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**Q39**

A stock just paid a dividend of \$6 per share. If the dividend payout ratio of the stock is 40%, what is the company's earnings per share?

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**Q40**

Based on a dividend payout ratio of 60%, stock A is expected to pay a dividend of \$12 next year. If stock A is selling at \$300 per share, calculate its price to earnings ratio.

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**Q41**

A company just announced an EPS of \$3 today. The company expects the EPS will grow 20% next year. Calculate the price to earnings ratio of this company if the current price of its stock is \$72?

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**Q42**

Which of the following statements of a company do Fundamental analysts study in determining if the stock is a good investment?

- I. The company's balance sheet
  - II. The company's income statement
  - III. The company's statement of cash flows
- 
- A. I, and II only
  - B. I and III only
  - C. II and III only
  - D. I, II and III

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**Q43**

Which of the following would a technical analyst concern when he makes decision to buy or sell a company stock?

- I. The company's earnings per share
  - II. The company's historical debt levels
  - III. The company's historical stock prices
  - IV. The company's historical stock trading volumes
- 
- A. I and II only
  - B. III and IV only
  - C. I, II and III only
  - D. I, II, III and IV

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**Q44**

Jason has just written a put option on stock X. That means Jason has a/an:

- A. right to exercise the options and buy stock X
- B. right to exercise the options and sell some stock X
- C. obligation to buy some stock X if the options are exercised
- D. obligation to sell some stock X if the options are exercised

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**Q45**

Fill in the blanks.

- I. The price of an option is called option \_\_\_\_\_.
  - II. The agreed upon price to buy or sell the underlying securities is called \_\_\_\_\_ price.
  - III. Writing an option means \_\_\_\_\_ an option.
  - IV. The final day to exercise an option is called the \_\_\_\_\_ date.
- 
-

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**Q46**

Stock Y is trading at \$76 per share. A call option on the stock has a strike price of \$78. If the price of stock Y is \$82 on the option expiry date, what is the payoff to the call option buyer?

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**Q47**

Which of the following definition about open-end funds and closed-end funds are CORRECT?

- I. Open-end funds are traded only when the market is open while closed-end funds can be traded after the market is closed.
  - II. If the investors of closed-end funds want to cash in they will have to sell their holdings to other investors.
  - III. Fund managers of open-end funds will buy the shares back from the investors if the investors want to cash in their holdings.
- A. I and II only
  - B. I and III only
  - C. II and III only
  - D. I, II and III

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**Q48**

Which of the following is the CORRECT definition of the net asset value (NAV) of a mutual fund?

- A.  $NAV = (\text{Market value of assets plus Equities}) \div \text{Shares outstanding}$
- B.  $NAV = (\text{Market value of assets minus Equities}) \div \text{Shares outstanding}$
- C.  $NAV = (\text{Market value of assets plus Liabilities}) \div \text{Shares outstanding}$
- D.  $NAV = (\text{Market value of assets minus Liabilities}) \div \text{Shares outstanding}$

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**Q49**

Which of the following regarding real estate investments trusts (REITs) are CORRECT?

- I. REITs are closed-end fund in the sense that the fund managers are not responsible to buy back the shares if the investors want to cash out
  - II. REITs can invest directly in real estate or invest in real estate related loans
  - III. REITs are exempt from tax if they distribute at least 70% of the taxable income to the shareholders.
- A. I only
  - B. I and II only
  - C. I and III only
  - D. II and III only
-



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**Q50**

From the perspective of an American, which of the following are indirect quotes?

- I. JPY85 exchange for USD1
  - II. USD1 exchange for CAD0.9823
  - III. AUD1 exchange for USD1.0235
  - IV. USD1 exchange for HKD7.7893
- 
- A. I only
  - B. III only
  - C. II and IV only
  - D. I, II and IV only

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**Q51**

Given the following information, calculate the exchange rate of JPY per HKD?

HKD7.7923 per USD1  
JPY83.23 per USD1

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**Q52**

The price of a can of soda is EUR0.66 in Germany. The price of a can of soda of the same brand is selling at USD0.90 in the U.S. Calculate the exchange rate of USD per EUR According to the Purchasing Power Parity.

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**Q53**

The cross exchange rate of JPY and AUD is JPY84.56 per AUD. If the interest rates in Japan and Australia for the next year are 0.5% and 5.25% respectively, calculate the 1-year forward rate of JPY per AUD?

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**Q54**

International Fisher Effect is the prediction of:

- A. future spot exchange rate of 2 countries by using the current spot exchange rates and the nominal interest rates of the 2 countries
  - B. future spot exchange rate of 2 countries by using the current spot exchange rates and the inflation rates of the 2 countries
  - C. forward exchange rate of 2 countries by using the current spot exchange rates and the nominal interest rates of the 2 countries
  - D. forward exchange rate of 2 countries by using the current spot exchange rates and the inflation rates of the 2 countries
- 
- 

**Q55**

Which of the following description of standard deviation and variance of an asset is/are CORRECT?

- I. Variance is used to measure the risk of an asset
  - II. The value of the standard deviation of an asset is always negative
  - III. Standard deviation of an asset is the square root of the asset's variance
- A. I and II only
  - B. I and III only
  - C. II and III only
  - D. I, II and III
- 
- 

Use scenario analysis to answer the **Q56** and **Q57**.

The following is the information of the holding period return (HPR) of equity fund XYZ at different states of economy and the possibility of different states of economy.

State of Economy	Possibility	HPR equity fund XYZ
High growth	30%	25%
Normal growth	50%	8%
Negative growth	20%	-15%

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**Q56**

Calculate the expected return equity fund XYZ.

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**Q57**

Calculate the standard deviation of equity fund XYZ.

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**Q58**

Frank bought 1,000 shares of stock Z at \$15 per share 6 months ago. After receiving the dividend payment of \$1 per share today, Frank sold all 1,000 shares of stock Z at \$17 per share. Calculate Frank's holding period return (HPR) on stock Z.

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**Q59**

Susan bought 1,000 shares of stock X half year ago giving her a holding period return (HPR) of 5% till now. Calculate the annual percentage rate and effective annual rate on Stock X.

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**Q60**

Eric's investment portfolio has the following rates of return in the past 4 years.

	Portfolio value (in thousand)	Year on year rate of return
Beginning	\$100.00	-
End of year 1	\$110.00	10%
End of year 2	\$132.00	20%
End of year 3	\$121.44	-8%
End of year 4	\$128.73	6%

Calculate the average annual rate of return using arithmetic average rate of return and geometric average rate of return respectively.

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## Part X5 Insurance Planning

<b>A</b>	<b>Risk and insurance</b>
<b>B</b>	<b>Legal aspects of insurance</b>
<b>C</b>	<b>The insurance industry</b>
<b>D</b>	<b>Managing personal risks</b>
<b>E</b>	<b>Life insurance products</b>
<b>F</b>	<b>Annuities</b>
<b>G</b>	<b>Health risk protection</b>
<b>H</b>	<b>Income risk protection</b>
<b>I</b>	<b>Other insurance</b>

### LEARNING OUTCOMES

After studying this Part, you should be able to:

- ☐ know the relationship between risk and insurance and the personal risk management process;
- ☐ know principles and contract features of insurance;
- ☐ know the basic business operation of the insurance industry;
- ☐ understand the risk of premature death and the related needs analysis;
- ☐ understand the features of life insurance products;
- ☐ understand the considerations regarding of health risk protection;
- ☐ appreciate the importance of a disability insurance;
- ☐ calculate the need of disability insurance;
- ☐ know about the standard coverage of homeowner insurance and domestic helper insurance;

## Essential Readings for Part X5

### A RISK AND INSURANCE

- A1 CONCEPT AND TYPES OF RISK ( Syllabus topic 19b, 19c, 19d, 20a )
  - Fundamentals of Risk and Insurance, Ch. 1
- A2 RISK MANAGEMENT CONCEPTS AND TOOLS ( Syllabus topic 19a )
  - Fundamentals of Financial Planning, Ch. 7.3 (p.231-233)
  - Fundamentals of Risk and Insurance
    - Ch. 2 Risk Management Defined (p.16-17)
    - Ch. 2 Tools of Risk Management (p.17-19)
    - Ch. 4 Risk Management Decisions (p.58-62)
- A3 THE INSURANCE MECHANISM ( Syllabus topic 19a, 19d )
  - Fundamentals of Financial Planning, Ch. 7.3
  - Fundamentals of Risk and Insurance
    - Ch. 3 Elements of Insurable Risk (p.47-49)
- A4 FUNCTIONS AND BENEFITS OF INSURANCE ( Syllabus topic 19a )
  - Fundamentals of Financial Planning, Ch. 7.3
  - Fundamentals of Risk and Insurance,
    - Ch. 3 Nature and Functions of Insurance (p.38-46)
    - Ch. 3 Economic Contribution of Insurance (p.46-47)
- A5 RISK MANAGEMENT AND INSURANCE PLANNING OBJECTIVES ( Syllabus topic 19a )
  - Fundamentals of Risk and Insurance
    - Ch. 2 Risk Management and the Individual (p.25-27)
- A6 THE PERSONAL RISK MANAGEMENT PROCESS ( Syllabus topic 19a )
  - Fundamentals of Risk and Insurance
    - Ch. 2 Risk Management Process (p.25-33)

### B LEGAL ASPECTS OF INSURANCE

- B1 THE LAW OF CONTRACT ( Syllabus topic 21a )
  - Fundamentals of Risk and Insurance
    - Ch. 9 Insurance and the Law of Contracts (p.150-153)
  - IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 2.1
- B2 THE LAW OF AGENCY ( Syllabus topic 21a )
  - IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 2.2
- B3 PRINCIPLES OF INSURANCE ( Syllabus topic 21a, 21b, 21c )
  - Fundamentals of Risk and Insurance
    - Ch. 9 Special Legal Characteristics of Insurance Contracts (p.153-168)
  - IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 3

## C THE INSURANCE INDUSTRY

- C1 TYPES OF INSURANCE BUSINESS ( Syllabus topic 19e )
  - IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 5.1
  - Fundamentals of Risk and Insurance
    - Ch. 5 Classification of Private Insurers (p.79-85)
    - Ch. 5 Corporate Combinations (p.85-86)
- C2 STRUCTURE OF HONG KONG INSURANCE INDUSTRY (Syllabus topic 22a – 22e )
  - IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 5.2-5.4
  - Fundamentals of Risk and Insurance Ch. 6
  - Supplementary Notes for AFP Certification #084
- C3 CORE FUNCTIONS OF INSURANCE COMPANIES ( Syllabus topic 19e )
  - IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 4
  - Fundamentals of Risk and Insurance, Ch. 7
- C4 SELECTION INSURANCE COMPANIES AND AGENCIES (Syllabus topic.29a - 29d)
  - Fundamentals of Risk and Insurance
    - Ch. 4 Selecting the Agent and the Insurance Company (p.66-69)
    - Ch. 16 Choosing the Company (p.271-273)
    - Ch. 16 Comparing Differences in Cost (p.273-280)

## D MANAGING PERSONAL RISKS

- D1 PERSONAL RISK EXPOSURE (Syllabus topic 20a )
  - Fundamentals of Risk and Insurance
    - Ch. 10 Objectives in Managing Personal Risk (p.172-173)
    - Ch. 10 Other Steps in Managing Personal Risk (p.173)
- D2 PREMATURE DEATH (Syllabus topic 20a)
  - Fundamentals of Financial Planning, Ch. 7.3 (p. 242-245)
  - Fundamentals of Risk and Insurance
    - Ch. 10 Managing Risks Associated with Premature Death (p.173-185)
- 4. D3 SUPERANNUATION ( Syllabus topic.20a)
  - Fundamentals of Risk and Insurance
    - Ch. 10 The Risks Associated with Superannuation (p.185-186)
- 5. D4 DISABILITY AND OTHERS ( Syllabus topic 20a)
  - Fundamentals of Risk and Insurance
    - Ch. 10 The Risks Associated with Disability (p.186-188)
    - Ch. 10 Evaluation the Medical Expense Exposure (p.188)
    - Ch. 10 Managing the Risk of Unemployment (p.188-189)

## **E LIFE INSURANCE PRODUCTS**

- E1 TYPES OF LIFE INSURANCE POLICY ( Syllabus topic 25a )
  - Fundamentals of Risk and Insurance
    - Ch. 11 Types of Life Insurance Contracts (p.195-198)
    - Ch. 11 General Classification of Life Insurance (p.204-207)
- E2 FEATURES OF VARIOUS LIFE INSURANCE PRODUCTS ( Syllabus topic 25a )
  - IIQE - Study Notes for the Long Term Insurance Examination (2011 Edition), Ch. 2
  - Fundamentals of Risk and Insurance
    - Ch. 11 Life Insurance Products (p.198-204)
- E3 CONTRACTS, CLAUSES AND FEATURES ( Syllabus topic 25c, 25e )
  - IIQE - Study Notes for the Long Term Insurance Examination (2011 Edition), Ch. 4
  - Fundamentals of Risk and Insurance, Ch. 13
- E4 BENEFIT RIDERS AND OTHER PROVISIONS ( Syllabus topic 25c, 25d )
  - IIQE - Study Notes for the Long Term Insurance Examination (2011 Edition), Ch. 3
  - Fundamentals of Risk and Insurance, Ch. 14 (exclude Universal Life policy provisions)
- E5 FORMS OF CLAIMS ( Syllabus topic 25a )
  - IIQE - Study Notes for the Long Term Insurance Examination (2011 Edition), Ch. 5.6
- E6 TYPES OF PREMIUM ( Syllabus topic 25f )
  - IIQE - Study Notes for the Long Term Insurance Examination (2011 Edition), Ch. 1.3

## **F ANNUITIES**

- F1 TYPES AND FEATURES OF ANNUITIES ( Syllabus topic 26a - 26c )
  - Fundamentals of Risk and Insurance
    - Ch. 17 Annuities (p.292-299, exclude Specialized Annuities)
  - Fundamentals of Financial Planning, Ch. 8.2 (p.262)

## **G HEALTH RISK PROTECTION**

- G1 MEDICAL EXPENSE NEEDS ANALYSIS ( Syllabus topic 27 )
  - Supplementary Notes for AFP Certification #085
  - Fundamentals of Risk and Insurance
    - Ch. 24 Health Insurance (p.411)
- G2 MEDICAL EXPENSE INSURANCE ( Syllabus topic 27a )
  - Fundamentals of Risk and Insurance
    - Ch. 24 Medical Insurance (p.414-415)
    - Ch. 24 Other Medical Expenses Coverage (p.415-416)

- G3 LONG TERM CARE INSURANCE ( Syllabus topic 27d )
  - Fundamentals of Risk and Insurance
    - Ch. 24 Long Term Care Insurance (p.421-422)

## **H INCOME RISK PROTECTION**

- H1 DISABILITY NEEDS ANALYSIS ( Syllabus topic 27 )
  - Supplementary Notes for AFP Certification #086
- H2 DISABILITY INCOME INSURANCE ( Syllabus topic 27c )
  - Fundamentals of Risk and Insurance
    - Ch. 24 Disability Income Insurance (p.416-421)

## **I OTHER INSURANCE**

- I1 PERSONAL ACCIDENT INSURANCE ( Syllabus topic 27b )
  - Fundamentals of Risk and Insurance
    - Ch. 24 Personal Accident Insurance (p.412-414)
- I2 TRAVEL INSURANCE( Syllabus topic 24b )
  - Fundamentals of Risk and Insurance, Ch. 24.6
    - Ch. 24 Travel Insurance (p.422-423)



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## Part X5

### EXERCISE QUESTIONS

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**Q01**

For losses with high frequency and low severity, which type of risk management techniques should be recommended?

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**Q02**

What are the two important elements in the definition of Risk?

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**Q03**

In taking out an insurance policy with deductible, what types of risk management measures are being applied by the insured?

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**Q04**

In the process of risk management, what is the purpose of evaluating a potential loss?

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**Q05**

True or False: In dealing with risk, insurance is the best method amongst all.

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**Q06**

True or False: Insurance contract could be formed by verbally.

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**Q07**

From the angle of legal characteristic of insurance contract, why do the insurers usually draft the insurance policy terms in a detailed manner?

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**Q08**

Between utmost good faith and insurable interest, which insurance principle is considered to be more important for the validity of an insurance contract?

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**Q09**

Explain the main application of the principle of subrogation.

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**Q10**

True or False: Innocent misrepresentation will always make a claim invalid in any kind of insurance.

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**Q11**

What is a Catastrophe Bond?

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**Q12**

Which category of insurers has the highest number of operation in Hong Kong?

- A. General business insurers
- B. Long-term business insurers
- C. Composite business insurer

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**Q13**

Why do captive insurers have a lower amount of required paid-up capital?

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**Q14**

What are the minimum requirements for authorization for an insurance company operating in Hong Kong?

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**Q15**

As part of the minimum requirement for brokers, a newly established broker firm is required to buy professional indemnity insurance of at least:

- A. HK\$1 million
  - B. HK\$3 million
  - C. HK\$5 million
  - D. HK\$7 million
- 
-

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**Q16**

Which of the following statement in relation to the Human Life Value Approach in determining the amount of life insurance is/are CORRECT?

- I. Human life value can be defined as the present value of the average income of the persons before the normal retirement age.
  - II. Other things being equal, the economic value of the individual generally increases over time.
- A. I only  
B. II only  
C. Neither I nor II

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**Q17**

Calculating the amount of additional life insurance needed by Mary based on her information below:

Income needs	\$1,500,000
Special needs	\$500,000
<u>Assets</u>	
bank accounts	\$150,000
retirement plans	\$150,000
investment accounts	\$250,000
whole life insurance (face amount)	\$800,000
group life insurance policy through her employer	\$100,000
household insurance policy	\$200,000

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**Q18**

Which of the following statements in relation to risk-measuring strategies for premature death. is/are CORRECT?

- I. Capital liquidation approach is designed to meet the single risk management strategy of protecting dependents against deprivation that might result if the income stream on which they depend is interrupted.
  - II. Capital conservation strategy seeks to meet the personal financial planning objective of transferring wealth to heirs.
- A. I only  
B. II only  
C. Both I and II
-

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**Q19**

What is the definition of premature death in the context of insurance?

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**Q20**

True or False: Everyone needs life insurance.

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**Q21**

True or False: Since human life is invaluable, everyone should buy as much life insurance as possible.

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**Q22**

Give examples of those who may not need to take out a life insurance policy.

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**Q23**

A person aged 52 is facing a choice with the following term life policies. Assume things being equal, rank the following policies in terms of their first year premium, from highest to the lowest.

- I. Yearly renewable term
- II. 5 year renewable term
- III. 10 year renewable term
- IV. Term to age 65

- A. I>II>III>IV
  - B. IV>III>II>I
  - C. III>IV>II>I
  - D. IV>III>I>II
- 
-

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**Q24**

Which of the following statements in relation to a universal life policy is/are CORRECT?

- I. Policy loans are permitted on an interest-free basis.
  - II. The frequency of premium payments can be varied.
  - III. The death benefit can be increased without further evidence of insurability
  - IV. Premium payments can be any amount as long as there is sufficient cash value to cover mortality costs and expenses.
- 
- A. I and II
  - B. I and III
  - C. II and IV
  - D. III and IV

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**Q25**

For a single parent with limited income and receiving Government's subsidy on daily living expense, which of the following type of life insurance would be most suitable?

- A. Limited payment whole life insurance
- B. Variable life insurance
- C. Term insurance
- D. Endowment insurance

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**Q26**

Which of the following statements in relation to Investment-linked long-term insurance is/are CORRECT?

- I. This type of policy may sometimes guarantee a minimum value. In this case, the insurer will limit the types of investments that can be linked to very conservative vehicles.
  - II. According to the long-term insurance license classification in Hong Kong, this is a "Class A" product.
- 
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II

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**Q27**

A 25 year-old man purchased a single premium whole life insurance policy. After he paid the initial single premium, his life insurance policy is considered:

- A. matured
  - B. reduced
  - C. paid-up
  - D. expired
-

---

**Q28**

Which of the following statements about endowment insurance policies is/are CORRECT?

- I. The benefit is paid if the life insured dies within the term
  - II. The benefit is paid if the life insured can survive after the term
- 
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 

**Q29**

Which of the following descriptions about life insurance reserve at a particular time of the coverage period is true?

- A. It equals to the summation of the present value of future benefits and the present value of future premiums.
  - B. It equals to the difference between the present value of future benefits and the present value of future premiums.
  - C. It equals to the summation of the present value of past benefits and the accumulated value of past premiums.
  - D. It equals to the difference between the present value of future benefits and the accumulated value of past premiums.
- 

**Q30**

Which of the following statements about Spendthrift Clause in life insurance contract is/are CORRECT?

- I. It denies beneficiary the right to commute or assign his or her interest in the policy.
  - II. It is used only in conjunction with an installment settlement option.
- 
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 

**Q31**

Albert purchased a life insurance policy ten years ago. He inadvertently stated that he was three years younger than his actual age when he purchased the policy. If Albert dies today, how much will the company pay?

- A. Nothing
  - B. Less than the policy face value
  - C. The policy face value
-

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**Q32**

Which of the following statements about the entire-contract clause in life insurance policy is/ are CORRECT?

- I. It states that the life insurance policy and attached application constitute the entire contract between the parties.
  - II. All statements in the application are considered to be representations rather than warranties.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 

**Q33**

Which of the following statements about life insurance reserve is/are CORRECT?

- I. For term insurance, the reserve will decrease and then increase during the term period.
  - II. For whole-life policies, endowments, and limited-payment whole-life policies, the reserve will increase, eventually reaching the face amount of the policy.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 

**Q34**

Which of the following are determinants of the net single premium of a pure life insurance policy?

- I. Mortality
  - II. Morbidity
  - III. Interest
  - IV. Loading
- A. I, II and III only
  - B. II, III and IV only
  - C. I, III and IV only
  - D. All of above
- 

**Q35**

In which part of an insurance policy contract states that the policy owner possesses all contractual rights in the policy while the insured is living?

- A. Ownership clause
  - B. Entire contact clause
  - C. Cancellation clause
  - D. Incontestability clause
-



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**Q36**

Which of the following statements about beneficiary designation in life insurance policy is /are CORRECT?

- I. An irrevocable beneficiary is one that cannot be changed without the beneficiary's consent.
  - II. A contingent beneficiary is entitled to the proceeds if the primary beneficiary dies before the insured.
  - III. The insured's estate can only be named as primary beneficiary, but cannot be named as contingent beneficiary.
- A. I only
  - B. I and II
  - C. II and III
  - D. I and III

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**Q37**

A policyholder purchased a life insurance policy with face amount of \$200,000, with an Accidental Death Benefit rider of \$400,000 five years ago. What will be the most possible amount of death proceed paid if the policyholder committed suicide yesterday?

- A. \$0
- B. \$200,000
- C. \$400,000
- D. \$600,000

---

**Q38**

Which of the following statements in relation to non-forfeiture options in life insurance policies is/are CORRECT?

- I. Under the reduced paid-up insurance option, the cash surrender value is used as single premium to extend the full face amount of the policy into the future as term insurance for a certain number of years and days.
  - II. Under the extended term insurance option, the cash surrender value is applied as a net single premium to purchase a reduced paid-up policy.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II

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**Q39**

Michael funded a life annuity through installment payments. At age 60, he decided to elect an annuity settlement option and to begin to receive payments. Which of the following life income options will provide Michael with the highest monthly income?

- A. Life income (no refund)
  - B. Life income with payments guaranteed for 5 years.
  - C. Life income with payments guaranteed for 10 years.
  - D. Installment refund option
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**Q40**

Which of the following statements in relation to annuities is/are CORRECT?

- I. All other things being equal, female annuitants would receive lower income payments than male annuitants in an annuity contract.
  - II. All other things being equal, a deferred annuity provides lower income payments than an immediate annuity.
- 
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 
- 

**Q41**

Which of the following is/are existing annuity contracts?

- I. fixed annuity
  - II. variable annuity
  - III. Roth annuity
  - IV. equity-indexed annuity
- 
- A. I and II
  - B. III and IV
  - C. I, II and IV only
  - D. All of the above
- 
- 

**Q42**

True or False: Annuity contract is also an insurance product, not only a retirement product.

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**Q43**

True or False: Pre-existing condition applies only to clients who know the condition at the time of application.

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**Q44**

In general, what are the options of payment mode for the proceeds under long term care insurance?

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**Q45**

Explain Gatekeeper provision.

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**Q46**

In the context of insurance, what are the two major costs in relation to sickness?

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**Q47**

List the major factors affecting the premium of a medical insurance policy?

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**Q48**

In the context of insurance, what are the common methods in determining the amount of payment to be paid to an insured who is partially disabled?

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**Q49**

True or False: Critical illness is a type of medical insurance.

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**Q50**

True or False: There is no standard definition of total disabled

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**Q51**

What are the common determinants of the underwriting result of a personal accident insurance policy?

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**Q52**

True or False: Travel insurance is a type of package insurance

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## Part X6

### Ethical and regulatory requirements for financial planners

<b>A</b>	<b>Ethics</b>
<b>B</b>	<b>Regulatory framework of financial industry</b>
<b>C</b>	<b>Regulatory framework of insurance industry</b>
<b>D</b>	<b>Regulatory framework of MPF system in Hong Kong</b>
<b>E</b>	<b>Other Relevant Legislation</b>

#### LEARNING OUTCOMES

After studying this Part, you should be able to:

- ☐ describe the ethical requirement of the financial planning industry;
- ☐ describe the regulatory framework of financial industry;
- ☐ describe the regulatory framework of insurance industry;
- ☐ describe the regulatory framework of MPF system in Hong Kong;
- ☐ describe the other relevant legislation related to the operations of financial planning industry.

## Essential Readings for Part X6

### A ETHICS

- A1 WHAT IS ETHICS ( Syllabus topic 8b )
  - Fundamentals of Financial Planning, Ch. 6.5
- A2 THE LAW OF AGENCY ( See Part 5 – B2)
- A3 PRACTICING ETHICS AND CARRYING OUT PROFESSIONAL RESPONSIBILITIES ( Syllabus topic 8a, 8b )
  - Fundamentals of Financial Planning, Ch. 6.6
  - IFPHK Financial Planning Practice Standards
- A4 PROFESSIONAL ETHICS ( Syllabus topic 8a, 8b )
  - Fundamentals of Financial Planning, Ch. 6.7(P.177, 190-196)
  - IFPHK Code of Ethics and Professional Responsibility
- A5 REGULATORY REQUIREMENTS OF AFP<sup>TM</sup>/CFP<sup>CM</sup> CERTIFICANTS( Syllabus topic 7a – 7d )
  - Fundamentals of Financial Planning, Ch. 5.4 (p.147-149)
  - Disciplinary Rules and Procedures
  - CFP<sup>CM</sup> Certification Renewal Policy and Guidelines on Continuing Education Requirements
  - AFP<sup>TM</sup> Certification Renewal Policy and Guidelines on Continuing Education Requirements
  - Candidacy Renewal Policy
  - Guide to use the AFP Marks
  - Guide to use the CFP Marks

### B REGULATORY FRAMEWORK OF FINANCIAL INDUSTRY

- B1 THE FINANCIAL REGULATORS ( Syllabus topic 35a,- 35c )
  - Essentials of Investments, Ch. 22.2, 22.6 - 22.8
- B2 SECURITIES LEGISLATION AND CODE OF CONDUCT ( Syllabus topic 35d )
  - Fundamentals of Financial Planning, Ch. 9.1
  - Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission Securities, Ch. 2, 3, 12
- B3 INVESTOR PROTECTION ( Syllabus topic 35b )
  - Essentials of Investments, Ch. 23

### C REGULATORY FRAMEWORK OF INSURANCE INDUSTRY

- C1 THE REGULATOR AND SELF-REGULATORY BODIES ( Syllabus topic 22a )

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 5.5
- Supplementary Notes for AFP Certification #089
- Fundamentals of Risk and Insurance Ch6 p.96-99

**C2 REGULATION OF INSURANCE COMPANIES IN HONG KONG ( Syllabus topic 22b, 22c )**

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 6.1
- Fundamentals of Financial Planning, Ch. 9.2
- Fundamentals of Risk and Insurance Ch.6

**C3 REGULATION OF INSURANCE INTERMEDIARIES IN HONG KONG ( Syllabus topic 22b, 22e )**

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 6.2
- Fundamentals of Risk and Insurance Ch.6
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**D REGULATORY FRAMEWORK OF MPF SYSTEM IN HONG KONG**

**D1 REGULATORS ( Syllabus topic 66c )**

- Study note for MPF Intermediaries Examination (8<sup>th</sup> Edition), Ch. 2.1, 2.2

**D2 MPF LEGISLATION, CODES AND GUIDELINES ( Syllabus topic 66c )**

- Study note for MPF Intermediaries Examination (8<sup>th</sup> Edition), Ch. 2.3

**D3 OTHER MPF RELEVANT LEGISLATION ( Syllabus topic 66c )**

- Study note for MPF Intermediaries Examination (8<sup>th</sup> Edition), Ch. 2.4

**D4 MPF INTERMEDIARIES ( Syllabus topic 35e )**

- Study note for MPF Intermediaries Examination (8<sup>th</sup> Edition), Ch. 7.1-7.6

**E OTHER RELEVANT LEGISLATION**

**E1 PROTECTION OF PERSONAL DATA ( Syllabus topic 16a )**

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 7.2
- Fundamentals of Financial Planning, Ch. 9.4

**E2 ISSUES REGARDING EQUAL OPPORTUNITY ( Syllabus topic 22d )**

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 7.3

**E3 PREVENTION OF MONEY LAUNDERING( Syllabus topic 16b, 22d )**

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 7.4
- Fundamentals of Financial Planning, Ch. 9.5 (p.301-302)

**E4 COMBAT AGAINST TERRORIST FINANCING ( Syllabus topic 22d )**

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 7.4

E5 PREVENTION OF CORRUPTION ( Syllabus topic 16c, 22d )

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 7.5
- Fundamentals of Financial Planning, Ch. 9.5 (p.302-303)

E6 PREVENTION OF INSURANCE FRAUD ( Syllabus topic 22d )

- IIQE - Study Notes for the Principles and Practice of Insurance Examination (2013 Edition), CH. 7.6



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## Part X6

### EXERCISE QUESTIONS

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#### Q01

What are the 7 principles of IFPHK's Code of Ethics and Professional Responsibility?

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#### Q02

Which of the following are the main functions/responsibilities of Hong Kong Monetary Authority?

- I. Manage the Hong Kong Exchange Fund
  - II. Supervise the banks in Hong Kong
  - III. Supervise the Investor Compensation Company Limited
  - IV. Supervise and regulate the Hong Kong Exchanges and Clearing Limited
- 
- A. II only
  - B. I and II only
  - C. II and IV only
  - D. I, II and III only

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#### Q03

Name FIVE of the NINE SFC regulated activities.

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#### Q04

Under the context of "disclosure of interest" under Securities and Futures Ordinance, which of the following situations has(have) to give notice to The Stock Exchange of Hong Kong?

- I. Mr. Yan, who is a holding 5.9% of a listed company's shares, buys another 10,000 shares of the company's stock. After buying the shares his holding of the company's shares is still below 6%.
  - II. Mrs. Kong, who is the chief executive director of a listed company, buys 10,000 shares of the company's stock. After buying the shares her holdings of the company's shares is still below 1%.
- 
- A. Mr. Yan only
  - B. Mrs. Kong only
  - C. Both Mr. Yan and Mrs. Kong
  - D. Neither Mr. Yan nor Mrs. Kong
-

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**Q05**

Under Securities and Futures Ordinance, which of the following are illegal activities in Hong Kong?

- I. A person spreading the news that the chairman of a listed company has passed away and causing the company's share price to fall sharply, but in fact the chairman is still alive.
  - II. A group of people trying to make an impression of high trading volume of a listed company's by buying and selling the shares among themselves.
  - III. A stock broker cold call and ask the other party if he/she is interested in buying some stocks.
- A. I and II only
  - B. I and III only
  - C. II and III only
  - D. I, II and III

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**Q06**

Which of the following statement in relation to the difference of insurance agents and insurance brokers in Hong Kong is CORRECT?

- A. Insurance agents serve both individual clients and corporate clients but insurance brokers serve corporate clients only
- B. Insurance agents represent the insurers but insurance brokers represent the clients
- C. Insurance agents are required to fulfill the continuous professions development (CPD) hours but insurance brokers are not required to do so
- D. Insurance agents are under a self-regulatory framework but insurance brokers are not

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**Q07**

Which of the following statement in relation to the minimum requirement for insurance broker authorization is(are) CORRECT?

- I. Minimum capital and net asset value of HK\$10,000,000
  - II. Minimum education of Form 5 or equivalent
  - III. Minimum age of 18
- A. II only
  - B. III only
  - C. I and II only
  - D. II and III only

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**Q08**

Which of the following organization is responsible for the administration of insurance agents in Hong Kong?

- A. The Insurance Authority
  - B. The Hong Kong Federation of Insurers
  - C. The Insurance Agents Registration Board (IARB)
  - D. The insurance companies that the agents work for.
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**Q09**

Under the self-regulatory system for insurance industry in Hong Kong, name the professional bodies that act as the regulator for (a) insurance companies, (b) insurance agents, (3) insurance brokers respectively.

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**Q10**

Under Mandatory Provident Fund Schemes Ordinance, at what age can a person withdraw his/her MPF benefit (a) under normal circumstances? (b) if he/she decides to retire early?

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**Q11**

In order to be registered as an MPF intermediary, a person must be under the supervision of one of the 3 financial regulatory regimes. Name the 3 regimes.

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**Q12**

Which of the following activities are governed by the Personal Data (Privacy) Ordinance In Hong Kong?

- I. The security of clients' personal data
  - II. The amount of data to be collected from the clients
  - III. The right of the clients to access to their personal data
  - IV. The accuracy and retention period of clients' personal data
- 
- A. I and II only
  - B. I and IV only
  - C. II and III only
  - D. I, II, III and IV
- 
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**Q13**

What are the main functions/responsibilities of the Mandatory Provident Fund Schemes Authority?

- I. To regulate the activities of the approved trustees
  - II. To register the provident fund schemes as registered schemes
  - III. To make rules and guidelines for the mandatory contributions
  - IV. To guarantee the people who make the mandatory contributions will have sufficient retirement fund in the MPF account when they retire
- 
- A. I, and II only
  - B. II and IV only
  - C. II and III only
  - D. I, II and III only
- 
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## Part X7

### Management of a financial planning practices

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#### **A      Management of a financial planning practices**

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#### **LEARNING OUTCOMES**

After studying this Part, you should be able to:

- ☐ describe the structure and basic operation of a firm;
- ☐ describe the various way to compensate a financial planner financially;
- ☐ prepare the letter of engagement and policy statement in the financial plan for a client;
- ☐ describe the associated professional liabilities of financial planner;
- ☐ know the importance of using technology in financial planning;
- ☐ know the requirement of regulatory compliance, documentation and reporting in financial planning process.

## Essential Readings for Part X7

### **A MANAGEMENT OF A FINANCIAL PLANNING PRACTICE**

- A1 STRUCTURES OF FIRMS AND OPERATION OF THE PRACTICE
  - Supplementary Notes for AFP Certification #090
- A2 COMPENSATION
  - Fundamentals of Financial Planning, Ch. 5.1 (p.127-129)
- A3 INTEGRATION OF TECHNOLOGY AND CLIENT COMMUNICATION
  - Fundamentals of Financial Planning, Ch. 5.3 (p.142-144)
- A4 REGULATORY COMPLIANCE, DOCUMENTATION AND REPORTING
  - OCI Annual Report 2009 – Other measures for Customer protection

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## Part X7

### EXERCISE QUESTIONS

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#### Q01

In general, how could a firm be organized to provide the foundation on which standard operating procedures and routines rest; and determines which individuals get to participate in which decision-making processes?

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#### Q02

List 4 of the suggested steps to carry out the “know-your-client” process in practice.

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## ANSWER TO EXERCISE

### PART X1

Q01	C	Q09	\$158,481.45
Q02	B	Q10	7.93%
Q03	A public company is a corporation that offers its securities for sale to the general public. A listed company is a public company that its shares are traded on a stock exchange. The listed company must comply with the listing requirements and rules set out by the exchange. The shares are generally freely bought and sold among investors in the secondary market.	Q11	\$56,275.39
Q04	B	Q12	\$92,307.69
Q05	The income statement, also known as the profit and loss account, reports the total revenues earned and the total expenses incurred over the financial year. The difference between total revenues and total expenses is known as the net income. In other words, it shows the operating performance of a firm. The cash flow statement reports changes in a firm's cash position over the financial year. Basically, it explains what happens to a firm that leads to a change in the balance of cash and cash equivalents in the statement of financial position from last year to this year.	Q13	\$60,069.71
Q06	\$259,151.28	Q14	\$38,838.38
Q07	\$9.77	Q15	\$3,498,307.43
Q08	14.87%	Q16	\$33,779.92
		Q17	Investment Y gives a higher annual rate of return. Investment X's annual rate of return is 21.86% and Investment Y's annual rate of return is 23.38%.
		Q18	\$41,128.65
		Q19	C
		Q20	NPV = \$13,651.36
		Q21	IRR = 12%
		Q22	MIRR = 10.80%
		Q23	Payback period = 4 years
		Q24	HKD281,444.82
		Q25	HKD1,063,667.22
		Q26	HKD470,461.03
		Q27	4.8%
		Q28	\$4,251,836
		Q29	\$28,388.70



### PART X2

<p>Q01</p> <ul style="list-style-type: none"> <li>• The duration of the engagement</li> <li>• The responsibilities of the client.</li> <li>• The financial planner's fees and charges.</li> <li>• The services to be provided by the financial planner.</li> <li>• The limitations of the financial planner in providing the service.</li> </ul> <p>Q02 According to the financial planning pyramid, they should be prioritized as follows:</p> <p>(1) Basic consumption, tax and liabilities; (2) Life and asset protection (insurance);</p>	<p>(3) Short-term/medium-term goals such as children's education fund; (4) Retirement planning; (5) Estate planning.</p> <p>Q03 A very low savings ratio. A very low liquidity ratio. A very low solvency ratio.</p> <p>Q04 D</p> <p>Q05 D</p> <p>Q06 C</p>
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### PART X3

<p>Q01 It refers to a scheme which the contributor's input to the scheme is well defined, i.e. the amount of the contribution is specified.</p> <p>Q02 D</p> <p>Q03 B</p> <p>Q04 B</p> <p>Q05 B</p> <p>Q06 Celina's employer is required to make a contribution of HK\$50 but Celina is not required to make any contribution.</p> <p>Q07 A</p> <p>Q08 Insurer pools excessive longevity risk for life annuity and premature death risk for life insurance. Just note 'death' is not a risk as everyone will die finally, it is nothing uncertain.</p> <p>Q09 D</p>	<p>Q10 The 7 steps are:</p> <ol style="list-style-type: none"> <li>Set financial goals</li> <li>Estimate income</li> <li>Set aside emergency fund and target savings amount</li> <li>List the fixed expenses</li> <li>Estimate the variable expenses</li> <li>Record actual spending</li> <li>Review the plan</li> </ol> <p>Q11 The purpose of an emergency fund is to take care of the living expenses in case the client's regular income stops due to some unforeseen events such as unemployment, accidents, sickness, etc.</p> <p>Q12 The common suggestion of an emergency fund is 3 to 6 months of one's living expense.</p> <p>Q13 False.</p> <p>Q14 False.</p> <p>Q15 False.</p>
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PART X4

- Q01 D  
Q02 C  
Q03 (A) Repo (repurchase agreement)  
(B) U.S. Treasury bills (T-bills)  
Q04 The following belong to the money market.  
1. Certificates of deposit  
2. Commercial paper  
3. Banker's acceptance  
4. Repos (repurchase agreement)  
5. Federal funds  
6. The LIBOR market  
7. Eurodollars  
8. U.S. Treasury bills

Q05

Common stock	Preferred stock
Shareholders have voting right.	Shareholders have no voting right
Dividends distributed to shareholders are usually different from time to time.	Dividends to shareholders are usually fixed.

- Q06 A  
Q07 D  
Q08 D  
Q09 A  
Q10 1) Recession 2) Trough  
3) Recovery, 3) Peak  
Q11 Peak.  
Q12 Structural  
Q13 C  
Q14 A  
Q15 APR is 6% and EAR is 6.14%  
Q16 6%  
Q17 D  
Q18  
I. The statement of purpose or overview  
II. The investment objectives  
III. The roles and responsibilities of the investment advisor  
IV. The investment guidelines and boundaries  
Q19 B

- Q20 A  
Q21 Validity and reliability  
Q22 Utility-based method : This method uses a series of hypothetical questions with different risk levels to test and see which risk level is acceptable to the client. For example, "If the value of your investment portfolio drops 10% (or 20%, 30%, etc) in 1 month, would you be very uncomfortable?" The questions can be related to investment or other situations in life.  
Psychometric method: This method uses a series of hypothetical questions with events in our lives to test the risk appetite of the client. For example, "How often do you drive faster than the legal limit?" The client can choose from options like "always", "sometimes", "seldom" and "never". A score will be given to the answer chosen and then add up to the total score to decide the risk profile of the client.

Q23

- I. Bond 30% (or 40%)  
II. Cash 40% (or 30%)  
III. Global Stock 20%  
IV. Hong Kong stock 10%

Q24 A

Q25 \$865.80

Q26 1.58%

Q27 C

Q28 \$1,271.55

Q29 7.4%

Q30 The indentures are:

- Sinking Fund
- Subordination of further debt
- Dividend restriction
- Collateral

Sinking Fund

The issuer will use the sinking fund to redeem part of the bond issued. Bondholder will receive part of the face value before the time to maturity and hence reduce the uncertainty.

Subordination of further debt

When further debt raised by the issuer is subordinated to the bond, bondholder will have a higher priority claim than the creditors of the further debt in case the issuer goes bankrupt.

Dividend restriction

When dividend paid out is restricted, the company will have more equity, which increases the ability of the company to repay its debt.

Collateral

When the bond is backed by the company assets, the bondholder has the right to claim on the assets in case the company defaults on the bond.		<b>Step 3</b>	selling
		<b>Step 4</b>	expiry or maturity
Q31	A	Q46	\$4
Q32	Bond B	Q47	C
Q33	\$25	Q48	D
Q34	D	Q49	B
Q35	\$74.07	Q50	D
Q36	\$57.04	Q51	JPY10.6811 to HKD1
Q37	\$67.43	Q52	USD1.3636 per EUR1
Q38	\$210	Q53	JPY80.74 per AUD
Q39	\$15	Q54	A
Q40	15	Q55	B
Q41	24	Q56	8.5%
Q42	D	Q57	13.87%
Q43	B	Q58	20%
Q44	C	Q59	APR = 10%    EAR = 10.25%
Q45		Q60	Arithmetic ARR = 7% Geometric ARR = 6.52%
	<b>Step 1</b>		
	<b>Step 2</b>		premium. strike or exercise

#### PART X5

Q01	Prevention	-	Hold down the premium rate as the insurers have the chance to recover the loss.
Q02	Uncertainty and Potential Loss		
Q03	Risk retention and risk transfer	Q10	False
Q04	The result of the evaluation (matrix of loss frequency and loss severity) is to be used for selecting a suitable risk management technique.	Q11	Catastrophe bond is used by reinsurers to transfer out their risks to investors. It is an instrument of securitization of risk. Reinsurers will link up the risks which they want to transfer to the bond and sell down to investors. If the risks really happen and the loss incurred exceeds a designated level, then the issuers (i.e. reinsurers) may not need to pay interest or even the principal.
Q05	False	Q12	A
Q06	True	Q13	It is because captive insurers can only be allowed to do insurance business within its group companies.
Q07	It is because if the terms are not clear enough, according to the contract of adhesion, all the benefits in explaining the terms will go to the insured.	Q14	There are four minimum requirements: - Minimum paid-up capital - Relevant amount (i.e. minimum solvency margin) - Fit and proper of the controller - Adequacy of reinsurance arrangement
Q08	Insurable interest is more important because if there is no utmost good faith, the contract is said to be voidable; if there is no insurable interest, the contract is said to be void.	Q15	B.
Q09	The advantages may include: - hold negligent person liable - Prevent the insured from collecting compensation twice (from both the insurer and the negligent person); it is crucial for the principle of indemnity.	Q16	C
		Q17	550,000

Q18	C	Q38	D
Q19	The one who dies with unfulfilled financial obligations, e.g. dependents' living, mortgage loan, children's education, etc.	Q39	A
Q20	False	Q40	A
Q21	False	Q41	C
Q22	Elderly, tycoon, the one without any dependents or unfulfilled financial obligations.	Q42	True
Q23	B	Q43	False
Q24	C	Q44	Generally 2 modes, one is lump sum payment, and the other is monthly payment. Both are subject to a maximum not exceeding the life insurance amount.
Q25	C	Q45	It is a stated condition used to qualify the claim under long term care insurance. In the provision, there is a list of activities of daily living, in which the client cannot perform two items or more, and then he/she is qualified for the benefit.
Q26	A	Q46	1. cost of medical treatment and 2. Losing income.
Q27	C	Q47	health trend, inflation and claim ratio.
Q28	C	Q48	1. based on doctor's report and 2. Use the residual income method.
Q29	B	Q49	False
Q30	C	Q50	True
Q31	B	Q51	Occupation, hobbies, claim history and physical condition.
Q32	C	Q52	True
Q33	B		
Q34	C		
Q35	A		
Q36	B		
Q37	B		

PART X6

Q01	<ol style="list-style-type: none"> <li>1. Integrity</li> <li>2. Objectivity</li> <li>3. Competence</li> <li>4. Fairness</li> <li>5. Confidentiality</li> <li>6. Professionalism</li> <li>7. Diligence</li> </ol>	(c) Hong Kong Federation of Insurance Broker and Professional Insurance Brokers Association Limited act as the regulators for insurance brokers
Q02	B	Q10
Q03	<ol style="list-style-type: none"> <li>1. Dealing in securities;</li> <li>2. Dealing in futures contracts;</li> <li>3. Leveraged foreign exchange trading;</li> <li>4. Advising on securities;</li> <li>5. Advising on futures contracts;</li> <li>6. Advising on corporate finance;</li> <li>7. Providing automatic trading services;</li> <li>8. Securities margin financing;</li> <li>9. Asset management;</li> </ol>	<p>(a) Under normal circumstances, a person can withdraw his/her MPF benefit at age 65;</p> <p>(b) If a person decides to retire early, he/she can withdraw the MPF benefit at age 60.</p>
Q04	C	Q11
Q05	D	In order to be registered as an MPF intermediary, a person must be under the supervision of one of the 3 financial regulatory regimes. Name the 3 regimes.
Q06	B	Under Mandatory Provident Fund Schemes Ordinance (MPFSO) states that in order to be registered as an MPF intermediary, a person has to be at least one of the following:
Q07	A	- Employees of authorized institutions (banks);
Q08	D	- Insurance agents or insurance broker eligible to carry on long-term insurance (life) business;
Q09	<p>(a) Hong Kong Federation of Insurers (HKFI) acts as the regulator for insurance companies.</p> <p>(b) Insurance Agents Registration Board (IARB) acts as the regulator for insurance agents</p>	- Licensed representative licensed to carry out type 1 and/or type 4 regulated activities.
		Q12 D
		Q13 D

PART X7

Q01	by function, division or in a matrix.	Update the information in the questionnaire periodically.
Q02	<p>Always meet the client face-to-face before opening the account. Where the face-to-face approach is not possible, a financial planner should, for example, refer to the SFC Code of Conduct for procedures to verify the client's identity.</p> <p>Complete the financial planning questionnaire.</p> <p>Evaluate the client's tolerance for financial risk.</p> <p>Take notes that include as many points as a financial planner can about the client's background. Staple the notes to the questionnaire before putting it in the client file.</p> <p>Ask the client to inform as soon as possible of any changes in his personal situation. Explain that the plan may have to be revised as a result of those changes.</p>	<p>Send the signed questionnaire (by the client) to the client each time it is updated for his record.</p>

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## Part Y1

### Investment Planning and Asset Management

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Candidates are expected to be equipped with in-depth understanding of different types of securities and investment alternatives and to initiate analytical and valuation processes that support portfolio management and asset allocation decision.

As candidates progress in the CFP Certification process and acquire more advanced and specific knowledge in other disciplines such as Insurance Planning, Risk Management, Tax Planning and Estate Planning, they should then be able to apply all these knowledge to construct comprehensive financial plans.

Candidates should be able to:

- Collect the quantitative information required to develop strategies for investment planning.
- Collect the qualitative information required to develop strategies for investment planning.
- Consider potential opportunities and constraints to develop strategies for investment planning.
- Assess information to develop strategies for investment planning.
- Synthesize information to develop and evaluate strategies for investment planning.

In terms of financial planner professional skills, candidates should be able to:

- Identify the client's objectives, needs and values that have financial implications for investment planning.
- Identify the information required for the financial plan to address needs for investment planning.
- Identify material changes in the client's personal and financial situation that have financial implications for investment planning.
- Prepare information to enable analysis for investment planning.
- Consider opportunities and constraints to develop strategies for investment planning.
- Assess collected information to develop strategies for investment planning.
- Develop strategies for investment planning.
- Evaluate advantages and disadvantages of each investment planning strategy

Candidates should be able to apply mathematical methods or formulas as appropriate.

Shown below the course plan for CFP Certification Education Program (course 1: Investment Planning and Asset Management). The below recommended teaching hours is for broad indicative reference only. Candidates must bear in mind that taught hours and self-study hours are very different in nature and should not therefore be equated. Candidates should allocate an appropriate amount of time for studying that is tailored to their specific needs. Examinees are recommended to refer to the Information on Examination Papers and Examination Syllabus (Appendix 1 of the Examination Handbook) for the number of multiple-choice questions on each syllabus topic number.

For full details of the cognitive requirement, learning outcomes, topic headings and subtopics etc, examinees should refer to the Examination Syllabus (Appendix 1 of the Examination Handbook) and the Syllabus - Descriptive Content Coverage (Annex of the Study Guide).

Topics	Teaching Hours	Topic Reference*
<b>1 Portfolio Concepts</b>		
Risk and Return	2	33b; 37h; 37i
Modern portfolio theory	5	44
Asset Pricing Models	6	38c; 45
<b>Portfolio Investment Management</b>		
Efficient Markets Hypothesis	3	46
Portfolio Management	2	41
Investment Strategies: formula investing	3	40a-b
Managing Fixed Income Portfolios	2	34a-b; 37c-e
Performance Evaluation	5	39
Pooled investments	1	36c
<b>Derivatives and Alternative Investments</b>		
Futures	2	43g
Option Valuation	2	43f
Other investments	3	32b; 36h
<b>Investment planning</b>		
Investment planning recommendation	4	30-49
	40	

\* Topic number as per Syllabus - Descriptive Content Coverage (Annex of the Study Guide).

**ESSENTIAL READINGS**

Study Guide for CFP Certification

Bodie, Kane, Marcus & Stephen, Essentials of Investments, IFPHK/McGraw Hill

**RECOMMENDED/SUPPLEMENTARY READINGS**

Bodie, Kane & Marcus, Investments, Irwin McGraw-Hill, latest edition

McGuinness, A Guide to the Equity Market of Hong Kong, Oxford University Press, latest edition.

Website of Hong Kong Exchanges and Clearing Limited: [www.hkex.com.hk](http://www.hkex.com.hk)

Website of the Securities and Futures Commission: [www.sfc.hk](http://www.sfc.hk)

Website of the Hong Kong Monetary Authority: [www.info.gov.hk/hkma/](http://www.info.gov.hk/hkma/)

Securities and Futures Ordinance

**EXERCISE QUESTIONS**

Exercise questions is provided (next page) to help candidates to review and comprehend the chapter materials. They are not intended to be practice examination questions and may NOT fully reflect the cognitive level of questions of the CFP Certification Examination. For reference purpose, the exercise questions are also supplemented by the corresponding suggested answers (following Part Y3 of this Essential Reading section).

**IMPORTANT NOTES**

The IFPHK textbooks are designed as useful and reliable study aids for candidates studying for the CFP Certification Education Program. Candidates are also encouraged to study other supplementary materials listed in the CFP Certification Examination Handbook.



## Part Y1

### EXERCISE QUESTIONS

**Q01**

A year ago, Company A borrowed \$100 million from Company B at a rate LIBOR + 3% p.a. for a term of 10 years. In order to control interest rate risk, Company A entered into an interest rate swap agreement with Company C at a fixed rate of 6.3%.

In the swap agreement, Company A will pay a (fixed/floating) interest rate of \_\_\_\_\_ % to Company C on the notional amount of \$\_\_\_\_\_ million; and

Company A will receive a (fixed/floating) interest rate of \_\_\_\_\_ % from Company C on the notional amount of \$\_\_\_\_\_ million.

At the end of each year,

- Company A will pay \$\_\_\_\_\_ to Company C;
- Company C will pay \$\_\_\_\_\_ to Company A;
- Company A will pay \$\_\_\_\_\_ to Company B.

By doing so, Company A has fixed its interest payment to \$\_\_\_\_\_ per year, irrespective of the LIBOR.

**Use the following information to answer Q2 to Q8**

Amy is an investment advisor discussing bond investment with her client, Raymond. Raymond would like to invest in the bond market now and get back \$1,000,000 three years later for other purpose, but is worried about the interest rate fluctuation in the next 3 years.

She showed Raymond the following information on five different bonds.

Bond	Face Value \$	Coupon Rate	Time to Maturity	Yield to Maturity	Macaulay Duration
X	1,000	5%	5 years	?	?
A	1,000	5%	5 years	4%	?
B	1,000	5%	6 years	4%	?
C	1,000	4%	5 years	3%	?
D	1,000	4%	6 years	3%	?
P	1,000	5.5%	1.5 years	?	1 year
Q	1,000	5.5%	6.5 years	?	5 years

According to the analyst report from Amy's company, interest rate is expected to be increased in the near future.

---

**Q02**

During meeting, Raymond is interested in Bond X and told Amy that “If I buy the bond X and hold it to maturity, I will receive a fixed coupon payment each period and the face value at the end of year 5. Therefore, my real average rate of return will be the yield to maturity.” Comment on Raymond’s understanding on the bond.

---

**Q03**

How does interest rate risk affect bond investment? If Raymond plan to hold the bond until maturity, should he still be concerned about interest rate risk?

---

**Q04**

Explain to Raymond the relationship between a bond’s time to maturity and its duration. What other factors affect a bond’s duration? How?

---

**Q05**

Which of the four bonds, bond A to D, has the longest duration? Which one has the shortest duration?

---

---

**Q06**

According to the analyst report, should Raymond long or short bond now if he applies active bond management strategy? Which bond should he long/short?

---

**Q07**

Explain to Raymond about convexity. What is the disadvantage of using duration alone in the calculation of bond price change?

---

**Q08**

How can Raymond use the bond P and bond Q to immunize himself from interest rate change?

---

**Q09**

List 3 disadvantages of investing in real estate properties as oppose to investing in company stocks. Despite the disadvantages of investing in real estate properties, sometimes it is advisable to add real estate property to a large portfolio that has only stocks. Why?

---

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**Q10**

Explain the pros and cons of mutual fund.

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**Q11**

Richard invested in an Equity Fund at a net asset value (NAV) of \$20 per unit. Included a 3% subscription fee (front-end load), Richard invested a total of \$20,000. One year later, Richard received a dividend of \$1,000 and sold immediately all the units at a NAV of \$22 per unit. What is Richard's rate of return in this investment?

---

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**Q12**

Given one-year spot rate is 2.3%, two-year spot rate is 2.9% and three-year spot rate is 3.43%, under the context of expectation hypothesis, calculate the forward rate of the 3rd year?

---

---

**Q13**

Which of the following statement in relation to a callable bond is correct?

- I. The yield to call is always lower than its yield to maturity.
  - II. The higher the growth rate of the interest rate after the issuance of the bond, the more likely the issuer is going to call.
- 
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
-

---

**Q14**

Which of the following statement regarding arithmetic, geometric and dollar-weighted average rate of return is correct?

- I. The calculation of arithmetic average rate of return is simpler than geometric average rate of return.
  - II. Geometric average rate of return considers the timing of the cash flows but dollar-weighted average rate of return does not.
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 

**Q15**

Given the following information on a stock, what is the intrinsic value of the stock under constant growth model?

Earnings per share, E0	\$5
Dividend payout ratio	65%
Return on equity	15%
Beta	1.4
risk free rate	2%
required rate of return	11%

**Use the following information to answer Q16 to Q19.**

Samuel is a junior investment analyst of Gamma Investment Consultant Limited who are evaluating the performance of 2 funds, the Curtis Balance Fund and the Empire Balance Fund. Both funds use the CPPI Global Balance Index as their benchmark. Below is some information on the funds.

	Curtis Balance Fund		Empire Balance Fund		CPPI Global Balance Index	
	Allocation	Rate of return	Allocation	Rate of return	Allocation	Rate of return
Bond	40%	5%	60%	6%	50%	5%
Equity	60%	23%	40%	20%	50%	18%
Total	100%	?	100%	?	100%	11.5%
Standard Deviation	25%		22%		20%	
Beta	1.3		1.4		1	

Rate of return on T-bills is 1%.

**Q16**

Which of the two funds has a higher risk-adjusted return according to Sharpe measure?

**Q17**

Which of the following statements in relation to Jensen's measure is/are correct?

- I. Jensen alpha of a portfolio is calculated by subtracting the portfolio average rate of return from the expected rate of return calculated from capital asset pricing model.
- II. The Jensen alpha of a portfolio cannot be negative.

---

**Q18**

Take the CPPI Global Balance Index as the market portfolio, which of the two funds has the highest risk-adjusted return by M2?

---

**Q19**

According to performance attribution analysis, does Empire Balance Fund perform well in asset allocation and security selection?

---

**Q20**

Which of the following statements in relation to dollar cost averaging is/are CORRECT?

- I. Dollar cost averaging works better in stock market than bond market.
  - II. Dollar cost averaging is more suitable for investors with shorter investment time horizon.
  - III. Dollar cost averaging provides indication to help investors to time the market.
- 
- A. I only
  - B. II only
  - C. I and II only
  - D. I, II and III
-

**Q21**

List 3 characteristics of a mutual fund/unit trust that uses active portfolio management, in contrast with those uses passive portfolio management. Give an example of a fund that uses passive portfolio management.

**Q22**

3 months ago, Tim set up a portfolio by investing \$500,000 in bond and \$500,000 in stocks. Today the value of the stocks in his portfolio has increased 20% and the value of the bond has decreased 1%. How much stock and bond should he buy/sell in order to bring the portfolio back to the original weighting??

Use the following information to answer Q23 to Q26.

	Yesterday	Today
Stock DCD		
▪ Spot price	\$85	\$86
▪ Standard deviation	35%	36%
European call option on DCD		
▪ Time to maturity	2 months and 1 day	2 months
▪ Strike price	\$88	\$88
▪ Premium	\$x	\$4.5
Risk-free rate	1% p.a.	1.1% p.a.



---

**Q23**

Consider each factors individually, how the changes in the following factors affect the call option premium of stock DCD?

- the spot price of DCD
- standard deviation of DCD
- time to maturity of the option
- risk-free rate

---

**Q24**

Based on put-call parity, calculate the price of a put option with a strike price of \$88 and 2 months to maturity.

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**Q25**

An investor placed an order to buy 1,000 shares of options as mentioned in last question; and simultaneously buy 1,000 shares of call options with a strike price of \$88 and 2 months to maturity at \$4.5 per share. Name the option strategy the investor is applying.

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**Q26**

Two months have passed and the closing price of stock DCD becomes \$92 per share. Calculate the profit/loss situation of the investor as described in last question?

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**Q27**

ABC Limited produces industrial electrical wire and cable. To protect the company against the upward price movement of copper, what position should ABC take if futures contract is used?

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**Q28**

List 2 main differences between a long position in futures contract and a long position in a European call option.

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**Q29**

Under spot-futures parity, what is the price of the 3-month futures contract on stock A?

Stock A	
Spot price	\$20
Dividend yield	2% p.a.
Standard deviation	25%
Beta	1.1

Risk-free rate is 1% p.a.

**Q30**

Ricky's investment portfolio contains only one stock, Stock K. Ricky is planning to diversify his portfolio by adding another stock.

Stock	L	M	N	O
K	0.9	1.2	0.1	-0.5

Ricky compiled the above table on the correlation coefficients of stock K with other 4 stocks, L, M, N and O. Ricky's financial planner spotted there is a mistake in the table in relation to the correlation coefficient of Stock K and Stock \_\_\_\_\_. The planner also recommends Ricky to choose Stock \_\_\_\_\_ to minimize risk.

- A. M; L
- B. M; O
- C. O; L
- D. O; N

---

**Q31**

The slopes of capital allocation lines of asset A and asset B are 1.2 and 1.3 respectively. Based only on this piece of information, should an investor choose asset A or asset B? Why?

---

**Q32**

Separation theorem states that choice of investment portfolio can be separated into two independent tasks. The first task is to determine the market portfolio. What is the second task? Describe how a financial planner should choose a portfolio for 1) a risk-averse client and 2) an aggressive client in the second task.

---

**Use the information to answer the Q33 to Q39**

Jane has \$1,000,000 to set up a portfolio. She collected the following information on Stock A, B, C, D, the stock index (market portfolio) and T-bills:

Stock	A	B	C	D	Stock Index	T-bills
Current rate of return	11%	13%	16%	17%	12%	2%
Standard deviation	22%	28%	35%	45%	23%	Y
Beta	0.9	1.1	?	1.6	X	Z

Her initial thought is to set up a portfolio R with \$400,000 in Stock A and \$600,000 in Stock B. The correlation coefficient of Stock A and Stock B is 0.7.

.....

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**Q33**

What are the expected return and the standard deviation of Portfolio R?

-----  
**Q34**

Under the context of capital asset pricing model, if Stock C is fairly priced, what is the beta of Stock C?

-----  
**Q35**

What are the values of X, Y and Z in the table?

-----  
**Q36**

Jane is also thinking about adding Stock D in her portfolio. However, she would only add it if the stock is underpriced according to CAPM. Should Jane add it to her portfolio?

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**Q37**

What is the correlation coefficient of Stock A and the market portfolio?

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**Q38**

What is the percentage of non-systematic risk in the total risk of stock B?

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**Q39**

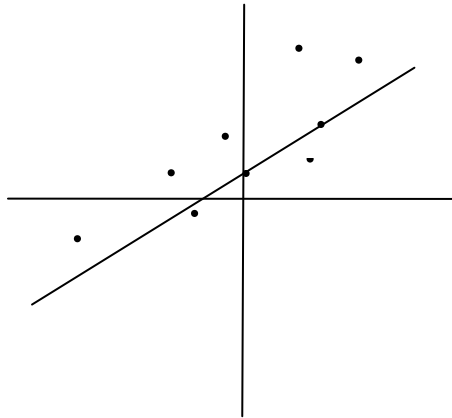
Describe the two components of risks according to Factor Models.

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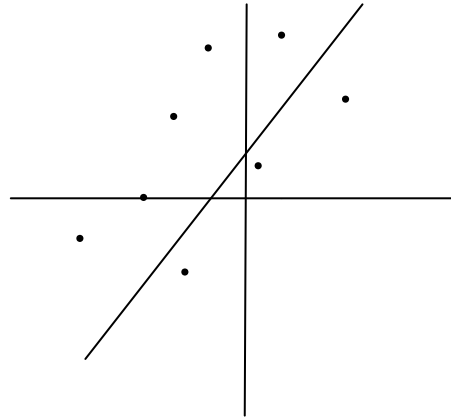
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Use the following information to answer Q40 to Q41.

Security characteristics line (SCL)



Wiseland Inc.



Camel Limited

**Q40**

Name the X-axis and the Y-axis of the above diagram.

- A. Market excess return and Security excess return
- B. Market excess risk and Security excess risk
- C. Market excess return and Market excess risk
- D. Security excess return and Security excess risk

**Q41**

Based only on the diagrams, the systematic risk level of Camel Limited is \_\_\_\_\_ than that of Wiseland Inc, and a \_\_\_\_\_ firm specific risk level.

- A. higher ; lower
- B. lower ; higher
- C. higher ; higher
- D. lower ; lower

---

**Q42**

Andrew and Billy are discussing about the efficient market hypothesis (EMH). They have the following comments.

Andrew: Empirical evidence shows that the market is usually in the weak-form efficiency during bear market; and in the semi-strong form efficiency during bull market.

Billy: If someone can use insider information to trade stocks and make extra profit, we can conclude that the market is in semi-strong form efficiency.

Are Andrew and Billy correct?

	<u>Andrew</u>	<u>Billy</u>
A.	Correct	Correct
B.	Correct	Incorrect
C.	Incorrect	Correct
D.	Incorrect	Incorrect

---

**Q43**

Susanna spent the past 3 months studying relationships between the relative strength index (RSI) and price movement of Hang Seng Index (HSI) futures. She found a way to consistently make profit by trading the HSI futures according to the signals from the RSI. According to Susanna's case and efficient market hypothesis (EMH), what is implied about the Hong Kong stock market?

- A. Hong Kong stock market is strong form of the EMH
  - B. Hong Kong stock market is semi-strong form of the EMH
  - C. Hong Kong stock market is weak form of the EMH
  - D. None of the above
- 

**Q44**

State the implications of an efficient market on passive portfolio management and active portfolio management.

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**Q45**

Which of the following regarding random walk theory is(are) correct?

- I. Random walk theory implies that the stock market is efficient.
  - II. Random walk theory implies that even though new information about a stock is random, the stock price will still be predictable.
- 
- A. I only
  - B. II only
  - C. Both I and II
  - D. Neither I nor II
- 

**Q46**

The net asset value (NAV) of Mutual Fund X and Mutual Fund Y are \$25 and \$22 respectively. Which one of the following is TRUE?

- A. Mutual Fund X has a larger asset size than Mutual Fund Y.
  - B. Mutual Fund X has a larger amount of liabilities than Mutual Fund Y.
  - C. The value of assets minus liabilities for Mutual Fund X is larger than Mutual Fund Y.
  - D. None of the above.
- 

**Q47**

Under the expectation theory, an upward sloping yield curve assumes investors:

- A. expect the future short-term interest rate to rise.
  - B. require a liquidity premium to hold a longer term bond.
  - C. will start switching from long-term bonds to short-term bonds.
  - D. will start buying more short-term bonds now and thus bidding the bond price higher.
- 

**Q48**

Is the geometric average return or the dollar-weighted average return a better method to measure the performance of a mutual fund manager? Why?

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**Q49**

What is the purpose of immunization in bond portfolio management? Explain contingent immunization and show how it is different from immunization.

---

**Q50**

Stock L is currently priced at \$40, the price is expected to be either \$44 or \$36 one year later. Given a 10% interest rate and the option of the stock has an exercise price of \$42.. Using two-scenario model of the economy (binomial option pricing model), calculate the price of the call option with an exercise price of \$42.

- A. \$0.91
- B. \$1.82
- C. \$3.64
- D. \$7.28

---

**Q51**

The weights of Fund X and Fund Y in portfolio Z are  $W_X$  and  $W_Y$  respectively. If the standard deviation of portfolio Z is the weighted average of the standard deviations of Fund X and Fund Y, what is the correlation coefficient of Fund X and Fund Y? Show your answer by the portfolio risk equation of 2 assets.

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**Q52**

Define mutual fund theorem. Explain how in the world of CAPM an investor using passive investment strategy can invest in a portfolio with the highest efficiency?

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**Q53**

Explain how capital market line (CML) is similar to CAL and how it differs from CAL.

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**Q54**

Some scholars argue that time diversification is fallacious. Explain.

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## Part Y2

# Insurance Planning and Risk Management

Candidates are expected to be equipped with knowledge of insurance both in principle and in practice, understand the theory, the major policies, and practical application of insurance and to evaluate the various kinds of insurance plans in the context of risk management.

As candidates progress in the CFP Certification Education Program and acquire more advanced and specific knowledge in other disciplines such as Investment Planning, Asset Management, Tax Planning and Estate Planning, they will then be able to apply all these knowledge to construct comprehensive financial plans.

Candidates should be able to:

- Collect the quantitative information required to develop strategies for insurance planning.
- Collect the qualitative information required to develop strategies for insurance planning.
- Consider potential opportunities and constraints to develop strategies for insurance planning.
- Assess information to develop strategies for insurance planning.
- Synthesize information to develop and evaluate strategies for insurance planning.

In terms of financial planner professional skills, candidates should be able to:

- Identify the client's objectives, needs and values that have financial implications for insurance planning.
- Identify the information required for the financial plan addressing needs for insurance planning.
- Identify material changes in the client's personal and financial situation that have financial implications for insurance planning.
- Prepare information to enable analysis for insurance planning.
- Consider opportunities and constraints to develop strategies for insurance planning.
- Assess collected information to develop strategies for insurance planning.
- Develop strategies for insurance planning.
- Evaluate advantages and disadvantages of each insurance planning strategy

Candidates should be able to apply mathematical methods or formulas as appropriate.

Shown below the course plan for CFP Certification Education Program (course 2: Insurance Planning and Risk Management). The below recommended teaching hours is for broad indicative reference only. Candidates must bear in mind that taught hours and self-study hours are very different in nature and should not therefore be equated. Candidates should allocate an appropriate amount of time for studying that is tailored to their specific needs. Examinees are recommended to refer to the Information on Examination Papers and Examination Syllabus (Appendix 1 of the Examination Handbook) for the number of multiple-choice questions on each syllabus topic number.

For full details of the cognitive requirement, learning outcomes, topic headings and subtopics etc, examinees should refer to the Examination Syllabus (Appendix 1 of the Examination Handbook) and the Syllabus - Descriptive Content Coverage (Annex of the Study Guide).

Topics	Teaching Hours	Topic Reference*
<b>1 Life Insurance Policy analysis</b>		
Analysis of Investment-linked policy	6	21a; 21c; 24a; 25
Analysis of Life insurance policy	6	21a; 21c; 24a; 25
<b>2 Life Insurance Planning</b>		
Choice of life risk protection for Individuals	8	20a; 24a; 26
<b>3 Property and Liability Insurance Planning</b>		
Exposure to property and liability risks	4	9d, 20b; 20c; 23; 24a; 24c; 24d
<b>4 Business use of insurance</b>		
Provision of employee benefits	4	24a; 72
Business insurance	4	19d; 20d; 23; 24a; 73
<b>5 Comprehensive Insurance Planning</b>		
Public Insurance (Social insurance)	2	71
Risk management recommendation	6	19a; 24a; 25
	<b>40</b>	

\* Topic number as per Syllabus - Descriptive Content Coverage (Annex of the Study Guide).

## ESSENTIAL READINGS

Study Guide for CFP Certification  
Fundamentals of Risk and Insurance, IFPHK/John Wiley

## RECOMMENDED/SUPPLEMENTARY READINGS

Rejda, George E., Principles of Risk and Insurance, latest edition, Addison-Wesley  
Insurance Intermediaries Quality Assurance Scheme Study Notes for the Principles and Practice of Insurance Examination, Office of Insurance Commissioner, Hong Kong, latest edition, Ch 3, 6 & 7  
Insurance Intermediaries Quality Assurance Scheme Study Notes for the General Insurance Examination, Office of Insurance Commissioner, Hong Kong, latest edition, Ch 1 & 2  
Insurance Intermediaries Quality Assurance Scheme Study Notes for the Long Term Insurance Examination, Office of Insurance Commissioner, Hong Kong, latest edition, Ch 1, 2, 3 & 4  
Insurance Intermediaries Quality Assurance Scheme Study Notes for the Investment-linked Long Term Insurance Examination, Office of Insurance Commissioner, Hong Kong, latest edition, Ch 1 & 3  
Insurance Companies Ordinance

## EXERCISE QUESTIONS

Exercise questions is provided (next page) to help candidates to review and comprehend the chapter materials. They are not intended to be practice examination questions and may NOT fully reflect the cognitive level of questions of the CFP Certification Examination. For reference purpose, the exercise questions are also supplemented by the corresponding suggested answers (following Part Y3 of this Essential Reading section).

## IMPORTANT NOTES

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## Part Y2

### EXERCISE QUESTIONS

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#### Q01

After paying a visit to a friend who is suffering from critical illness, Mr. Smith is worried about the enormous amount of medical expenses in case the same thing happens to him. To deal with this, he is thinking about the following risk management techniques:

- A. Start to save some money for medical purpose and doesn't buy any medical insurance at all because it should not be so unlucky to catch a major illness in coming years.
- B. To buy a medical insurance policy with a policy limit of HK\$250,000 per disability, no deductible and co-insurance provision.
- C. To buy a major medical insurance policy with the policy limit of HK\$1,000,000 per disability. Deductible could be selected from the range of HK\$1,000 to HK\$50,000 and 80% or 90% co-insurance are also available.

Discuss the risk management techniques above for Mr. Smith who has dependents but not much assets on hand. Which technique will you recommend?

---

#### Q02

Johnson is a dentist. Lately he is facing a lawsuit in relation to a patient charging him of being negligent. Although he claims innocent, the burden of proving his exercise of due care is now rested on him despite the fact that it should usually fall on the plaintiff. Explain what is the legal doctrine related to the case and how this legal doctrine applies to this situation here.

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**Q03**

Herbert, a life insurance agent of the XYZ Life Insurance Company. He has worked with the company for 5 months before his contract was terminated by the company due to unsatisfactory business result he brought to the company. Herbert keeps the company's business tools such as application forms, sales illustration software and other sales materials even after he left the company. Right before the company terminated his access right to the sales illustration software, Herbert conducted a presentation to a client in the name of XYZ using the company's software, and has successfully asked the client to sign an application and pay an initial premium in cash. Is XYZ Life Insurance Company liable for the loss to the client? Explain.

---

**Q04**

Peter took out a Pleasure Craft Policy on his on his watercraft and applied extended coverage for the outboard motor on actual cash value basis. An accident happened earlier and the motor was totally damaged. With original cost of the motor equals \$20,000 and the replacement cost of \$18,000, how much should the insurer indemnify Peter if a depreciation rate of 20% is applied?

- A. \$20,000
  - B. \$18,000
  - C. \$16,000
  - D. \$14,400
-



---

**Q05**

Shown below is an inventory summary of a retail shop last year:

	Min value in stock	Max value in stock
1 <sup>st</sup> quarter	\$380,000	\$420,000
2 <sup>nd</sup> quarter	\$100,000	\$250,000
3 <sup>rd</sup> quarter	\$470,000	\$600,000
4 <sup>th</sup> quarter	\$280,000	\$350,000
Average	\$307,500	\$405,000

The owner forecasts the maximum value in stock this year will increase 10%. The owner is highly risk averse; suggest the sum insured to be taken out on the inventory?

- A. \$445,500
  - B. \$307,500
  - C. \$660,000
  - D. \$517,000
- 

**Q06**

Ken works part-time at a pizza delivery. Last week while Ken was driving to deliver pizza in a hurry, he failed to follow road safety rules and accidentally crashed into another sports car. The injured driver of the sports car can sue the owner of the pizza delivery based on the principle of:

- A. Product Liability
  - B. Contractual liability
  - C. Absolute liability
  - D. Vicarious liability
- 

**Q07**

Grace is the owner to several boutiques. She purchased Retail Shops Packaged Insurance policy, in which all employees are insured under Fidelity Guarantee coverage with a limit of \$100,000. Grace discovered that one of the shop managers, Ivy, had embezzled \$30,000 from the shop. Ivy explained that the money was taken to save her son who had been threatened with bodily harm. Out of sympathy, Grace agreed not to report the embezzlement to police nor the insurer, but required Ivy to repay the money shortly. Last week, Ivy stole \$50,000 cash from the shop again and Grace lost contact with her since then. What is the liability of the insurer, if any, for the loss? Explain.

---

**Q08**

Martha purchases a retail shop packaged commercial insurance policy for her boutique, which covers the following for business interruption:

Cover	Max Limit
loss of income for a period up to 12 months resulting from business interruption following damage to Contents by insured event.	\$1,000,000
Additional Benefits	
Professional Accountant's fees (per event)	\$50,000
Denial of access (per event) excess – 48 hours	\$50,000
Failure of public utilities (per event) excess – 48 hours	\$50,000

Martha's boutique caught a fire last month. A professional auditor is hired, at a fee of \$20,000, for investigation and verification of the loss of income. It is expected that the shop's operation will suspend for 3 months, and the shop's estimated annual net profit before Tax is \$ 1,600,000. Indicate the extent, if any, of the insurer's obligation to pay Martha's business interruption. Indicate the assumption used in your calculation.

**Q09**

John purchased a brand new car 8 years ago. The car was a top model at that time and was priced at HK\$900,000, the same car costs only \$250,000 today. He took out a comprehensive private car insurance policy with a sum insured of \$300,000 and \$1,000 medical expenses coverage. The excess for the damage to the insured car is \$5,000 and for 3rd party property damage is \$5,000. There is no excess for 3rd party injury. Last month while driving his car, John took a wrong lane and collided with another car. Repair costs to his car and the counterparty's car amount to \$100,000 and \$80,000 respectively. Medical expenses for him and the counterparty are \$30,000 and \$50,000 respectively. If depreciation of John's car is considered \$15,000, how much in total will be paid by the insurer?

- A. \$211,000
- B. \$206,000
- C. \$205,000
- D. \$201,000

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**Q10**

Eddie, age 40, is a lecturer who earns \$30,000 monthly. He is seriously injured in a car accident and is expected to be off work for at least one year. He has a guaranteed renewable disability income policy, which pays \$20,000 per month under Total Disability until age 65 for accidents and sickness after a 180-days waiting period. Following this car accident, can Eddie's insurer cancel his Disability Income insurance policy or increase his premiums? Explain your answer.

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**Q11**

Peter, age 45, is married to Liza, age 35. Liza is a full-time housewife taking care of their 2-year-old son. Peter is planning to take out a life insurance policy which can pay off his mortgages and funeral expenses in case he dies prematurely. The policy should also provide a regular income to support the family's living expenses until his son becomes financially independent at the age of 22. Which one of the following policies best fit Peter's need?

- A. Joint mortgage protection policy.
- B. Family income policy.
- C. Family maintenance policy.
- D. Family protection policy.

---

**Use the following information to answer Q12 to Q13**

Salina, age 29, wants to start a plan to fund university education and include juvenile critical illness and accident protection in one policy for her one year old child. She wants to send her child overseas for tertiary education and found that the tuition fees for an average university in USA already amount to US\$18,000 per semester. Assume Salina is categorized as with "medium risk tolerance" and can afford to save \$3,000 per month.

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**Q12**

Compare the selection among juvenile insurance, traditional endowment, bank deposits and mutual fund for Salina to set up her plan.

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**Q13**

Among the form of term life, limited payment whole life or Investment-linked policy, which form of juvenile insurance plan fits her best? Assume her child will need to use the fund at age 18.

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**Use the following information to answer Q14 to Q17**

Regina, age 62, is a retired teacher. Last week while she was in the bank renewing her fixed dollar deposit, her wealth manager recommended to her the following Savings Insurance plan as an alternative to her deposit.

	Savings Insurance plan	Fixed Deposit
Sum insured	\$120,000	N/A
Lump sum payment	\$100,000	\$100,000
Maturity	6 years	One year (to be renewed every year for 6 years)
Annual interest rate	N/A	0.15%
Guaranteed cash value	\$120,000	N/A
With current 4.25% annual interest rate for dividends accumulation, the total dividends accumulated 6 years later is:	\$30,000	N/A
Total amount 6 years later is:	\$150,000	\$100,903

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**Q14**

What type of life insurance policy does this Savings Insurance plan belong to?

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**Q15**

Calculate the effective annual rates of return of this Savings Insurance plan until maturity.

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**Q16**

Elaborate the difference of the rate of return between a fixed deposit and a life insurance policy.

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**Q17**

Under what circumstances will this Savings Insurance plan be better than the fixed deposit?

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**Use the following information to answer Q18 to Q19**

Peter, age 60, has no dependent and owns a rental property which generates a monthly rental income of \$10,000. Peter plans to take out an immediate annuity plan to generate extra income to support his retirement living. For every \$1,000 annuity purchased, it can generate a fixed monthly income of \$6 for life. To finance the purchase, Peter is thinking of cashing out his \$300,000 MPF account by declaring early retirement, and withdrawing the shortfall from his unit-linked insurance policy for cash. The unit-linked insurance policy has a sum insured of \$1,000,000 and a cash value of \$540,000. There is no surrender to be imposed on withdrawal.

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**Q18**

How much should Peter withdraw from his Unit-Linked insurance policy in order to maintain his monthly expenses of \$15,000?

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**Q19**

As the financial planner of Peter, would you advice Peter to surrender his policy instead? Explain.

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**Use the following information to answer Q20 to Q23**

Connie, age 35, works in a large trading company as an accounting manager earning \$300,000 annually. Connie is a single parent living with her 5 year-old son in a small rental flat. Saving has never been easy for Connie who spend almost all her salaries, she decided to start saving in order to accumulate fund for her son's university education. Besides education concerns, Connie would like to own a flat someday, and is concerned about the living of her son in case she dies prematurely.

Connie then talked to a financial planner about her current situation. She told the planner that she is an occasional smoker, knows nothing about insurance and has very limited budget for it. The planner conducted a risk profiling on Connie and found that Connie's risk preference category is medium.

The following are the products available from the financial planner's company.

- Five years renewable and convertible term life policy
- Whole life policy paid up at age 65
- Ordinary whole life policy
- Universal life policy
- Investment-linked whole life policy
- Investment-linked endowment policy
- Investment-linked annuity policy

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**Q20**

Consider the sole need for protection of Connie's son when she dies prematurely, which one of the above policies best meet her needs? Explain.

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**Q21**

Which policy above best meets the sole need of accumulating a college education fund for Connie's son? Explain.

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**Q22**

Which policy above best meet the sole need of accumulating money for a down payment on buying a flat? Explain.

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**Q23**

Which policy above best fit Connie's overall needs if budget allows? Explain.

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**Q24**

Gregory, age 45, is an engineer working for the government. He lives with his wife, Susan, a full-time housewife, and their young kids. Being a civil servant, Gregory and his family members enjoy medical benefits from the government-operated hospital at a very low cost. However, medical expenses incurred with private hospitals are not covered. Gregory has no insurance coverage and is concerned about health care protection of his sons.

Needs analysis shows that Gregory would need a life protection of \$3,500,000 on himself. Taking out a whole life insurance policy of the amount as calculated by the needs analysis would drain up his budget on insurance cover. Advise Gregory on his other insurance needs and explain the rationales behind.

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**Q25**

Bruce took out a cash value life insurance policy 12 years ago, with premium payment paid through Autopay arrangement. Bruce recently found that 6 of his monthly premium payments were overdue, for the balance in his bank account was too low to cover the payments. After enquiring with the insurance company, Bruce is glad to know that the insurance policy was taken out with \_\_\_\_\_ provision; otherwise the policy would not be still in force.

- A. Incontestable
  - B. Automatic Premium Loan
  - C. Grace Period
  - D. Reinstatement
- 

**Q26**

Anna took out an investment-linked insurance policy on her husband's life 16 months ago and named herself the beneficiary. The death benefit of the policy equals to \$1,000,000 sum insured plus cash surrender value. Anna's husband committed suicide last month. Anna was later told by her insurance agent that the death benefit will not be paid in full. Explain what will be the most possible reason for such decision.

Given the following figures, what is the expected payout from the policy?

Account value at that moment	\$9,535
total premium paid	\$30,000
- policy charges	\$18,000
- purchase funds	\$12,000

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**Q27**

Elaine, age 36, is single with no dependent, she lives by herself on monthly income of \$15,000 with very low level cash reserve for emergency. Elaine has been laid off recently and expects herself stay unemployed for at least one year due to the bad economy. Elaine has taken out a 30 year payment whole life policy 10 years ago for retirement purpose. With the following information, explain the possible options to Elaine in such circumstances.

monthly premium	\$4,000
death benefit	account value 101%
account value	\$500,000

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**Q28**

Clara, age 45, took out a life policy ten years ago with a sum insured of \$1,000,000. Death benefit of the policy equals to the sum insured plus cash value. In addition, a dread disease coverage equals to 50% of the sum insured on accelerated benefit basis, and a medical expenses coverage of \$200,000 per disability were added to the policy. Clara was recently diagnosed a serious cancer covered by the dread disease coverage. She became hospitalized and the eligible medical expenses incurred were \$300,000. Unfortunately, she passed away shortly after successfully receiving compensation from her policy riders. If the cash value of her policy is \$100,000 at the time of her death, what should be the total amount payable to Clara and her beneficiary?

- A. \$1,900,000
  - B. \$1,500,000
  - C. \$1,400,000
  - D. \$1,300,000
-

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**Q29**

Sabrina, age 37, is a brand manager of a famous high fashion company. She lives in a nice serviced apartment paid by her company's housing allowance. Sabrina is risk averse and not interested in trading the stock market. Sabrina has no dependent hence she never takes out any insurance policy. Advise Sabrina on her insurance needs.

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**Q30**

Peter is married to Rebecca with two children, Jimmy and Susie. The couple runs a restaurant which provides stable income to the family. Peter and Rebecca agree to each other that, if one of them dies, the surviving one will continue to own and run the restaurant. Upon death of the surviving spouse, the restaurant will then pass to Jimmy. To be fair to Susie, a life insurance proceeds equal to the business value of the restaurant should be provided to Susie. Which one of the following types of life insurance should the couple take out?

- A. First-to-die joint life insurance
  - B. Second-to-die joint life insurance
  - C. Juvenile insurance
  - D. Key-person insurance
-

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**Use the following information to answer Q31 to Q32**

Connie decides to take out an ordinary whole life insurance policy, and her financial planner presented to her the following sales illustrations from two different insurance companies:

	Plan A from Insurer A	Plan B from Insurer B
Rating <ul style="list-style-type: none"> <li>Standard &amp; Poor's</li> <li>A.M. Best</li> <li>Moody's</li> </ul>	AA- A+ Aa3	A+ N/A A1
Sum insured	US\$40,000	HK\$468,000
Annual Premium	US\$807.60	HK\$11,302.26
Total cash value at age 18	US\$21,324	HK\$297,614

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**Q31**

Since life insurance policy represents a long-term promise on the part of the insurer. The financial strength of the insurer is very important and it is the first consideration of Connie. Based on the above information, which insurance company should be recommended to Connie? Explain.

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**Q32**

Based solely on the average annual rate of return, which plan should be recommended to Connie if she expects her child will go to university at age 18? Show your steps of calculation. Describe the advantage and disadvantage of using a whole life insurance policy as a savings tool for college fund.

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**Use the following information to answer Q33 to Q35**

	Plan A from Insurer A	Plan B from Insurer B
Sum insured	\$1,000,000	\$1,000,000
Annual Premium	\$11,445	\$6,375
Without considering interest accumulation, total dividends at age 65	\$185,000	\$49,500
Considering 4.25% annual interest rate for dividends accumulation rate, total dividends with interests at age 65	\$380,482	\$71,800
Guaranteed cash value at age 65	\$284,130	\$154,000

---

**Q33**

Show the detailed steps of calculating the net costs of Plan A and Plan B using Traditional Net Cost method. Briefly explain the major defect of using this method to compare costs of two different whole life insurance plans.

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**Q34**

Show the detailed steps of calculating the net costs of Plan A and Plan B using Surrender Cost Index method. What is the major difference between Traditional Net Cost method and Surrender Cost Index method?

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**Q35**

Show the detailed steps of calculating the net costs of Plan A and Plan B using Net Payment Cost Index method. Under what circumstance should Connie prefer Net Payment Cost Index to Surrender Cost Index in comparing the costs of two whole life insurance plans?

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**Q36**

The Comprehensive Social Security Assistance Scheme is designed to bring income of those in need up to a prescribed level to meet their basic needs. Explain why the social security scheme in Hong Kong is not a social insurance.

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**Q37**

Nancy is the owner of a consulting firm that has 5 employees. The only employee benefit beyond the statutory employee benefits is group medical insurance. Employees can be reimbursed of 80% of their medical bills up to \$200 per one outpatient visit. As the company's profits have substantially decreased, Nancy would like to control the cost of the group insurance providing. Which of the following action(s) is/are useful in controlling costs?

- I. Increase deductibles/co-insurance
  - II. Add exclusions
  - III. Decrease waiting period
  - IV. Set the maximum limit on benefits
- 
- A. II only
  - B. I and III only
  - C. I, II and IV only
  - D. All of the above
- 

**Q38**

Mary reported to her current job 2 months ago. Two weeks ago she was ill and her doctor suggested her to take a leave for 3 days and provided her with a medical certificate. Out of the \$250 medical bill, Mary's employer reimbursed her only \$200, she also found out later that she was not paid for her sick leave. She used to get full paid from her previous employer for her medical bill and sick leave. She is puzzled and would like to know the possible reason for not being paid in full for her bill and her sick leave days for she has already accumulated sufficient number of paid sickness day.

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**Q39**

Siti, an Indonesian domestic helper, has worked for Charles' family for 5 years and 11 months already. On renewal of the employment contract, Siti rejected to renew the contract since she planned to go home and get married before getting too late. Since Charles did not terminate the contract, is he required by law to pay Siti her long service payment? Siti has accumulated 14 annual leave days, can she leave 16 days prior to the contract date, with salary fully paid till the contract ends?

- A. Yes, Yes
  - B. Yes, No
  - C. No, Yes
  - D. No, No
- 

**Q40**

Sam is a hair dresser and is now planning to set up his own hair salon as a sole proprietor. He has no dependents and does not care about whether the shop is winded up in case of his premature death. Besides, he does not plan on applying for any business loan. A friend of Sam told him that he should take out a keyman insurance policy. What could be the purpose, if any, of Sam buying keyman insurance?

- A. To strengthen the confidence of suppliers
  - B. To ensure smooth business succession
  - C. To compensate for the loss of goodwill in case of his premature death
  - D. To repay his company's loan in case of his premature death
- 

**Q41**

Adrian, Bob and Carl own a partnership company. Adrian owns 20% of the business interest while Bob and Carl each own 40%. They all agree that it is better to set up a buy-sell agreement while they are all alive so that in case any partner dies prematurely, the survivor partners will buy out the deceased partner's business interest from their estate inheritor at a fair market value. They choose cross purchase life insurance plan to fund the buy-sell agreement. If the fair market value of the company is \$9,000,000, what should be the face amount of Bob's life insurance policy for the life of Adrian?

- A. \$3,000,000
  - B. \$1,800,000
  - C. \$1,500,000
  - D. \$900,000
-

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**Q42**

If an insurance contract is obtained through fraud, misrepresentation or mistake, it will result in a(n):

- A. executed contract.
  - B. valid contract.
  - C. void contract.
  - D. voidable contract.
- 

**Q43**

Suppose Jason had effected a whole life policy on the life of her wife, Eva. The couple divorced after 2 years of marriage, and Eva died some years later. When Jason presented a claim to the insurer, the latter discovered that at the time of the Eva's death, they were no longer in the relationship of husband and wife.

Jason \_\_\_\_\_ insurable interest in the life of Eva at the time of her death, this \_\_\_\_\_ disqualify him for the death benefit.

- A. had ; will
  - B. had ; will not
  - C. had no ; will
  - D. had no ; will not
- 

**Q44**

Charmaine purchased a set of studio lighting equipment for \$1,400,000 and insured it on an actual cash value basis. At the time the studio was damaged by a covered peril, the lighting equipments were 40 percent depreciated. The replacement equipment set will cost \$1,500,000. Assuming no deductible, how much will Charmaine collect from her insurer?

- A. \$900,000
  - B. \$940,000
  - C. \$1,400,000
  - D. \$1,500,000
- 

**Q45**

Winston and his wife Vera jointly own a vacation flat at \$4 million. Winston purchased a \$3 million property insurance policy on the flat. Unaware that Winston had purchased this coverage, Vera purchased a \$1.5 million property insurance policy on the flat. While both policies were in force, a \$1.2 million covered loss occurred. The insurers agreed to settle the claim pro rata on the sum insured. What is each insurer's liability?

- A. Winston's \$738,462; Vera's \$461,538
- B. Winston's \$800,000; Vera's \$400,000
- C. Winston's \$900,000; Vera's \$300,000
- D. Winston's \$900,000; Vera's \$562,500

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**Q46**

In insurance contracts, the legal concepts of waiver and estoppel can be applied to which of the following laws/doctrines?

- I. The law of agency.
  - II. The doctrine of concealment.
  - III. The doctrine of misrepresentation.
- 
- A. I and II only
  - B. I and III only
  - C. II and III only
  - D. I, II and III
- 

**Q47**

The gross premium and pure premium of a life insurance policy is \$1,400 and \$1,000 respectively, calculate the expenses ratio.

- A. 28.6%
  - B. 40.0%
  - C. 60.0%
  - D. 71.4%
- 

**Q48**

Given the following mortality and a discount rate of 6% per year, compute the one-year term rate for ages 31-35 per every \$1,000 sum insured.

Age	Number Alive	Number Dying
30	1,000,000	1,650
31	998,350	1,700
32	996,650	1,800
33	994,850	2,000
34	992,850	2,250
35	990,600	2,600
36	988,000	3,000

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**Q49**

Given the same mortality and discount rate, compute the net single premium for a five-year term policy at age 31.

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**Q50**

Given the same mortality and discount rate, compute the net single premium for a five-year endowment policy at age 31.

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## Part Y3

### Tax Planning and Estate Planning

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Candidates are expected to be equipped with regulatory and legal concepts of taxation in HK, knowledge of the principles and practices of taxation for planning and decision-making, the knowledge of the estate planning process, various tools used in estate planning and the major issues in estate planning and its application in personal financial planning.

As candidates progress in the CFP Certification Education Program and acquire more advanced and specific knowledge in other disciplines such as Insurance Planning, Risk Management, Investment Planning and Asset Management, they should then be able to apply all these knowledge to construct comprehensive financial plans.

After successfully completing this program, candidates should be able to:

- Collect the quantitative information required to develop strategies for tax planning and estate planning.
- Collect the qualitative information required to develop strategies for tax planning and estate planning.
- Consider potential opportunities and constraints to develop strategies for tax planning and estate planning.
- Assess information to develop strategies for tax planning and estate planning.
- Synthesize information to develop and evaluate strategies for tax planning and estate planning.

In terms of financial planner professional skills, candidates should be able to:

- Identify the client's objectives, needs and values that have financial implications for tax planning and estate planning.
- Identify the information required for the financial plan addressing needs for tax planning and estate planning.
- Identify material changes in the client's personal and financial situation that have financial implications for tax planning and estate planning.
- Prepare information to enable analysis for tax planning and estate planning.
- Consider opportunities and constraints to develop strategies for tax planning and estate planning.
- Assess collected information to develop strategies for tax planning and estate planning.
- Develop strategies for tax planning and estate planning.
- Evaluate advantages and disadvantages of each tax planning and estate planning strategy

Candidates should be able to apply mathematical methods or formulas as appropriate.

Shown below the course plan for CFP Certification Education Program (course 3: Tax Planning and Estate Planning). The below recommended teaching hours is for broad indicative reference only. Candidates must bear in mind that taught hours and self-study hours are very different in nature and should not therefore be equated. Candidates should allocate an appropriate amount of time for studying that is tailored to their specific needs. Examinees are recommended to refer to the Information on Examination Papers and Examination Syllabus (Appendix 1 of the Examination Handbook) for the number of multiple-choice questions on each syllabus topic number.

For full details of the cognitive requirement, learning outcomes, topic headings and subtopics etc, examinees should refer to the Examination Syllabus (Appendix 1 of the Examination Handbook) and the Syllabus - Descriptive Content Coverage (Annex of the Study Guide).

Topics	Teaching Hours	Topic Reference*
<b>1 Overview of HK Taxes for Individuals</b>		
Hong Kong Tax System	2	53; 55c; 55d
Hong Kong Taxation Laws and Tax administration	1	52; 60
<b>2 Individual Income Tax</b>		
Salaries Tax	6	50; 51; 55a
Property tax	2	50; 55b
Profits tax	4	50; 57
Tax Planning Basics	3	54; 59e
Tax Management	2	56; 59a-d
<b>3 Estate Planning Basics</b>		
Overview of Estate Planning	2	74
Legal requirements (probate)	3	78; 84
Administration of the Estate	2	78
<b>4 Estate Planning Instruments</b>		
Wills	3	74b; 76
Trusts	3	81
Alternative estate planning tools	3	83; 85
Planning for incapacity and special topics in estate planning	2	80; 86; 87
Beneficiary Consideration	2	74f
		<b>40</b>

\* Topic number as per Syllabus - Descriptive Content Coverage (Annex of the Study Guide).

## ESSENTIAL READINGS

Study Guide for CFP Certification

Ayesha Macpherson Lau and Garry Laird,, Hong Kong Taxation Law & Practice, latest edition, the Chinese University Press

Employee Benefits and Estate Planning, IFPHK/John Wiley & Sons

## RECOMMENDED/SUPPLEMENTARY READINGS

Ho, Patrick, Hong Kong Taxation and Tax Planning, Latest edition, Pilot Publishing Co. Ltd.

Dora Lee & Ho Chi Ming, Advanced Taxation in Hong Kong, latest edition, Longman

Guide to Completion of Tax Return. Inland Revenue Department

Departmental Interpretation & Practice Note (DIPN)

<http://www.ird.gov.hk>

Stamp Office Interpretation & Practice Note (SOIPN)

<http://www.ird.gov.hk>

Inland Revenue Board of Review Decisions

<http://www.ird.gov.hk>

Hong Kong Tax Cases

<http://www.ird.gov.hk>

Department of Justice, HKSAR

<http://www.doj.gov.hk>

Inland Revenue Ordinance (IRO) Chapter 112 (Selected Sections) (IRD)

Inland Revenue Rules Chapter 112A (Selected Sections) (IRD)

Stamp Duty Ordinance Chapter 117 (Selected Sections) (SD)

Wills Ordinance

Intestates' Estates Ordinance

## EXERCISE QUESTIONS

Exercise questions is provided (next page) to help candidates to review and comprehend the chapter materials. They are not intended to be practice examination questions and may NOT fully reflect the cognitive level of questions of the CFP Certification Examination. For reference purpose, the exercise questions are also supplemented by the corresponding suggested answers (following Part Y3 of this Essential Reading section).

## IMPORTANT NOTES

The IFPHK textbooks are designed as useful and reliable study aids for candidates studying for the CFP Certification Education Program. Candidates are also encouraged to study other supplementary materials listed in the CFP Certification Examination Handbook.

Acknowledgements to Mr. Tak Wong for volunteering to write questions and answers on estate planning part.



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## Part Y3

### EXERCISE QUESTIONS

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**Q01**

John is a Marketing Director of a Hong Kong toy company who earns a monthly salary of HK\$100,000. To promote their products, John is required to participate in various exhibitions in China for 5 days per month, for the rest of the time John will work in Hong Kong. Under salaries tax, what is the John's monthly taxable income?

- A. HK\$0.
  - B. HK\$100,000 x 5/30.
  - C. HK\$100,000 x 25/30.
  - D. HK\$100,000.
- 

**Q02**

Leo is a Hong Kong resident carrying on a fung shui consultancy business in Hong Kong in form of a sole proprietor. On 1 May 2011 Leo received an order from a client from Mainland China for fung shui consultancy service in respect of his apartment in Shanghai. Leo confirmed the order by sending an e-mail from his computer in Hong Kong, and flew to Shanghai to render the consultancy service. The client is very satisfied with Leo's advice and gave a red pocket containing RMB100,000 to Leo before he left Shanghai. What is the Hong Kong Salaries Tax implication in respect of the aforesaid sum?

- A. The sum is taxable because Leo is a Hong Kong resident.
  - B. The sum is taxable because the order was received and confirmed in Hong Kong.
  - C. The sum is non-taxable because the relevant service was rendered outside Hong Kong.
  - D. The sum is non-taxable because the sum was received outside Hong Kong.
- 

**Q03**

Kevin received a salaries tax assessment from the Inland Revenue Department ["IRD"] on 15 May 2011 and found that the IRD did not grant to him the dependent parent allowance in respect of his father while he is qualified to have such grant. In order to protect his interest, Kevin should:

- A. lodge an objection against the tax assessment.
  - B. pay HK\$12,000 to his father.
  - C. elect personal assessment instead.
  - D. ask his wife to claim the allowance.
-

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**Q04**

Mary is a Hong Kong resident, 65 years old. Mary is retired and her living is supported by the following income:

- Dividend income from Hong Kong listed share.
- Rental income from letting of property located in Macau.
- Interest income from fixed deposit placed with a bank in Hong Kong.

Which one of the following statements concerning the Hong Kong tax consequence of the above income is correct?

- A. Dividend income is onshore and subject to Hong Kong Profits Tax because it is distributed from Hong Kong listed share.
- B. Rental income from property letting is subject to Hong Kong Property Tax because Mary is a Hong Kong resident.
- C. Interest income is subject to Hong Kong Interest Tax because it is arising from a Hong Kong deposit.
- D. Rental income from property letting is offshore and not subject to tax in Hong Kong.

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**Q05**

Jimmy is a Hong Kong resident earning income from a Hong Kong employment subject to Salaries Tax. On 1 January 2011, Jimmy was promoted to regional sales manager who is required to attend meetings with customers both in Hong Kong and China. On 10 November 2011, Jimmy realized that he has stayed and worked in China for 95 days.

Advise Jimmy on his tax consequences and filing obligations both in Hong Kong and in China.

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**Q06**

Bob is a single who resided in Canada. The job recruitment advertisement posted by Bamboo Limited hiring a Marketing Director based in Hong Kong caught Bob's attention. Bob filed his application and left Canada on 1 March 2011 to attend an interview with Bamboo on 5 March 2011 in Hong Kong.

On 15 March 2011, Bob received the job offer by Bamboo Limited with the following employment terms:

- Employment service to be rendered wholly in Hong Kong
- Initial term of 3 years starting on 1 April 2011, renewable.
- Annual salary of HK\$600,000, payable on a 12-month basis.
- A sign-on bonus of HK\$100,000, payable on 30 April 2011 if Bob accepts the employment letter before 25 March 2011.
- Monthly rental allowance of HK\$20,000.
- Monthly car allowance of HK\$10,000.

Bob is considering other costs of living in Hong Kong before he decides to take up the offer. He expects rental expenses of approximately HK\$30,000. On transportation, he plans to buy a sport car which on average will cost him car park rental of HK\$4,000 and petrol expenses of HK\$6,000 monthly.

Apart from basic allowance, Bob is not entitled to any allowance or deduction under Salaries Tax.

Compute Bob's Salaries Tax liability for the year of assessment 2011/12 if he accepts the above employment terms on 25 March 2011.

Suggest tax planning ideas, like remuneration repackaging that can reduce the aforesaid Salaries Tax liability?

Compute Bob's Salaries Tax liability for the year of assessment 2011/12.

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**Q07**

Lawrence, single, a Hong Kong resident who owns a commercial property located in Shatin for letting purposes. The purchase of the property was financed by a mortgage loan with an interest of HK\$8,000 per month on average. The rates for the property is HK\$1,000 per quarter.

On 1 April 2011, Lawrence leased the aforesaid property to Mary under a 5 years lease at a monthly rental of HK\$20,000 plus a lump sum premium of HK\$360,000.

Compute the Property Tax liability for Lawrence for the year of assessment 2011/12.

In view of reducing tax liability, is there any measures Lawrence can take?

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**Q08**

Peter is the landlord of an apartment located at North Point. On 1 June 2011 Peter entered into a lease agreement with Wang (a resident of the Mainland China) letting him the apartment at a monthly rental of HK\$20,000. The lease agreement is prepared by a lawyer from the Mainland China and signed in Shenzhen. Wang resides in Shenzhen. The North Point apartment is for is occasionally stay in Hong Kong. Under Property Tax, what is the monthly assessable value of the apartment?

- A. HK\$0.
  - B. HK\$2,000
  - C. HK\$10,000
  - D. HK\$20,000.
- 
-

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**Q09**

Henry, a Hong Kong resident, started his sole proprietorship business on 1 September 2011. Henry adopted 31 December as the accounting year-end date of his business, but is unsure whether to close the first accounting period on 31 December 2011 or 31 December 2012. It is expected that on average the monthly taxable profit of the business is HK\$25,000.

Assuming Henry has no other assessable income since 2011, advise him the tax consequences for closing his books on 31 December 2011 and 31 December 2012. To mitigate the tax payable, which date is preferable? Explain.

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**Use the following information to answer Q10 to Q16**

Fiona is 26 years old, single and residing in Hong Kong. She is a nurse working for a clinic located in North Point.

Fiona received a Tax Return – Individuals for the year of assessment 2010/11 on 2 May 2011. Fiona completed it in the following manner:

- She reported the employment income from her full-time job of HK\$500,000, but deliberately omitted the employment income from her part-time job of HK\$100,000.
- She claimed traveling expenses from home to work of HK\$20,000 as deductible.
- She claimed the annual subscription payment to a celebrity's fan club of HK\$100 as deductible charitable donation.
- She claimed dependent parent allowance in respect of her mother. In fact her mother has passed away for years.

Fiona received the 2010/11 tax assessment on 15 August 2011, with 2010/11 final tax balance due at the amount of HK\$3,123 and 2011/12 provisional tax payable of HK\$45,103. The total tax payable of HK\$48,226 is due for payment on 15 December 2011.

Fiona lodged a holdover of provisional tax on 20 August 2011 with the IRD on the basis that her estimated employment income for 2011/12 will only be HK\$100,000 because she claimed that she has suffered from mental illnesses since 1 April 2011 and therefore was unfit for work. In fact Fiona has changed her job on 1 April 2011, working for a new employer David who is a physiologist. Fiona agreed with David that she is willing to work overtime without pay on condition that David will not report her monthly salary of HK\$50,000 in the Employer's Return.

Without full knowledge of the situation, the IRD approved the holdover application on 5 September 2011.

---

**Q10**

What are the offences committed by Fiona when she filed her Tax Return – Individuals for the year of assessment 2010/11?

**Q11**

Assuming the IRD adopts the “Assess First Audit Later approach” (i.e. calculate the tax payable wholly according to the Fiona filed return without investigation) in issuing the tax assessment, compute the amount of 2009/10 provisional Salaries Tax paid by Fiona.

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**Q12**

Advise the procedures for lodgment of the holdover of Fiona’s provisional tax for 2011/12.

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**Q13**

What are the obligations under the IRO imposed on David in respect of the employment of Fiona?

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**Q14**

Comment on whether the arrangement between Fiona and David is tax avoidance or tax evasion.

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**Q15**

Advise a possible situation of which the IRD can uncover the above arrangement.

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**Q16**

As the financial planner of David, provide constructive advice to him on how to rectify his position.

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**Q17**

List the common errors in estate planning that may drastically affect the estate plan. .

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**Q18**

Which of the following is/are function(s) of the residuary clause of a will?

- I. It covers the remaining assets in the estate not covered by any other dispositions in other parts of the same will.
  - II. It names the executor of the will.
  - III. It revokes all prior testamentary dispositions or wills of the testator.
  - IV. It is a codicil of the will.
  - V. It enables the named residuary beneficiary(ies) to receive the residuary estate of the testator.
- 
- A. I and II only
  - B. I and V only
  - C. II, III and IV only
  - D. II, IV and V only
-

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**Q19**

David is drawing up his own will. What are the major contents to be included in the will? How will the will-status be affected if the will is written by David alone?

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**Q20**

Jonathan is getting married next month. He has a will which was drawn few years ago, but heard that the will will be automatically revoked upon marriage. Explain to Jonathan about his position. List the situations when a will is generally revoked.

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**Q21**

Which of the following are the usual reasons to change a will?

- I. After a marriage
  - II. After the 1st year of making the will.
  - III. After a divorce.
  - IV. After the death of the sole beneficiary or of the beneficiaries.
- 
- A. I and III only
  - B. II and IV only
  - C. I, III and IV only
  - D. II, III and IV only
-

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**Q22**

Estate Duty has been abolished in Hong Kong in 2006. It is \_\_\_\_\_ necessary to apply for Estate Duty clearance and pay any Estate Duty for death before 11 February 2006. For death afterwards, it is \_\_\_\_\_ necessary to apply for Estate Duty clearance \_\_\_\_\_ necessary to pay any Estate Duty.

- A. still ; still ; and still
  - B. still ; still ; but not
  - C. still ; not ; nor
  - D. not ; not ; nor
- 

**Q23**

Name the THREE types of Grant of Representation. Explain the conditions where each of the three types of Grant of Representation will be granted, with reference to (i) whether the deceased died leaving a valid will and (ii) the type of applicant.

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**Q24**

The estate of an intestate will be distributed through the applicable intestate law in Hong Kong. Which of the following undesirable effect it may have?

- I. The estate may go to persons whom the intestate may not want to be his beneficiaries, such as the abandoned father.
  - II. Close non-relatives whom the intestate may wish to make gift will not be able benefit from his estate on his intestacy.
  - III. The estate may go directly to the creditor of the intestate's insolvent surviving spouse.
  - IV. The estate may not go to the surviving parent of the intestate.
- 
- A. I only
  - B. I and II only
  - C. II and IV only
  - D. II, III and IV only
-

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**Q25**

Martha would like to set up a testamentary trust for the use of her 8-year old nephew. Name various questions a financial Planner should raise so as to help Martha to identify and address the areas of concern.

---

**Q26**

Which of the following statements about Joint tenancy are generally true?

- I. On the death of a co-owner leaving a will, the joint property is outside ambit of the will.
  - II. On the death of a co-owner leaving no will, the joint property is governed by the intestate law.
  - III. On the death of a co-owner leaving no will, the joint property belongs to the surviving joint tenant.
  - IV. The law generally presumes that a property with co-owners is held by the owners as joint tenancy.
  - V. On the death of a co-owner, the joint property is still subject to the creditors' claim of the deceased co-owner.
- 
- A. I and III only
  - B. I, II and V only
  - C. II, III and IV only
  - D. I, II, III, IV and V
-

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**Use the following information to answer Q27 to Q35**

Peter died intestate in a traffic accident last week. Peter was survived by his wife, Jenny and his only child, Paul, (minor) from his prior marriage. Peter left the following assets, all in his sole name:

- the matrimonial home in Shatin. The property worth HK\$2 million, and is subject to an outstanding mortgage loan of about HK\$1 million; and
- HK\$200,000 cash in bank

There are no known debts and liabilities of Peter except for administration cost of his estate, in the sum of HK\$150,000.

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**Q27**

Who has the highest priority to apply for the letter of administration of Peter's estate?

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**Q28**

What kind of grant of representation would be awarded by the Court in respect of the estate of Peter?

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**Q29**

What is the approximate value of the residuary estate of Peter?

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**Q30**

What is the entitlement of Jenny in respect of the estate?

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**Q31**

What is the entitlement of Paul in respect of the estate?

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**Q32**

If the outstanding mortgage is HKD1.8 million instead, how would the estate distribution be affected according to the Intestates' Estates Ordinance?

---

**Q33**

Paul is not satisfied with the distribution as described in last question. What should he do?



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**Q34**

Assuming the residential property was held in the names of Peter and Jenny, how would it be devolved?

---

**Q35**

Please discuss the financial tools, or otherwise, you would recommend to Peter, for his consideration had he came to you in 2009 for financial planning advice at the time when he had assets worth \$5 million.

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**Q36**

A UK resident, Mr. Benjamin, holds an office of a Hong Kong company as a director. The company is managed and controlled in Hong Kong. During a year of assessment, Benjamin comes to Hong Kong once for 59 days attending directors' meetings. The director's fee received by Benjamin for the year is:

- A. liable to Profits Tax
  - B. liable to Salaries Tax
  - C. liable to Salaries Tax, pro rata to the number of days working in Hong Kong
  - D. exempt from all Hong Kong taxes
- 

**Q37**

Chi Ming is a manager of a medium size trading company with a monthly salary of \$30,000. The employer provides housing benefit of \$10,000 per month to all staff at managerial grade. For the year of assessment Chi Ming is awarded with 2-month bonus.

Calculate the net assessable income for Chi Ming.

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**Q38**

The Inland Revenue Ordinance specifies that, when a taxpayer disputes an assessment made upon him, the objection shall first addressed to:

- A. the Commissioner of Inland Revenue.
  - B. the Court of Appeal
  - C. the Board of Review
  - D. the Court of First Instance
-

---

**Q39**

Which of the following are key factors set out by the Organization for Economic Co-Operation and Development (OECD) as determinants on whether a jurisdiction is a tax haven?

- I. High Political stability.
  - II. Lack of transparency.
  - III. No or only nominal taxes.
  - IV. No or little foreign exchange control.
- 
- A. I & IV only
  - B. II & III only
  - C. I, II and IV only
  - D. I, II, III & IV
- 

**Q40**

In relation to the disposal of an asset, the most important element in differentiate capital gains from trading profits under Profits Tax is:

- A. reason for sale
  - B. period of ownership
  - C. frequency of similar transactions
  - D. intention at the time of acquisition
- 

**Q41**

Which of the following about inter vivos trust is CORRECT?

- I. An inter vivos trust must be revocable
  - II. Inter vivos trust is also known as living trust
  - III. An inter vivos trust must be irrevocable
  - IV. Inter vivos trust is also known as testamentary trust
- 
- A. II only
  - B. IV only
  - C. I & II only
  - D. III & IV only
-

---

**Q42**

List the “three certainties” that must be presented before a valid trust can be created.

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**Q43**

Compare and contrast Joint Tenancy and Living Trust as a method of asset transfer upon death.

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**Q44**

Andy passed away in a car accident intestate. Assuming there is no interest to be paid from the estate as determined by the High Court, how should his \$5 million estate be distributed among the following relatives, and only relatives, of Andy?

- Bonnie, Andy's wife,
  - Charles, Bonnie's son from her previous marriage, who is now 30 years old and does not live with Andy and Bonnie
  - Don, Andy's half-blooded brother
  - Emily, Andy's whole-blooded sister
  - Flora, Emily's daughter
-

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**Q45**

Jason and Martha signed a pre-nuptial marital agreement in Hong Kong before their marriage 10 years ago. Under the agreement, Martha is entitled to 40% of Jason's total assets in Hong Kong upon divorce or Jason's death. The relationship went bad after 5 years and Jason divorced Martha. After the divorce, Jason drew up a will indicating only 10% of his assets shall be distributed to Martha upon his death.

Jason passes away last month. Under Hong Kong law, what is Martha's entitlement to Jason's estate?

- A. 10%. Because the will is drawn after the pre-nuptial marital agreement, it automatically supersedes the terms in the agreement.
  - B. 10%. Because marital agreement is not enforceable in Hong Kong.
  - C. 40%. Although the will is drawn after the pre-nuptial marital agreement, it will not supersede the terms in the agreement except explicitly expressed.
  - D. 40%. Under Hong Kong laws, marital agreements override estate distribution as stated in the Probate and Administration Ordinance.
-

## ANSWER TO EXERCISE

## PART Y1

Q01 In the swap agreement, Company A will pay a fixed interest rate of 6.3% to Company C on the notional amount of \$100 million; and

Company A will receive a floating interest rate of LIBOR + 3% from Company C on the notional amount of \$100 million.

At the end of each year,

- Company A will pay \$100 million x 6.3% or \$6.3 million to Company C;
- Company C will pay \$100 million x (LIBOR + 3%) to Company A;
- Company A will pay \$100 million x (LIBOR + 3%) to Company B.

By doing so, Company A has fixed its interest payment to \$6.3 million per year, no matter what the LIBOR is.

Q02 Raymond is correct except for his understanding on real average rate of return.

There are 2 assumptions behind the yield to maturity: 1) the investor will hold the bond until maturity; and the coupon payments will be reinvested at the yield to maturity. Raymond will hold the bond until maturity. However, the reinvestment rate of the coupon payment will most likely be different from the yield to maturity.

Q03 When interest rate increases, bond price will decrease and the reinvestment rate of the coupon payment will increase.

When interest rate decreases, bond price will increase and reinvestment rate of the coupon payment will decrease.

The decrease/increase in bond price and the increase/decrease in reinvestment rate do not necessarily offset each other. Therefore, there is risk that the overall value of the investment will decrease.

Raymond should be concerned (even though not a big concern) about interest rate risk even he is planning to hold the bond until maturity. The bond price may

Q04 The longer the bond's time to maturity, the higher sensitivity of the bond price to interest rate changes, and the longer the bond's duration will be. Other factors that affect a bond's duration include

Coupon rate: The lower the coupon, the longer the duration will be.

Yield to maturity: The lower the yield to maturity, the longer the duration will be.

Q05 Bond D has the longest duration. For the longest duration, look for a bond with the lowest coupon rate, the longest time to maturity and the lowest yield to maturity.

Bond A has the shortest duration. For the shortest duration, look for a bond with the highest coupon rate, the shortest time to maturity and the highest yield to maturity.

Q06 Raymond should short Bond D. Since interest rate is forecasted to increase, Raymond should short bond. And he should short the bond with the longest duration, i.e. Bond D. The price of the bond with the longest duration will drop the most.

Q07 Adding convexity in the calculation of bond price change will make the answer more accurate than using duration alone. Using duration alone will overstate the decrease in bond price when interest rate increases; and will understate the increase in bond price when interest rate decreases.

Q08 Raymond should invest 50% in Bond P and 50% in bond Q. In other words, he should buy \$500,000 face value of Bond P and \$500,000 face value of Bond Q.

Since his liability has a duration of 3 years, he needs a bond or bond portfolio with 3 years duration to immunize himself from interest rate change. There is no 3-year duration bond available. He can use the 2 bonds to form a portfolio with 3 years duration. Duration of a bond portfolio is the weighted average of durations of the bonds in the portfolio.

$$3 = (w_1 \times 1) + [(1-w_1) \times 5]$$

$$w_1 = 0.5$$

$$w_2 = 1 - w_1 = 0.5$$

Q09 Disadvantages of investing in real estate properties include:

- Higher maintenance cost;
- Higher capital requirement;
- Depreciation (on the building part);
- Higher transaction cost (in terms of time, commission and tax)
- Low liquidity.

From the angle of investment portfolio management, real estate has distinct characteristics from stocks as one is a real asset generating income and the

other are just financial assets reflecting interest of a company. If the underlying companies of the stocks are not closely related to properties market such as properties agency or developer, they have low correlation between each other. Adding real estate investment into such a portfolio will help diversify the overall risk. In addition, real estate is a good hedge to inflation.

Q10 With mutual fund, one can:

- enjoy well diversification with limited capital
- A typical equity fund will hold over 20 stocks at any one time. It will require a large sum of capital for the investor to buy all 20 stocks directly. With mutual fund, investor can invest with a smaller lump sum or monthly investment and still enjoy the diversification.
- enjoy professional management
- While individual investors have no time or knowledge to manage the portfolio, the fund managers will monitor the performance of the market and the holdings in the fund and make all the buy/sell decisions.
- take advantage of dollar cost averaging
- Investors are allowed to invest a fixed amount on a monthly basis. More units will be purchased when the unit price falls and vice versa. In the long run, investor may enjoy a lower average purchase price.
- participate in markets that direct investment is not available
- Through mutual funds, investors can invest in some markets, such as emerging market, where direct access is not available to individual investors.

On the other hand, one:

- cannot choose individual investment by self in the fund
- Investors can choose a fund that suits his/her requirement but he cannot request that a particular stock be included in the fund.
- will usually pay higher fees and charges than direct investment
- Investors will have to pay subscription/redemption fee and annual management fee that they would not have to pay in direct investment.
- usually do not know the buy/sell price at the time the buy/sell order is placed

- Most mutual funds (except for exchange traded fund) use end of day/end of session closing price to calculate the buy/sell price. Therefore, investors do not know the buy/sell price at the point the order is placed.

Q11 Subscription fee

$$= \$20,000 \times 3\% = \$600$$

Net amount invested

$$= \$20,000 - \$600 = \$19,400$$

Number of units purchased

$$= \$19,400 \div \$20 = 970 \text{ units}$$

Value of the units today

$$= 970 \times \$22 = \$21,340$$

Total profit

$$= (\$21,340 - \$20,000) + \$1,000$$

$$= \$2,340$$

Rate of return

$$= 2,340 \div \$20,000 = 11.7\%$$

Q12  $(1 + 2.9\%)^2 \times (1 + f_3) = (1 + 3.43\%)^3$

$$1 + f_3 = 1.045$$

$$f_3 = 0.045 \text{ or } 4.5\%$$

Q13 D - I is incorrect. Yield to call of a bond can be higher or lower than the yield to maturity.

It is incorrect. The issuer is more likely to call the bond when interest rate falls, for the issuer can save interest expenses by calling the original bond and issue another bond at a lower interest rate. Conversely, it is less likely for the issuer to call the bond when interest rate rises.

Q14 A - I is correct. Arithmetic average rate of return is just the simple average of the rates of return in different periods. Geometric average rate of return considers the compounding effect of the rates of return in different period, making the calculation more complicated.

It is incorrect. Dollar-weighted average rate of return considers the timing of the cash flows but geometric average rate of return does not.

Q15  $g = \text{ROE} \times b$

$$= \text{ROE} \times (1 - \text{dividend payout ratio})$$

$$= 15\% \times (1 - 65\%) = 5.25\%$$

$$D_0 = \$5 \times 65\% = \$3.25$$

$$D_1 = D_0 \times (1 + g)$$

$$= \$3.25 \times (1 + 5.25\%) = \$3.42$$

$$P_0 = \frac{D_1}{k - g}$$

$$= \frac{\$3.42}{11\% - 5.25\%}$$

$$= \$59.48$$

- Q16 Q16 Curtis Balance Fund has a higher risk-adjusted return by Sharpe measure.

$$\text{Sharpe ratio} = [E(r) - r_f] / \sigma$$

Curtis Balance Fund

- $E(r_{\text{Curtis}}) = (0.4 \times 5\%) + (0.6 \times 23\%) = 15.8\%$
- $\text{Sharpe ratio} = [15.8\% - 1\%] / 25\% = 0.592$

Empire Balance Fund

- $E(r_{\text{Empire}}) = (0.6 \times 6\%) + (0.4 \times 23\%) = 11.6\%$
- $\text{Sharpe ratio} = [11.6\% - 1\%] / 22\% = 0.481$

- Q17 They are both incorrect.

Jenson alpha = the portfolio average rate of return - the expected rate of return calculated from CAPM (SML).

Jenson alpha can be positive, zero or negative.

- Q18 Curtis Balance Fund

- $E(r_{\text{Curtis}}) = (0.4 \times 5\%) + (0.6 \times 23\%) = 15.8\%$
- $\text{Weight on the adjusted portfolio} = 20\% / 25\% = 0.8$
- $\text{Weight on the risk-free asset} = 1 - 0.8 = 0.2$
- $\text{Expected rate of return on the adjusted portfolio} = (0.8 \times 15.8\%) + (0.2 \times 1\%) = 12.84\%$
- $M2 = 12.84\% - 11.5\% = 1.34\%$

Empire Balance Fund

- $E(r_{\text{Empire}}) = (0.6 \times 6\%) + (0.4 \times 23\%) = 11.6\%$
- $\text{Weight on the adjusted portfolio} = 20\% / 22\% = 0.91$
- $\text{Weight on the risk-free asset} = 1 - 0.8 = 0.09$
- $\text{Expected rate of return on the adjusted portfolio} = (0.91 \times 11.6\%) + (0.09 \times 1\%) = 10.65\%$
- $M2 = 10.65\% - 11.5\% = -0.85\%$

- Q19 Empire Balance Fund performs well in security selection but not at asset allocation.

The extra return from asset allocation is -1.3% while the extra return from security selection is 1.4%

$$\text{Asset allocation} = [(60\% - 50\%) \times 5\%] + [(40\% - 50\%) \times 18\%] = -1.3\%$$

$$\text{Security selection} = 60\% \times (6\% - 5\%) + [40\% \times (20\% - 18\%)] = 1.4\%$$

- Q20 A - I is correct. II is incorrect. Dollar cost averaging is more suitable for investors with longer investment time horizon.

III is incorrect. Investors who are trying to time the market never use dollar cost av-

eraging. Dollar cost averaging is to invest the same amount of money regardless of the asset price. Timing the market is to buy only when the investor thinks the price is too low and selling when he thinks the price is too high.

- Q21 The characteristics of a mutual fund using active in contrast with passive portfolio management include:

- They charge a higher management fee than funds that use passive portfolio management.
- The fund managers using active portfolio management will involve more in market timing and security selection than fund managers that use passive portfolio management.
- The fund manager will try to outperform the benchmark.
- The fund manager will reduce holding of the assets that are overpriced and increase holding of assets that are underpriced.
- Due to more frequent trading, the fund might incur more trading fees than fund that use passive portfolio management.

Funds that track the performance of an index use passive portfolio management. Hang Seng Index Fund or HK Tracker Fund is a good example.

- Q22 Value of stocks in the portfolio  
=  $[\$500,000 \times (1 + 20\%)] = \$600,000$

$$\text{Value of bonds in the portfolio} = [\$500,000 \times (1 - 1\%)] = \$495,000$$

$$\text{Total value of the portfolio} = \$1,095,000$$

To restore the stocks and bonds into 50/50

New holding of stock

$$= 50\% \times \$1,095,000 = \$547,500$$

New holding of bond

$$= 50\% \times \$1,095,000 = \$547,500$$

Tim should reduce the stock holding from \$600,000 to \$547,500 i.e. to sell \$52,500 stocks.

Tim should increase the bond holding from \$495,000 to \$547,500 i.e. to buy \$52,500 bonds.

- Q23

Changes	Relationship w call option premium	call option premium:
↑ spot price of DCD	+ve	↑
↑ standard deviation of DCD	+ve	↑



↓ time to maturity of the option	+ve	↑
↑ risk-free rate	+ve	↑

Q24  $c - p = S_0 - X/(1 + \text{risk-free rate})^T$

$$\$4.5 - p = \$86 - \$88/(1 + 1.1\%)^{1/6}$$

$$p = \$6.34$$

- Q25 The strategy is called "straddle". It is buying the call option and put option of the same underlying at the same strike price with the same time to maturity.

When an investor believes that the price of a stock will be very volatile but not sure about the direction of change, he can profit from a straddle when the realized stock price changes sharply, in either direction.

- Q26 With a spot price of \$92 and a strike price of \$88, the put option is out-of-the money and expires worthless. The call option is in-the-money with payoff of \$4 (\$92-\$88) per share. The total payoff is \$4,000 (\$4 x 1,000).

The investor has paid \$4.5 per share for the call option and \$6.34 per share for the put options. The total cost is [(\$4.5+\$6.34) x 1,000] = \$10,840

$$\text{Loss} = (\$4,000 - \$10,840) = \$6,840$$

- Q27 ABC should take a long position in the futures contracts. The strategy is called long hedge. The long position in a future contract will buy the underlying at the contract maturity. Hedging by going long in a future contract is called a long hedge. The short position in a future contract will sell the underlying at the contract maturity.

Hedging by going short in a future contract is called a short hedge.

- Q28 Long position in futures contract

- The investor has an obligation to buy the underlying at the specified price on the contract maturity date.
- There is no initial cash flows involved.

Long position in European call option

- The investor has a right to buy the underlying at the specified price on the maturity date.
- The investor has to pay the premium to buy the option.

- Q29  $F_0$

$$= S_0 \times (1 + \text{risk-free rate} - \text{dividend yield})^T$$

$$= \$20 \times (1 + 1\% - 2\%)^{1/4}$$

$$= \$19.95$$

- Q30 B - The correlation coefficient ranges only from -1 to +1.

To minimize risk, he should choose the stock that has the lowest correlation coefficient with his stock. Theoretically, stock with negative correlation will have more diversification effect than stocks with zero correlation. Therefore, he should choose Stock O.

- Q31 Based only on this piece of information, the investor should choose asset B. The slope of the CAL represents the reward-to-variability ratio of the asset. i.e., expected return minus risk-free rate then divided by standard deviation. Slope of CALA is 1.2 and slope of CALB is 1.3. Therefore, asset B has a higher reward-to-variability ratio.

- Q32 The second task is to combine the market portfolio with a risk-free asset and choose a portfolio that suits the client's risk appetite.

For the conservative client who is assumed to be risk averse, more weight should be given to the risk-free asset. For the aggressive client, more weight should be given to the market portfolio. For even more aggressive client, it is possible to allocate 100% or even more (by borrowing) of the market portfolio.

- Q33 Expected return

$$= (0.4 \times 11\%) + (0.6 \times 13\%) = 12.2\%$$

$$\begin{aligned} \sigma^2 &= (\omega_1 \sigma_1)^2 + (\omega_2 \sigma_2)^2 + 2\omega_1 \omega_2 \sigma_1 \sigma_2 \rho_{1,2} \\ &= (0.4 \times 0.22)^2 + (0.6 \times 0.28)^2 + 2 \times 0.4 \times 0.6 \times 0.22 \times 0.28 \times 0.7 \end{aligned}$$

$$\sigma^2 = 0.056667$$

$$\sigma = 0.238 \text{ or } 23.8\%$$

- Q34  $E(r) = r_f + \beta [E(r_M) - r_f]$

$$16\% = 2\% + \beta [12\% - 2\%]$$

$$\begin{aligned} \beta &= (16\% - 2\%) / (12\% - 2\%) \\ &= 1.4 \end{aligned}$$

- Q35  $X = 1$ . The beta of the market portfolio is always 1.

$Y = 0$ . The standard deviation of a risk-free asset is always zero.

$Z = 0$ . The beta of a risk-free asset is always zero

- Q36 No, according to CAPM, Stock D is not underpriced. In fact it is overpriced. Jane should not add it to her portfolio.

$$E(r) = r_f + [E(r_M) - r_f]$$

$$E(r) = 2\% + 1.6[12\% - 2\%]$$

$$E(r) = 18\%$$

According to the CAPM, Stock D's expected return is 18%. However, the stock's current expected return is 17%. Thus, it is over-priced.

- Q37  $\beta = \text{Cov}_{S,M} / \sigma_M^2$   
 $\beta = (\rho_{S,M} \times \sigma_S \times \sigma_M) / \sigma_M^2$   
 $\beta = (\rho_{S,M} \times \sigma_S) / \sigma_M$

$$0.9 = (\rho_{S,M} \times 0.22) / 0.23$$

$$\rho_{S,M} = (0.9 \times 0.23) / 0.22$$

$$= 0.94$$

Q38  $1.1 = (\rho_{S,M} \times 0.28) / 0.23$

$$\rho_{S,M} = (1.1 \times 0.23) / 0.22$$

$$= 0.9$$

$$r^2 = 0.9^2 = 0.81 = 81\%$$

81% of the risk is the systematic risk.

Therefore, the percentage of non-systematic risk in the total risk is (1-81%) = 19%

Q39 Systematic risk is largely macroeconomic, affecting all securities, while firm-specific (non-systematic) risk factors affect only one particular firm or, perhaps, its industry. Only the non-systematic risk is diversifiable and the systematic risk is not diversifiable. An investor can diversify the non-systematic risk by including assets with low correlation in his portfolio.

Q40 A - In the SCL, X-axis is the market's excess return (Market's return minus risk-free rate); and the Y-axis is the security's excess return (security's return minus risk-free rate)

Q41 C - The slope of the SCL is the beta of the security. Camel Limited's SCL is steeper and thus has a higher beta, i.e. higher systematic risk.

The distances from the observation points to the SCL represent the firm specific risk. The observation points in Camel Limited are further away from the SCL than Wiseland Inc. Thus, Camel Limited has more firm specific risk.

Q42 D - EMH state the price of stocks already reflect all available information of the market making it impossible for investors to either purchase undervalued stocks or sell stocks for inflated prices. As such, it should be impossible to outperform the overall market through expert stock selection or market timing

Andrew is incorrect. There is no empirical evidence showing the relationship between the market condition and the market efficiency.

Billy is incorrect. If someone can use insider information to trade stocks and make extra profit, we can only conclude that the market is not in strong form efficiency. There is no information showing whether the market is in semi-strong form efficiency or not.

Q43 D - Given the HSI is a good representative to Hong Kong stock market, and Susanna can consistently make profit by using technical analysis, it implies that Hong Kong stock market is not under any of the forms (weak, semi-strong and strong) of the EMH.

Q44 Active portfolio management tries to outperform the market by identifying undervalued and/or overvalued securities. In an efficient market, security price will reflect all new information immediately; and new information is unpredictable.

Therefore, if a market is efficient, securities' prices are always at their fair values. There will be no undervalued or overvalued security. Thus, active portfolio management is useless.

In an efficient market, investors should use passive portfolio management to set a mix of securities in their portfolio that suits their risk and return requirement; and re-balance the portfolio when needed.

Q45 A - I is correct. II is incorrect. Random walk states that stock price changes with new information, and new information is unpredictable. Thus stock price movement is also unpredictable.

Q46 D - Net asset value (NAV) is calculated by (assets - liabilities) / number of shares outstanding.

The three variables assets, liabilities and number of shares together determine the NAV, unless we know the number of shares outstanding, we cannot compare the value of the remaining variable. Option A, B and C are all uncertain.

Q47 A - Statement B is INCORRECT. Investors require a liquidity premium to hold a longer term bond under liquidity premium theory, not expectation theory.

Statement C and D are INCORRECT. Expectation theory does not infer investor preference over short- or long-term bond due to expectation of change in interest rate.

Q48 Geometric average return is a better method to measure the performance of a mutual fund manager.

A mutual fund's geometric average return (also known as time-weighted average rate of return) is the compound rate of return of the fund. The result is not and should not be affected by the interim cash flows the investor makes during the investment period.

On the other hand, in calculating dollar-weighted average return (also known as internal rate of return) one must use the exact timing and nature (withdrawal or deposit) of the cash flows during the investment period. Therefore, the result is and should be affected by the interim cash flows.

Since geometric average return does not consider investor's cash flows, it is a better measure of the mutual fund's performance. The dollar-weighted average rate of

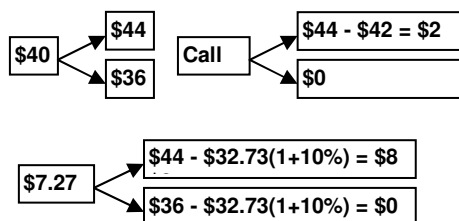
return is a better method to measure the performance of the investor's portfolio.

- Q49 The purpose of immunization in bond portfolio management is to be immune from the change in interest rate in the future. In other words, with immunization, the resulting cash flow will be the same regardless of the level of interest rate during the holding period.

Contingent immunization is to keep using active bond portfolio management unless and until poor performance endangers the prospect of achieving a minimum acceptable return. where a passive bond portfolio management will be used providing a guaranteed rate of return over the remaining portion of investment period..

Immunization is using passive portfolio management right from the beginning. Under contingent immunization, the portfolio manager may never need to switch to passive portfolio management provided that the portfolio value stays above the trigger point all the time. In that case, only active portfolio management will be used.

- Q50 If we borrow \$32.73 [or  $\$36/(1+10\%)$ ] and use \$7.27 of our own money to buy a stock at \$40 today, we will have to repay  $\$32.72(1+10\%)$  or \$36; and face stock price or either \$44 or \$36. Our payoff will be:



Note that the above payoff of is 4 times the payoff of a call option. Therefore:

$$4 \text{ Calls} = \$7.27 ; 1 \text{ Call} = \$1.82$$

- Q51 The variance of the rate of return on a two-asset portfolio is,

$$\sigma_p^2 = (w_A \sigma_A)^2 + (w_B \sigma_B)^2 + 2(w_A \sigma_A)(w_B \sigma_A) \rho_{AB}$$

$$\sigma_z^2 = (w_X \sigma_X)^2 + (w_Y \sigma_Y)^2 + 2(w_X \sigma_X)(w_Y \sigma_Y) \rho_{XY} \quad (1)$$

In this question, the standard deviation of portfolio Y is the weighted average of the standard deviations of Fund X and Fund Y

$$\sigma_z = (w_X \sigma_X) + (w_Y \sigma_Y)$$

$$\sigma_z^2 = [(w_X \sigma_X) + (w_Y \sigma_Y)]^2$$

$$\sigma_z^2 = (w_X \sigma_X)^2 + (w_Y \sigma_Y)^2 + 2(w_X \sigma_X)(w_Y \sigma_Y)$$

PUT into equation (1)

$$\rho_{XY} = 1$$

The correlation coefficient of Fund X and Fund Y is 1.

Since the standard deviation of portfolio Z is the weighted average of the standard deviations of Fund X and Fund Y, there is no diversification effect among the 2 funds. Only assets with correlation coefficient of 1 will have no diversification effect among them.

- Q52 Mutual fund theorem states that investment demand of all investors can be satisfied by one mutual fund of risky assets, the market portfolio.

One of the assumptions in CAPM is that all investors attempt to construct efficient frontier portfolios. Any portfolio below the CML would be inefficient portfolio. Therefore, a passive investor can simply choose to invest in the market portfolio and that would be the portfolio with the highest efficiency.

- Q53 CML is similar to CAL that they are both a line joining the risk return relationship of the risky portfolio and the risk-free asset. They both form complete portfolios with different weights of risky and risk-free assets that investors can, according to their risk tolerance level, choose from. In both CML and CAL standard deviation is used as the measure of risk.

CML and CAL are different in a way that market portfolio is used in CML as the risky portfolio and not in CAL.

- Q54 Time diversification asserts younger investors have a longer investment horizon, they should invest more in stocks because the long investment horizon reduces the investment risk.

The fallacy of time diversification states that time diversification does not reduce risk. In fact, there is more uncertainty in a longer time horizon than a shorter time horizon; which in turn means longer time horizon increases the risk.

To reduce risk, investors should invest in different assets with low correlation coefficient.

But investing in longer time horizon has its merit. Investors with longer time horizon can enjoy the higher return (along with higher risk) from the stock market. They are more able to let the investment recover or adjust their income and spending pattern in case the stock market does not perform as desired.

## PART Y2

- Q01 C - Option (A) is using pure risk retention. Financially, it will put Mr. Smith and his dependents into great risk as he will never know when he will catch major illness or whether he can have enough time to accumulate adequate assets.

Option (B) seems to be using only risk transfer, it is in fact a combination of risk transfer and risk retention because the medical coverage HK\$250,000 per disability is not quite enough in case of major illness. The rest is still retained by Mr. Smith himself.

Option (C) is also using risk transfer and risk retention. However, the coverage is in much higher which could be assumed to be a full transfer. The application of deductibles and co-insurance provision also help Mr. Smith to lower the cost as well as limit the retention level to himself.

- Q02 The legal doctrine applies here is called Res Ipsa Loquitur, which is a significant legal doctrine of the law of negligence. It is a Latin phrase which means that "the things speaks for itself".

Under this doctrine, the very fact that the injury or damage occurs establishes a presumption of negligence on behalf of the defendant. That is, the accident or injury normally would not have occurred if the defendant had not been careless. If this doctrine applies, the burden of providing evidence falls on the defendants.

For the doctrine to be applicable, certain conditions are required. First, the event must be the one that normally does not occur in the absence of negligence. Pulling a wrong tooth in this case, there must be presence of negligence. Second, the defendant has the exclusive control over the instrumentality causing the accident. In this case, the dentist has the exclusive control over the instrument of pulling a tooth. Last, the injured party must in no manner that has contributed to his or her own injury. In this case, the patient just lied on the patient bed without doing anything that contributed to his injury.

- Q03 The insurance company was still bound by the act of Hebert, even though his express authority to act on behalf of the insurance company was terminated. The insurance was held liable because of the doctrine of apparent authority (or sometimes called ostensible authority), which refers to a situation in which a reasonable person would be under the impression that an agent had authority to act. As a result, the principle is bound by the agent's actions regardless of whether actual authority was possessed by the

agent. In this case, since the customer was presented with all XYZ Insurance Company' sales materials, any reasonable man would expect Herbert has the authority to bind the insurer.

- Q04 D - actual cash value = Replacement cost - Depreciation = \$18,000 x (1 - 20%) = \$14,400

- Q05 C - The owner should take out insurance to cover the highest possible value of inventory in hand to minimize the possibility of being under insured.

Therefore the sum insured = \$600,00 x 1.1 = \$660,000

- Q06 D - There are circumstances in which one person may become legally liable for the negligent behavior of another person. This type of liability is known as vicarious liability. For example, employers are liable for the negligence of their employees.

Product liability is the area of law in which manufacturers, distributors, suppliers, retailers, and others who make products available to the public are held responsible for the injuries those products cause.

Contractual liability means the obligation assumed by any contracting party under the terms of a contract.

Absolute liability means liability may be imposed simply because 'accidents happen', and regardless of whether anyone was at fault.

- Q07 The insurer has no liability for the loss since Grace had decided to let Ivy stay even after she committed a crime and not to disclose the fact to the insurer. The fidelity guarantee coverage requires disclosure of facts and Grace must provide the insurer with any knowledge of or reasonable suspicion about any employee's dishonesty to keep the insurance in effect.

- Q08 Fire is an insured event, and therefore the insurer has the obligation to pay for the loss of income and accountant's fees under Business Interruption Section of the policy.

Assuming that there is damage to the Contents covered in Property All Risks section of the policy and the net profit is earned equally over the period. It is also assumed that the definition of gross and net profit in the policy has the same meaning as what is normally used by accountants.

Thus, if the shop is shut down for only 3 months, it will lose net profit of \$1,600,000 x 3/12 = \$400,000, which is within the maximum limit covered by the Business Interruption Section of the policy.

In addition to the loss of income, \$20,000 auditor's fees are also covered. Therefore, the total amount the insurer is obligated to pay is  $\$400,000 + \$20,000 = \$420,000$

Q09 B - The insurer will pay:

- Section I - Claim for the repair costs of the insured own car = repair costs – excess - depreciation =  $\$100,000 - \$5,000 \text{ excess} - \$15,000 \text{ depreciation} = \$80,000$
- Section II - Claim for 3rd party property damage =  $\$80,000 - \$5,000 \text{ excess} = \$75,000$ ; Claim for 3rd party injury =  $\$50,000$
- Section III - Claim for the medical expenses for the insured =  $\$1,000$  maximum

The total amount =  $\$80,000 + \$75,000 + \$50,000 + \$1,000 = \$206,000$

Q10 No, the insurer cannot cancel his Disability Income policy but can increase his premium. For a guaranteed renewable insurance policy, the insurer has obligation to let Eddie renew his policy once is issued but there is no requirement on keeping the premium level. The insurer has the right to increase his premium for the underwriting class in which he is placed.

Q11 B - A family income policy is actually a combination of some form of permanent insurance (e.g. whole life policy), with a decreasing term insurance. The term insurance makes provision for the payment of some stipulated amount per month until some specific date in the future. Family income policy however is not common in Hong Kong, Peter can choose to combine a whole life insurance policy with a decreasing term rider to fit his need.

Joint mortgage protection policy is a decreasing term written on the lives of two persons, which the insurance payable at the death of the first. As Liza is a housewife, she doesn't need life protection so this policy is not suitable for the case.

Family maintenance policy is another variation of the family income policy which pays the monthly income from the date of the insured's death for specific years. It is a combination of whole life policy with a level term rider and Peter will be over insured if used in this case.

Family protection policy is an attempt to provide insurance on the entire family which is also not for the case of Peter.

Q12 Basically, juvenile insurance is the kind of insurance which the insured is child, i.e. below age 18 in Hong Kong. As Salina wants to include juvenile critical illness and accident protection for her child in one policy, non-insurance product such as bank deposit and mutual funds which has no protection element; and general

life insurance including endowment which insured is for adult only; are not the best for her to set up the plan.

Q13 Term contracts that without cash value but able to automatically convert to whole-life policy without evidence of insurability does not fit Salina need as one of her major goal is to accumulate education fund for her child.

The advantage of using limited payment whole life to accumulate fund for university education is safety as the cash value simply keeps growing every year without dropping at all thus the risk is very low. The only risk is the bankruptcy of the insurer. However, low risk means low return, even assuming in average 4.5% annual rate of return, the future value is less than \$1 million\*, which may be sufficient for local university education, but not for 4 years overseas university study.

\* [BGN]

[N] =  $(18-1) \times 12$ ,

[PMT] = -3000,

[%I] = 4.5/12,

[PV] = 0,

[CPT] [FV] = 920,175

Since Salina's objective is to send her child to overseas university, unit-linked policy may fit her needs better in terms of return. Since she has a long investment horizon of 19 years, mutual funds with appropriate investment strategy in the long run is very likely to grow and provides a higher average rate of return. Therefore, unit-linked policy of 19 to 20 years term would best fit her needs. According to her risk preference, a combination of equity funds and balanced funds which provide a balance between risk and return may suit her needs.

Q14 This plan has a limited term, and promises to pay the sum insured of the policy if the insured survives until the end of the period, makes it an endowment plan.

Q15 The effective rate of return of this plan including the dividends is 6.99%.

[BGN]

[PV] = -100,000,

[N] = 6,

[FV] = 150,000,

[PMT] = 0,

[CPT][%I] = 6.99

Q16 The return rate of life insurance policies varies within the effective period because it has a relatively high initial expense component. For many forms of life insurance, the front-end commission makes the return negative during the early years and positive only in the long run. The ac-

tual rate of return depends on the length of time for which the policy keeps in force and in general is maximum until maturity. The return rate of fixed deposit is in general level every period during the term period.

- Q17 Compared with annual interest rate of 0.15% of 1 year fixed deposit, this plan seems much better in terms of return. But when the wealth manager made this statement, he assumed Regina would not need to withdraw any cash from this plan in these 6 years. In case Regina needs to surrender her policy for cash before the maturity date, she will suffer a loss as in the early years (could be up to the 5th year), the cash value is less than the total premium paid.

- Q18 The monthly income generated by the immediate annuity plan purchased with the money from MPF =  $(\$300,000 / \$1,000) \times \$6.00 = \$1,800$

Your current rental income = \$10,000 a month

The gap =  $\$15,000 - \$10,000 - \$1,800 = \$3,200$

In order to get additional \$3,200 every month, the amount of money to purchase the immediate annuity =  $(\$3,200 / \$6.00) \times \$1,000 = \$533,334$

Therefore, Peter needs to partially withdraw at least \$533,334 in order to meet his monthly retirement income need.

- Q19 Instead of partial withdraw of cash value; surrender the policy for cash may be better for Peter. Firstly it is because after withdrawing \$533,334, only a very small amount of cash value left (\$6,666). And to keep this policy in force, Peter still needs to pay for mortality charges and administration expenses. As Peter has retired with no more dependent, assuming he has adequate reserve for his last expense, life protection is no longer needed. Therefore, it is better for him to get all the cash instead of keeping the protection in force.

- Q20 As a single parent with a young kid, the life protection need would be quite large. With her present income level and spending habit, her budget to spend on an insurance plan would be very tight. The premium of term life is the lowest among other types of life insurance for the same sum insured. If solely consider the need of protection, she has urgency to acquire adequate protection for her son immediately, so a five years renewable and convertible term life policy will be the best choice for her at this moment. She can choose to renew the term life or convert to any cash value life insurance depends on her later financial situation. It is worth to note that the family protection need is decreasing along the life time and in gen-

eral at minimum when her son becomes independent, say age 21.

- Q21 Investment-linked, either whole life or endowment policy would fit Connie's need of accumulating college fund for her child. Many other policies also serve the purpose however the average rate of return is relatively low, and policyholder has no investment choice even though she is willing to accept more risk in order to gain more return. Only unit-linked policy allows policyholders to choose the appropriate funds according to his/her risk preference. With limited budget, Connie will need to accept higher level of risk in order to accumulate enough money for her child's college fund. With an investment horizon of 17 years, both investment-linked whole life policy and investment-linked endowment life policy can meet her need.

- Q22 With a fixed term as short as 5 years, Investment-linked endowment policy would best fit Connie's financial need of accumulating money for a down payment on buying a flat. Whole life policy paid up at age 65. Ordinary whole life policy and Universal life policy are all long-term policies that rates of return are negative in the early years of the policies, which do not fit the purpose of saving a down payment that comes with a relatively short or medium horizon.

- Q23 Investment-linked whole life policy would best fit Connie's three financial needs – life protection, savings for college fund and savings for a down payment. The mortality charge for life protection in an investment-linked whole life policy is almost the same for a term life policy. The remaining portion of the premium is for paying expenses and buying funds. Therefore, for people who have both life protection and investment needs, investment-linked policy would be most appropriate. Although saving for a down payment is short to medium term, Connie doesn't need to surrender the entire policy for cash. What she can do is making use of the partial withdraw feature of investment-linked policy. She can withdraw the amount of money she needs from the policy to meet her down payment needs provided that the remaining balance of the cash surrender value won't be lower than the minimum amount specified in the policy.

Investment-linked endowment life policy is not the best choice, because for the same amount of life protection, the premium of this plan would be much higher than that of investment-linked whole life policy. This type of policy meets only one of Connie's financial needs, i.e. saving for a down payment, not all her needs.

- Q24 In order to cover both pre-mature death and medical needs, Gregory can take out a term life or whole life plus term life rider

in order to lower the premium, so as to spare budgets for medical insurance for his family.

Although Gregory is covered by the civil servants medical provision, the long queues in public hospital may not be always desirable. An option to get treatment from private hospital may fit Gregory's need.

Critical illnesses and personal accident protection on Gregory are also essential. Being the breadwinner of the family, if Gregory encounters a dread disease or serious accident, the family's living will be adversely affected. In general, critical illness coverage has a higher priority to other coverage.

- Q25 B - The provision of Automatic premium loan means if the insured does not pay the premium on the due date, the insurance company will automatically pay the premium and charge it against the cash value of the policy. If the policy is a term life insurance, no such arrangement will be included.

The Incontestable provision is about the validity of the contract which cannot be questioned for any reason whatsoever after it has been in force during the lifetime of the insured for two years. The focus does not lie on timely payment of premium.

Grace period cannot keep it in force up to now because the longest grace period should not exceed 3 months.

The reinstatement provision is not applying in this case because the policy has not ever been lapsed at all.

- Q26 Almost universally, suicide during a stipulated period after inception of the contract is excluded. Although the common stipulated period in Hong Kong is one year, it is not unusual to find policies with stipulated period of 2 years or longer. In Anna's case, it is likely that she has taken out a policy with a stipulated period of more than 16 months hence not being paid in full.

Unlike Traditional life policy which pays the beneficiary the total premium paid, with no interest, in case of suicide within the stipulated period, a Unit-linked policy pays the beneficiary the policy charges plus the account value. Therefore, Anna should expect to get \$18,000 (the total policy charges paid) plus \$9,535 (the cash surrender value), i.e. \$27,535

- Q27 There are several options available to Elaine:
- Surrender with Cash option
  - Partially surrender the policy to withdraw some cash value

- Apply for a Policy Loan
- Cash-out the Dividends
- Surrender with Paid-Up reduced amount
- Surrender with Extended Term insurance
- Just stop the payment and let the policy run the Auto Premium Loan
- Apply Premium Offset

Base on the above information, Elaine can consider to cash out some dividends to paid the premium until be employed again. Auto Premium Loan is not recommended as it cost interest and Premium Offset is a rather long term option.

As dividend in the policy may not be enough to pay for her daily expenses for probably one year, Elaine may apply for a policy loan from her cash surrender value to support her daily living. In general she can borrow up to 90% of the cash surrender value. As policy loan is quite flexible, she can adjust to repay some principal once she gets employed to save interest charges.

As the unemployment is considered temporary and the policy has been in place for 10 years, surrendering, full or partial, the policy may not be a wise decision since the surrender charges can be quite significant.

- Q28 D - Including the death benefit, the total amount the insurer has paid

= Death benefit \$500,000 (NOT \$1,000,000 because 50% has paid out already under dread disease coverage) + \$100,000 cash value + \$500,000 dread disease accelerated benefit + \$200,000 medical expenses coverage (NOT \$300,000 because it already exceeded \$200,000 maximum coverage per disability)

= \$1,300,000

- Q29 Premature death protection may not be necessary for a person without dependent, protection like Disability Income, Critical Illnesses, Personal Accident and Medical expenses are still essential.

If Sabrina becomes disabled, she may not be able to maintain her daily living expenses. While disability income insurance provides ongoing income, Critical Illness and Personal Accident insurance can provide a lump sum payment for her immediate cash needs in case of getting a dread disease or a serious accident. In general Disability income insurance provides protection only up to age 65 according to the Principle of Indemnity, Sabrina will need to get herself protected for life after age 65. Critical Illnesses and Per-

sonal Accident insurance can offer such protection.

Although Sabrina's employer should have provided her with Group Medical insurance, individual Medical insurance is still a wise choice for group medical is generally not portable from company to company, and the coverage is rather limited. In case of meeting very expensive medical bills, it is very likely that the bill exceed the maximum coverage of the Group medical insurance, which the individual Medical insurance can cover the excess.

- Q30 B - By using second-to-die joint life insurance, life insurance proceeds will be paid upon death of the last insured. Therefore, if Peter and Rebecca name their daughter as the beneficiary and purchase a sum insured equaling to their business value; Susie will get the insurance proceeds and be fairly treated when they are both deceased.

First-to-die joint life insurance is opposite to second-to-die joint life insurance which the life insurance proceeds will be paid upon death of the first insured. So it is not applicable to match Peter and Rebecca's expectation.

Juvenile insurance is basically a kind of insurance the insured is children or teenagers. So it is obviously not suitable for this case.

Key-man insurance is any kind of life insurance which is to protect the lost rising from the death or serious illness of the important person in a business. The purpose is to protect the company from the risk, not for family member as the purpose of family protection.

- Q31 Connie should choose Insurer A, because both Standard & Poor and Moody's rating of Insurer A are better than Insurer B. In Standard & Poor rating convention, AA- is better than A+. In Moody's rating convention, Aa3 is better than A1. Since Insurer B does not have A.M. Best rating, we can't consider A.M. Best rating in this case, although A.M. Best rates only and almost all insurance companies. Professor Joseph M. Belth, a nationally known consumer expert in U.S. recommends that an insurer should receive a high rating from at least two rating agencies before a policy is purchased, because there may be wide variations in the ranking by different ranking agencies. In this case, Insurer A receives higher ratings from both Standard & Poor and Moody.

- Q32 Plan A:

[BGN] [N] = 18-1=17, [PV]=0, [PMT] = -807.60, [FV] = 21,324

[CPT][%I] = 4.72

Plan B:

[BGN] [N] = 18-1=17, [PV]=0, [PMT] = -11,302.26, [FV] = 297,614

[CPT][%I] = 4.69

Based solely on the average annual rate of return, Plan A would be recommended. The advantage of using whole life policy as savings tool for college fund is its certainty. There is no price risk as the investment-linked policy. The insurer, not the policyholder bears the investment risk. The cash value will keep increasing as time goes by. But this advantage of safety brings a disadvantage, i.e. the average rate of return won't be high, because less risk implies less return. 4.69% -4.72% annual return calculated above already includes the projected dividends. If the actual dividends payout is not as good as projected, the rate of return will be even less than 4.69%-4.72%. In whole life insurance, even Connie wants to take more risk to gain a higher return; it won't let her do it. Whole life insurance policy simply does not have any investment choice by the policyholder. In addition, credit risk of a whole life policy is greater than that of investment-linked policy in general. Although it may not be instant risk, disclosure is required.

- Q33 Plan A

Total Premium paid over 30 years period	343,350
Less: dividends received during 30 years	185,000
Net premium over the 30 years period	158,350
Subtract year 30 surrender cash value	284,130
Net Insurance Cost	-125,780
Net Cost per year (-\$125,780 / 30)	-4192.67
Net Cost per \$1,000 per year	-4.19

- Plan B

Total Premium paid over 30 years period	191,250
Less: dividends received during 30 years	49,500
Net premium over the 30 years period	141,750



Subtract year 30 surrender cash value	154,000
Net Insurance Cost	-12,250
Net Cost per year (-\$12,250 / 30)	-408.33
Total Premium paid over 30 years period	-0.41

Traditional Net Cost method ignores the time value of money, which can be misleading to the consumer. An accurate appraisal of a proposed contract must include consideration of the opportunity costs involved.

## Q34 Plan A

30 years' premium accumulated at 4.25%	697,815
Less: 30 years' dividends accumulated at 4.25%	380,482
Net premium over the 30 year-period	317,333
Subtract year 30 surrender cash value	284,130
Insurance Cost	33,203
Amount to which \$1 deposited annually will accumulate in 30 years at 4.25%	60.971
For interest-adjusted surrender cost index, divide \$33,202.98 by 60.971	545
Interest-adjusted surrender cost index per \$1,000 per year	0.54

## Plan B

30 years' premium accumulated at 4.25%	388,691
Less: 30 years' dividends accumulated at 4.25%	71,800
Net premium over the 30 year-period	316,891

Subtract year 30 surrender cash value	154,000
Insurance Cost	162,891
Amount to which \$1 deposited annually will accumulate in 30 years at 4.25%	61
For interest-adjusted surrender cost index, divide \$175,301.18 by 60.971	2,671
Interest-adjusted surrender cost index per \$1,000 per year	2.67

The major difference between Traditional Net Cost method and Surrender cost index method is that Surrender Cost index method is an interest-adjusted method, which considers time value of money by applying an interest adjustment to the yearly premium and dividends.

## Q35 Plan A

30 years' premium accumulated at 4.25%	697,815
Less: 30 years' dividends accumulated at 4.25%	380,482
Net premium over the 30 year-period	317,333
Amount to which \$1 deposited annually will accumulate in 30 years at 4.25%	61
For interest-adjusted net payment cost index, divide \$317,332.98 by 60.971	5,205
Interest-adjusted net payment cost index per \$1,000 per year	5.204

Plan B

30 years' premium accumulated at 4.25%	388,691
Less: 30 years' dividends accumulated at 4.25%	71,800
Net premium over the 30 year-period	316,891
Amount to which \$1 deposited annually will accumulate in 30 years at 4.25%	61
For interest-adjusted net payment cost index, divide \$329,301.18 by 60.971	5,198
Interest-adjusted net payment cost index per \$1,000 per year	5.197

The major difference between Surrender Cost Index method and Net Payment Cost Index method is that in Net Payment Cost Index method, surrender cash value is not deducted at the end of the 30 year-period in the computation of net cost. Therefore, in a situation where Connie considers she will still keep the policy in force at age 65 and won't surrender her policy for cash, Net payment Cost Index method is the preferred method to compare costs of two whole life insurance plans.

- Q36 Although CSSAS in Hong Kong is administered by the government (the Social Welfare Department) like the social insurance, it is not a social insurance. First, social insurance is compulsory insurance that requires either employers or employees or both to pay the premium. Currently, we do not need to pay any premium for Comprehensive Social Assistance Scheme. This scheme is not financed by the premium paid by employers and/or employees but by the Hong Kong government.

Second, CSSAS requires means test but social insurance doesn't. The applicant of CSSAS must pass both the income and

assets tests in order to receive the benefits. As a social insurance, you can receive the benefits provided that the cause of loss is a covered peril just because you already paid the premium. For example, U.S. employees need to pay the premium for unemployment insurance, which is deducted from their paychecks like MPF contribution in Hong Kong. If they get laid off involuntarily, they can go ahead to apply for the unemployment benefit even though they may have enough assets and savings to cover their living expenses.

- Q37 D - Add exclusions and set the maximum limit both will decrease the coverage and increase deductibles/co-insurance will let the insured bear part of the risk. All these actions will lower the cost. On the other hand, decrease the waiting period means increase the chance of claims from staffs. Insurance company will charge for a higher premium so the cost will be higher.
- Q38 In Hong Kong, the statutory employee benefits do not include any payment for employees' medical expenses unless an employee gets injured at work. But even if the employee gets injured at work, the employer is legally required to pay \$200 a day, not full reimbursement of the medical expenses.

Also, an employee employed under a continuous contract is entitled to sickness allowance if the sick leave taken is not less than four consecutive days. In this case, Mary's number of sickness days is less than 4 consecutive days. Therefore, the nursing home is not legally required to pay her for her sick leave. Her previous company paid for the entire amount of her medical bill and sick leaves even though less than 4 consecutive days just because the company was generous enough to provide more employee benefits than what the labour legislation requires.

- Q39 A - Although Siti is not dismissed by Charles, she is still entitled to receive her long service payment. She is not eligible for long service payment only if she has unreasonably refused the renewal offer when the employer offered her to renew her contract of employment.

(refer to the Practical Guide For Employment of foreign domestic helpers – What foreign domestic helpers and their employers should know <http://www.labour.gov.hk/eng/public/wcp/FDHguide.pdf> )

But in this case, she has legitimate reason for not accepting the renewal offer. Going home to get married is not unreasonable. Therefore, Charles still needs to pay her long service payment. Also, she can leave 16 days earlier, because she has accumulated 14 days annual leave. Statutory rest day in a week is not

counted in annual leave. In the last 14 days of her contract, she should have 2 more paid rest days. Therefore, adding 2 statutory paid rest days to 14 days annual leave, she can leave 16 days earlier.

Q40 A - B and C wouldn't be the answer because Sam doesn't care whether the shop will be wound up or not in case he dies prematurely. D shouldn't be the answer neither because he didn't apply for any business loan. Therefore, A should be the most reasonable answer because this purpose is for the benefit of his company when he is still alive.

Q41 D - Adrian's business interest is worth \$1,800,000 ( $20\% \times \$9,000,000$ ). In case he dies prematurely, Bob and Carl will buy his business interest in equal share. Therefore, Bob should buy a life policy for the life of Adrian with the face amount equal to 50% of \$1,800,000, i.e. 900,000

Q42 D - A voidable contract is an agreement that, for reason satisfactory to the court, may be set aside by one of the parties. It is binding unless the aggrieved party decides to do so.

In insurance, it could arise with a breach of some types of policy provision, or the discovery that important information was omitted or wrongly given at the proposal stage.

A void (or invalid) contract is not a contract at all, but is simply an agreement without legal effect. A void contract cannot be enforced by either party.

Q43 D - With life insurance, insurable interest is only needed at policy inception. Nevertheless, this lack of insurable interest at the time of loss will not disqualify the policy holder for the death benefit.

Q44 A - With the concept of actual cash value, no matter how much insurance an individual purchases, the amount one may recover is limited to the amount of his actual loss. The most frequently used definition of actual cash value is that "the amount of money necessary to replace the damaged or destroyed property with new materials at present-day prices, less depreciation.

In this case the actual cash value is then \$1.5 million ( $1 - 40\%$  depreciation) = \$900,000

Q45 B - According to the pro rata condition of average, payout = claim  $\times$  (sum insured / current value), the two policies shall pay:

Winston's policy:  
\$1.2m  $\times$  \$3m/\$4m = \$0.9m

Vera's policy:  
\$1.2m  $\times$  \$1.5m/\$4m = \$0.5625m

However, the total payout shall not exceed the loss, the insurers shall settle pro rata on the sum insured, which is 0.8m and 0.4m

Q46 D -

Q47 A - Gross premium = pure premium / (1 - expenses ratio)

Q48

(a) Age	(b) Number Alive	(c) Number Dying	(d) Claims (c)*\$1,000	(e) Discounted Claims PV(6%,1,0,d)	(f) Net Rate (e) / (b)
31	998,350	1,700	\$1,700,000	1,603,774	1.61
32	996,650	1,800	1,800,000	1,698,113	1.70
33	994,850	2,000	2,000,000	1,886,792	1.90
34	992,850	2,250	2,250,000	2,122,642	2.14
35	990,600	2,600	2,600,000	2,452,830	2.48

Q49

(a) Age	(b) Number Alive	(c) Number Dying	(d) Claims (c)*\$1,000	(f) Discounted Claims PV(6%,age-30,0,d)
31	998,350	1,700	\$1,700,000	1,603,774
32	996,650	1,800	1,800,000	1,601,994
33	994,850	2,000	2,000,000	1,679,239
34	992,850	2,250	2,250,000	1,782,211
35	990,600	2,600	2,600,000	1,942,871
				8,610,089

Five year term rate =  $8,610,089 / 998,350 = 8.624$

Q50

(a) Age	(b) Number Alive	(c) Number Dying	(d) Claims (c)*\$1,000^	(f) Discounted Claims PV(6%,age-30,0,d)
31	998,350	1,700	\$1,700,000	1,603,774
32	996,650	1,800	1,800,000	1,601,994
33	994,850	2,000	2,000,000	1,679,239
34	992,850	2,250	2,250,000	1,782,211
35	990,600	2,600	990,600,000	740,233,946
				746,901,164

^except for year 5, where benefit will be paid to all policy holders irrespective of the death rate. i.e. claims = (b) \* \$1,000

Five year rate for endowment policy =  $746,901,164 / 998,350 = 748.14$

## PART Y3

Q01 D – All remuneration for service under a Hong Kong employment, wherever rendered, is subject to Salaries Tax, unless the income is exempted (e.g. where ALL services are rendered outside Hong Kong. The apportionment on a time basis does not apply on Hong Kong employment.

Q02 C - Income from provision of service rendered in Hong Kong is subject to Profits Tax. However, it is clear from the fact that the entire consultancy service is rendered in China, therefore the income is offshore and not subject to tax in Hong Kong. The locations where the order is received and the money is received are irrelevant for the purpose of determining of the taxation of income from provision of service.

Q03 A - The correct approach to voice out the disagreement is to lodge an objection against the tax assessment, this will allow the IRD to acknowledge the disagreement, investigate the reason thereof and finally decide whether to accept Kevin's request or not.

Q04 D - Dividend income (regardless of source) is non-taxable in Hong Kong as a matter of assessing practice.

Residency of taxpayer in general would not be a determining factor for taxation in Hong Kong.

There is no interest tax in Hong Kong and Hong Kong does not tax offshore income.

The source of income from letting of real property is determined by the location of the real property. Since the property is located outside Hong Kong, it is considered as an offshore income and thus will not tax in Hong Kong.

Q05 Jimmy is a Hong Kong resident and therefore according to the double tax arrangement between Hong Kong and China he will not fall into the China tax net until his stay in China has exceeded 183 days in any 12-month periods (assuming his payroll is not paid or borne by a Chinese enterprise and the employer has no permanent establishment in China). This is a beneficial treatment for Hong Kong resident because under the Chinese tax law non-resident who stays and works in China for more than 90 days in any 12-month periods will fall into the China tax net and his China source income will be subject to China individual income tax.

In order to enjoy the above preferential treatment, Jimmy has to register with the Chinese tax bureau once his stay in

China has exceeded 90 days, and then obtain a tax residency certificate from the Inland Revenue Department to confirm his Hong Kong resident status. Thereafter, Jimmy should forward the certificate to the Chinese tax bureau for reference. If the Chinese tax bureau is satisfied that Jimmy is a Hong Kong resident, Jimmy's income will not be subject to China individual income tax until his stay in China has exceeded 183 days.

In the event that Jimmy has stayed and worked in China for more than 183 days in any 12-month periods and hence his China source income is subject to China individual income tax, Jimmy is still subject to Salaries Tax on full amount of his employment income. This will result in double taxation of income (in respect of that part of the income that is China sourced). Nonetheless, Jimmy can obtain a relief either by:

Lodging a claim under section 8(1a)(c) of the Inland Revenue Ordinance to exclude those part of the income that has been subject to China individual income tax from subject to Salaries Tax; or

Claiming a tax credit under the double tax arrangement between Hong Kong and China. Tax credit is computed based on the China individual income tax paid but the amount is limited by the lower tax rate and tax allowance in Hong Kong.

Q06 All the income, bonus and allowances included in the employment terms are taxable under Hong Kong Salaries Tax. The Salaries Tax liability 2011/12 will be:

	HK\$
Salaries	600,000
Sign-on bonus	100,000
Rental allowance	240,000
Car allowance	<u>120,000</u>
Total assessable income	1,060,000
Basic allowance	<u>(108,000)</u>
Net chargeable income	952,000
Tax payable at progressive rate:	
1st \$40,000 @2%	800
2nd \$40,000 @7%	2,800
3rd \$40,000 @12%	4,800
Remaining @17%	<u>141,440</u>
Total tax payable	149,840

Based on the following principles, Bob can consider restructuring his remuneration package in order to structure certain fringe benefit items to non-taxable:

Income is taxable in the year when it is received by the taxpayer.

- Rental reimbursed by employer is non-taxable.
- Fringe benefit that is not paid in cash, convertible into cash or discharge of employee's liability is non-taxable.

In light of the above principles, the following ideas are developed:

- Arrange the sign-on bonus to be paid to Bob before 31 March 2011, so that it is fully sheltered by the basic allowance for 2010/11 of HK\$108,000.
- Provide a rental reimbursement scheme to Bob instead of payment of allowance, so that the benefit is taxable only at the rate of 10% Bob's employment income.
- Transfer the obligation to make the payments of car park rental and petrol to the employer (employer to rent the car parking space, and employer to provide a corporate gas card to Bob), so that they are non-taxable to Bob.

If Bob implements the above ideas, the rental reimbursement and car allowance are not taxable, whereas the sign-on bonus is taxable in 2010/11 but sheltered by the basic allowance. The Salaries Tax liability for 2011/12 will be:

	HK\$
Salaries	600,000
Rental value	
(\$600k x 10% - \$120k*)	<u>0</u>
Total assessable income	600,000
Basic allowance	<u>(108,000)</u>
Net chargeable income	492,000
Tax payable at progressive rate:	
1st \$40,000 @2%	800
2nd \$40,000 @7%	2,800
3rd \$40,000 @12%	4,800
Remaining @17%	<u>63,240</u>
Total tax payable	71,640

\*Actual rent paid by Bob = (\$30k rent - \$20k allowance) x 12 = \$120k

The implementation of the ideas has resulted in a tax saving of \$78,200.

- Q07 Rental and premium for letting of property located in Hong Kong are subject to Property Tax. The premium is required to spread over the lease term (subject to a cap of 3 years) and subject to Property Tax accordingly.

The following is the computation for the Property Tax liability for 2011/12:

	HK\$
Rental income	
from 1/4/11 to 31/3/12	240,000
Premium	
\$360,000 / 36 x 12	<u>120,000</u>
Total assessable value	360,000
Rates paid by Lawrence	<u>(4,000)</u>
	356,000
Statutory deduction 20%	<u>(71,200)</u>
Net assessable value	284,800

Property Tax payable

@15% 42,720

Mortgage loan interest is not deductible under Property Tax. However, if Lawrence elects personal assessment, mortgage loan interest for financing the purchase the letting property is deductible. Also, Lawrence is entitled to personal allowance and computation of tax under progressive tax rate typically available under Salaries Tax.

The following is the computation for the tax liability for 2011/12 under personal assessment:

	HK\$
Net assessable value	284,800
Mortgage loan interest	<u>(96,000)</u>
	188,800
Basic allowance	<u>(108,000)</u>
Net chargeable income	80,800
Tax payable at progressive rate:	
1st \$40,000 @2%	800
2nd \$40,000 @7%	2,800
Remaining @12%	<u>96</u>
Total tax payable	3,696

The election of personal assessment has resulted in a tax saving of \$39,024.

- Q08 D - Rental income from letting the apartment is subject to Property Tax, regardless of the location where the

lease agreement is prepared or signed. In computing the assessable value under Property Tax, the gross amount of the rental income is relevant, there is no requirement to reduce the gross income by any percentage.

- Q09 The IRD expects a new business should close its books within 18 months from the date of commencement of business. Bearing this in mind, it is fine for Henry to either close the book on 31 December 2011 (4 months) or 31 December 2012 (16 months). For the year of assessment of which the taxpayer commences his business, the IRD allows a basis period of less than or more than 12 months.

If Henry closes the books by end 2011, the first accounting period will be 4 months. The profits of HK\$100,000 (HK\$25,000 x 4) will be subject to Profits Tax in the year of assessment 2011/12.

If no election is made for personal assessment, the Profits Tax payable is HK\$15,000 (HK\$100,000 x 15%). If Henry elects personal assessment, the assessable profits of HK\$100,000 will be subject to tax under personal assessment with deduction of basic allowance of HK\$108,000. As a result, there will be no tax payable under personal assessment for 2011/12.

For 2012/13, the 12-months profits of HK\$300,000 (HK\$25,000 x 12) will be subject to Profits Tax with Profits Tax payable of HK\$45,000 (HK\$300,000 x 15%). If personal assessment is elected, the tax payable under personal assessment for 2012/13 is HK\$20,640 (after deduction of basic allowance of HK\$108,000 and income taxed at progressive rates). The total tax payable for 2011/12 and 2012/13 under personal assessment is HK\$20,640 (ignoring provisional tax).

If Henry closes the books by end 2012, the first accounting period will be 16 months. The profits of HK\$400,000 (HK\$25,000 x 16) will be subject to Profits Tax in the year of assessment 2012/13. If no election is made, the Profits Tax payable is HK\$60,000 (HK\$400,000 x 15%). If Henry elects personal assessment, the assessable profits of HK\$400,000 will be subject to tax under personal assessment with deduction of basic allowance of HK\$108,000. The tax payable under personal assessment for 2012/13 is HK\$37,640.

In light of the above, we notice if Henry closes the book early the overall tax payable up to 2012/13 is HK\$17,000 less. This is because 4 months of the

profits from the business is taxed one year earlier, which is sheltered by the basic allowance of HK\$108,000 for 2011/12. Otherwise the basic allowance for 2011/12 is wasted if all profits are allocated and tax in 2012/13.

- Q10 Fiona has committed the following offences apparently without any reasonable excuses when she filed her Tax Return – Individuals for the year of assessment 2010/11:

- Fiona has omitted her part-time employment income of HK\$100,000 from her tax return, which is a taxable income under Salaries Tax. Deliberate omission of a taxable income from tax return filing is an offence.
- For expense deductible under Salaries Tax, it must be wholly, exclusively and necessarily incurred in the production of chargeable income. In addition, the expense must not be private, domestic and capital expense. There are case laws to support that travelling expense from home to work is a private expenditure and thus not qualify for deduction under Salaries Tax. Therefore Fiona has no bases in claiming the deduction; she has filed an incorrect tax return which is an offence.
- The payment of subscription can hardly be argued as donation. Donation should be a gift without any expectation of reward. Fiona has made a false claim of deduction which is an offence.
- In order to be eligible for dependent parent allowance, the taxpayer must have maintained the parent. Since Fiona's mother is dead, there are no grounds to argue that Fiona has maintained her mother. Fiona has thus made a false claim of allowance which is an offence.

- Q11 To find out the 2010/11 Salaries Tax liability :

	HK\$
Salaries	500,000
Travelling expense	(20,000)
Donation	(100)
Basic allowance	(108,000)
Dependent parent allowance	(30,000)
Net chargeable income	341,900

Tax payable at progressive rate:

1st \$40,000 @2%	800
2nd \$40,000 @7%	2,800
3rd \$40,000 @12%	4,800
Remaining @17%	<u>37,723</u>
Final tax payable for 2010/11 at progressive rate	46,123
2010/11 provisional tax paid (by deduction)	(43,000)
2010/11 final tax undercharged (given in the question)	<u>3,123</u>

Since there is a final tax undercharged for 2010/11 of HK\$3,123, the 2009/10 provisional tax paid is HK\$43,000.

Q12 The lodgment of the holdover of the 2011/12 provisional Salaries Tax involves the following steps:

- Estimate the taxable income for 2011/12 based on latest information and reasonable assumptions.
- Ascertain the amount of deduction and allowance available for 2011/12.
- Based on the above information, calculate the estimated net chargeable income for 2011/12.
- Put together a written submission for the holdover application (or complete the relevant application form available at the IRD's website).
- Submit the application to the IRD no later than 17 November 2011 (28 days before the tax payment due date of 15 December 2011).

Q13 As an employer David has the following obligations under the IRO:

- Notify the IRD of the commencement of Fiona's employment within 3 months.
- Report the remuneration paid to Fiona in the Employer's Return on an annual basis.

Q14 If the purpose of the arrangement is to avoid the payment of Salaries Tax by Fiona on the employment income from David, it is likely that David will not comply with the obligations mentioned in question (13) above. Should that be the case, David has committed an offence.

On the other hand, if Fiona also deliberately omits her employment income received from David in her Tax Re-

turn – Individuals filing, Fiona has also committed an offence.

The achievement of the tax benefit by Fiona through the arrangement is by illegal means (i.e. breaking the law, specifically the IRO), therefore the arrangement is a tax evasion scheme subject to reassessment of tax and punishable by law.

Although David apparently does not benefit from the scheme, he has participation and involvement in the scheme and therefore he will be subject to the same punishment under the IRO.

Q15 There will be a discrepancy between the total amount of remunerations as reported in the Employer's Return and the salaries expense as appeared in the profit and loss account of David's business. If the IRD is aware of the discrepancy and request reconciliation from David, it will probably reveal the omission of Fiona's salary from the Employer's Return reporting. The IRD will then further cross-check the income reported by Fiona in her Tax Return – Individuals and ultimately will uncover the omission of income by Fiona.

Q16 In order to rectify the situation, first of all David should stop the arrangement with Fiona. Secondly, David should discuss with Fiona that the arrangement constitutes tax evasion and both of them are subject to punishment under the tax law, hence they need to rectify the situation as soon as possible preferably by way of voluntary disclosure before the IRD uncover this arrangement.

If Fiona is in agreement with the above suggestion, both David and Fiona should gather all the relevant facts/information and put together a report before they start the voluntary disclosure process. During the process, both Fiona and David should fully cooperate with the IRD and provide further information to facilitate the IRD's review if necessary. In addition, both Fiona and David should prepare to accept the reassessment and also the penalty and paid such amounts promptly as required.

In the event that Fiona is reluctant to conduct the voluntary disclosure jointly with David, David should still go ahead and prepare for the voluntary disclosure exercise. However, it is likely that the time taken to reach a settlement with the IRD will be longer because further investigation by the IRD may be required in order to reveal the full fact



of the case. In light of this, the penalty loading will likely be higher.

Q17

- Forgetting to regularly review an estate plan.
- Forgetting to include new or residuary assets.
- Forgetting the “just-in-case” contingencies.
- Forgetting about laws of other jurisdictions.
- Failing to take personal factors into account.
- Failing to disclose important information.

Q18 B - Technically, the will's residuary clause covers the remaining assets in the estate that were not explicitly mentioned in the real property clause or personal property clauses. The residuary clause gives the will a safety net in the case the testator forgot to specifically identify some part of the estate in the will. There will always be property in the estate that falls into the residuary category, so the testator must make sure one or more beneficiaries are identified to receive this.

Q19 The Will Ordinance governs the legal environment for making a will in Hong Kong. Its provisions include the legal capacity of the testator, the form of the will, signing and disposition of assets. David has the right to write the will by himself. However, he should make sure all the legal requirements as stated in the ordinance are being followed. After all, professional advice is recommended.

If David chooses to write by himself, he should make sure that:

- He has the legal capacity – that he reaches the full age of 18
- The will is in writing and signed by him
- The signature must be made or acknowledged by him in the presence of two or more witnesses present at the same time.

He should also include the following major contents in his will:

- The fact that this is a will.
- The name of the testator.
- The revocation of all previous wills.
- The name of the executor(s).
- The name of the beneficiary(ies).

The instructions of the testator as to how he wants the estate's assets to be distributed amongst the beneficiaries

Q20 Unless Jonathan has expressed his intention that his will should not be revoked by his marriage, the existing will, or part of that will, will be automatically revoked upon his subsequent marriage.

Under the Will Ordinance, the following situations will automatically revoke an existing will or parts of that will:

- Subsequent marriage.
- Subsequent divorce.
- Formal written declaration of the will.
- Making of a new will.
- Deliberate destruction of the will.

Q21 C - The reasons why a will needs to be changed vary, but the following circumstances are typical:

- After a marriage
- After a divorce
- After the spouse's death
- After the death of one of the beneficiaries
- After a significant change in the estate's value
- After any other life change that causes the testator to re-evaluate to whom he or she wants to leave something

In general, anniversary is not the reason to change a will.

Q22 B - The application of grant will follow the effective legislation at the moment of death. As the change of legislation was effective in 2006, the old legislation is applicable for the death before 2006. For the death after 2006, the new one applies.

Q23 Probate : where (a) the deceased died leaving a valid will and (b) the grant applicant is the executor, or one of the executors, named by the testator in the will.

Letters of administration ( with will annexed) : where (a) the deceased died leaving a valid will and (b) the grant applicant is not the executor, or one of the executors, named by the testator in the will.

Letters of administration : where (a) the deceased died not leaving a valid will and (b) the grant applicant is any person entitled to apply according to the order of priority : r.21 NCPD Cap 10A.

- Q24 B - In Hong Kong, the estate of an intestate will possibly go to the surviving spouse, child or other family members according to the published rules. But it will never go to the creditor of surviving spouse directly no matter the spouse is solvent or not. The rules also imply nothing will go to surviving parent if both survival spouse and children exist.
- Q25 This is an open-end question with no definite answers. The questions should cover the following aspects:
- The intention of setting up the trust.
  - The scope of the trust.
  - The available alternatives to a trust.
  - The revocability of the trust
  - The expected timing and mode of funds injection.
  - Conditions precedent, if any.
  - Condition subsequent, halt conditions
  - Gift over provisions on default, if any
- For example, whether it is set to be an education trust where Martha's nephew shall not entitle to content of the trust if he drops out of school before a certain school level, or it is set to transfer a sum of money to Martha's nephew once he reaches certain age.
- Q26 A - Being an asset transfer method, joint tenancy can be used as a substitute for a will under its distinguishing characteristic, which is the right of survivorship. Whether the deceased has a will or not is immaterial to the property transfer. Also, in the absence of a clear intention, the law presumes that a property that has more than one owner is held by the tenants-in-common.
- Q27 According to the normal priority on intestacy (rule 21, Non-Contentious Probate Rules Cap. 10A), Jenny, the surviving spouse, has the first priority.
- However the Court has the final authority to permit any other suitable person(s) to be the personal representative: s. 36, Probate and Administration Ordinance, Cap. 10.
- Q28 Letters of Administration will be issued by the Court for the administration of the estate of Peter since Peter died intestate.
- Q29 Under intestacy, residuary estate means the remaining of the estate of a deceased after deduction of debts and liabilities.
- Total assets = HK\$2.2 million. Total liabilities = HK\$1.15 million.
- Residuary estate = HK\$2.2 million - HK\$1.15 million = HK\$1.05 million.
- Q30 Peter died intestate leaving a spouse and a child. According to S 4(4) of the Intestates' Estates Ordinance, Cap. 73, Jenny, the surviving spouse is entitled to the
- personal chattels of the deceased;
  - statutory legacy of \$500,000; and interest at High Court judgment rate on the statutory legacy of \$500,000 from the date of death to the date of payment; and
  - 50% of the remaining residuary estate.
- Q31 Peter died intestate leaving a spouse and a child. According to S 4(4) of the Intestates' Estates Ordinance, Cap. 73, Paul, the child is entitled to the 50% of the remaining residuary estate.
- Q32 Total assets = HK\$2.2 million. Total liabilities = HK\$1.95 million.
- Residuary estate = HK\$2.2 million - HK\$1.95 million = HK\$0.25 million.
- The statutory entitlement of \$500,000 to Jenny will exploit the estate, Paul's share of the residuary estate will be emptied.
- Q33 If Paul was being maintained, either wholly or substantially, by Peter immediately before Peter's death, he may apply to court for an order under the Inheritance (Provision for Family and Dependents) Ordinance Cap. 481 for financial provisions to be made out of the estate of Peter.
- Q34 The distribution will be different under the two forms of joint-ownerships.
- If the property was co-owned as tenants-in-common in equal shares, 1/2 of the property will become the estate of Peter, and will be distributed according to IEP Cap. 73, above mentioned.
- If the property was co-owned as joint tenants, the whole property will go to surviving joint tenant by virtue of the right of survivorship.
- Q35
- to take out trust policy for the anticipated education provision of Paul.
  - to take out life insurance policy nominating Jenny and or Paul as the case may be as the beneficiary(ies).
  - to consider whether he would regulate the co-ownership mode of

- the City One property from joint tenants to tenants in common.
- to make will to provide for disposition of his estate properly.
  - to appoint guardian in his will for Paul, who is still a minor.
  - to set up and fund trusts that parcel money for education purposes.
- Q36 B – The source of income from an office (in this case, the director's fee) is the location of the office, which is determined by the location where the company is managed and controlled. In this case, the source of the director's fee is in Hong Kong. It is chargeable to Salaries Tax (not Profits Tax). The 60-days rule in the IRO only applies to employment income (not office income). Therefore, Mr. Johnson is liable to Salaries Tax to the full extent.
- Q37  $\$360,000 + 60,000 = \$420,000 + 10\%$  thereof = \$462,000, housing benefit in the nature of refund of rent being not taxable, but being treated as provision of a place of residence, thus attracting the charge of 10% of total income as rental value.
- Q38 A
- Q39 B
- Q40 D
- Q41 A
- Q42
- objects
  - intention
  - subject matter

Q43

	Joint Tenancy	Living Trust
Cost	Lower cost, easy to set up	Higher set up cost
Maintenance	Not required	Ongoing maintenance
Type of estate	Non-probate	Non-probate
Ability to name alternative beneficiaries	Unable	Able
Protection for vulnerable beneficiaries	Not applicable	Able to name guardians; different types of protective trust to fit the settlor's intention.

- Q44 Andy has no child, but leaves a spouse and a whole-blooded sibling. The spouse, Bonnie, shall be granted the personal chattels of Andy plus and net sum of \$1 million from the residuary estate. Half of the remaining residuary estate will be held in trust for Bonnie absolutely, with the other half held in trust absolutely for his whole-blooded sister, Emily.
- Q45 B. 10%. Because marital agreement is not enforceable in Hong Kong.

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## Part Z

### Financial Planning Practice

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As candidates progress in the CFP<sup>CM</sup> Certification Education Program and acquire advanced and specific knowledge in Investment Planning, Asset Management, Insurance Planning, Risk Management, Tax Planning and Estate Planning, candidates are expected to be able to construct comprehensive financial plans and apply knowledge acquired in previous levels.

Examinees are recommended to refer to the Information on Examination Papers and Examination Syllabus (Appendix 1 of the Examination Handbook) for **EXAMINATION QUESTION DISTRIBUTION**. For full details of the cognitive requirement, learning outcomes, topic headings and subtopics etc, examinees should refer to the Examination Syllabus (Appendix 1 of the Examination Handbook) and the Syllabus - Descriptive Content Coverage (Annex of the Study Guide).

### ESSENTIAL READINGS

All essential readings for sub-section Y.  
Advanced Financial Planning - Case Analysis and Suggested Approach, IFPHK

### RECOMMENDED/SUPPLEMENTARY READINGS

All recommended/supplementary readings for sub-section X and Y.

### CASE STUDY

A case study is provided (next page) to help candidates to review and comprehend the chapter materials. They may NOT fully reflect the cognitive level of questions of the CFP Certification Examination. For reference purpose, the case study is also supplemented by the corresponding questions and suggested answers.

### IMPORTANT NOTES

The IFPHK textbooks are designed as useful and reliable study aids for students studying for the CFP Certification Education Program. Candidates are also encouraged to study other supplementary materials listed in the CFP Certification Examination Handbook.

## Part Z

### FINANCIAL PLANNING PRACTICE – CASE STUDY

This case is an adaptation of the original case submitted by Mr. Enoch Lo Kam-Cheung, the Overall Winner of the 2005 SCMP/IFPHK Financial Planner Award Competition, but all the names of companies and individuals have been changed to fictitious ones in the interest of privacy and impartiality. The plan has also been rewritten for the sake of clarity and length as well as matching the analysis of the study guide created by IFPHK.

## Background

1. You are Jackie Tang, an Independent Financial Advisor.
2. You work for an independent financial advising firm ABC Financial Planning Company that provides financial planning services to individuals. The firm is a registered insurance broker and a registered investment advisor. You hold the relevant licenses for insurance business and investment advising.
3. You were introduced to your new client, Mr. Adam Lee and his wife, Eva Lee, through one of your existing clients, Mr. Adrian Lim.
4. You met the couple at your office on 1st February, 20xx, explained to them the services you provide and discussed the scope of client-planner engagement with them.
5. The meeting went well. Adam and Eva generally agreed to engage you as their financial planner.
6. You prepared a letter of engagement (as shown next page) and sent it to the couple the day after the meeting.

**Letter of Engagement**

2 February 20xx  
Mr and Mrs Adam Lee  
123 Long Street  
Hong Kong

# ABC

Financial Planning Co.

Dear Mr. and Ms. Lee,

Thank you for meeting with me yesterday, and for the opportunity to explain how I can help you plan for your financial future.

Just so that you are clear as to what to expect in a financial planning process, I will

- analyse your information given to me, and provide you with a strategic plan to achieve your financial goals and objectives;
- give you specific advice and recommendations to make the strategy work;
- help you through the decision-making process;
- ensure your decisions on needed action are implemented efficiently and effectively; and
- conduct regular reviews to ensure that your strategic plan is on track.

I would like to draw your attention to the fact that I do not provide services for specific stocks, bonds, warrants, options and equity-linked instruments.

For your information, my firm and I are authorised, licensed and/or registered by:

- the SFC to conduct Type 1 (dealing in securities), and/or Type 4 (advising on securities) and/or Type 9 (asset management) regulated activities;
- the IA to give advice on insurance policies; and
- the MPFA to sell MPF schemes and to give advice on securities and insurance policies.

I am also a CFP<sup>CM</sup> certificant. Some background information of my firm is attached for your reference.

As you may recall from our discussion, the success of our relationship will be dependent upon each of us fulfilling our responsibilities. The following defines these aspects of our relationship.

# ABC

Financial Planning Co.

My responsibilities as your financial planner are to:

- do a complete and thorough financial analysis of your current situation;
- develop a specific strategy to achieve your objectives;
- provide specific advice and recommendations to make the strategy work; and
- provide on-going service to ensure that your financial goals are met.

Your responsibilities as a client are to:

- provide me with a clear picture of your goals and objectives – initially and as your thinking and lifestyle evolves;
- provide me with relevant financial information about you and your family;
- act on my recommendations; and
- provide me with information on any major changes in your life as they occur, and be willing to make adjustments to the original plan based on these changes.

I would like to clarify that no fees will be charged for the development of your strategic plan and any on-going services. The costs incurred by you will be in respect of the purchase of insurance and investment products. There may be instances where we may need to consult with other third party professionals such as a lawyer or tax consultant. No such consultations will take place without your expressed approval and agreement, and you will be informed beforehand the cost for such professional fees.

I am compensated through salary and commissions from the sale of investment, insurance and other financial products as part of the implementation of the financial plan. Such commissions differ for each product and range from 0.5% to 4.8% of the total sales value for investment product and range from 15% to 60% of the first year premium for insurance product.

Please be assured that all information given to me by you will be treated as confidential and will not be disclosed to any third party unless agreed by you in writing or required by law. I would also like to inform you that the firm has in place procedures to address client complaints or disputes.

It is part of my commitment to quality service to encourage feedback from you, so do not hesitate to contact me at any time with your questions or concerns. I will also endeavor to update you on the status of your financial plan as frequently as practical, in addition to our regular discussion/review sessions.

# ABC

Financial Planning Co.

I would like to thank you for selecting me as your financial planner, and hope that this new relationship of ours will be a long-lasting and satisfying one.

Yours truly,

Jackie Tang, CFP<sup>CM</sup>  
ABC Financial Planning Co.

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Dated: \_\_\_\_\_

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Adam Lee

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Eva Lee



## Case Information

7. Adam and Eva officially engaged you as his financial planner by signing an agreement of engagement. Upon receipt of the signed agreement, you have arranged another meeting a week later at your office.
8. Adam and Eva brought with them to the meeting the following documents as per your request:
  - investment statements
  - MPF statements
  - insurance policies
  - tax returns
  - identification documents

### More about Adam Lee and Eva Lee

9. Adam is 38 years old. He is married with a daughter, Avon Lee (one year old) and a son, Alan Lee (three years old) who will start school this coming year.
10. Adam's grandfather was a practitioner of traditional Chinese medicine and set up a clinic right after World War II. After his grandfather passed away, Adam's father and uncles became the owners of the company. Adam's father, who did not practice Chinese medicine himself, helped turning the clinic into an importer of Chinese herbal medicine.
11. Adam has been working for the family business since he graduated from college. He now is the Director of Operation Department working alongside his father. Adam and his father have to travel often to mainland China to ensure the quality of the Chinese herb supplied. Knowing that Chinese herbal business is a risky business, where quality of herb supplied by mainland exporters varies, they changed the company into a limited liability company.
12. Adam takes home a monthly salary of \$40,000 and a year-end bonus, which fluctuates from \$300,000 to \$500,000. Last year, the bonus was \$400,000. The company provides Adam and his young family medical benefit, including a \$200,000 hospitalization coverage per person. It also makes MPF contribution as required by the law.
13. Eva Lee is 29-year old. She works as an executive assistant in a small trading firm. She has been working for the company since she left school. She first joined the company as a clerk and worked her way up to her current post. She earns a monthly salary of \$15,000 and a year-end bonus that amounts to one month of salary. Since Adam's income is enough for the family expenses, she is not required to contribute for the family expenses. Adam takes care of Eva's tax payment as well. She takes 20% of her salary as her personal expenses after deducting her MPF contribution. The remaining part of her income will be saved to her USD savings account as the children's college fund.
14. Eva's employer does not provide any additional benefit except the MPF contributions required by the law. Adam has been asking Eva to leave the job and join him at the family business, but Eva does not like the idea of working along her husband and father-in-law.
15. The family lives in an apartment located in an old residential district in Kowloon. Adam's father purchased the flat seventeen years ago with a twenty-year mortgage and transferred it to Adam when he got married. Adam now lives in the flat with his young family and paying for the \$9,000 mortgage payment monthly. The estimated market value of the flat is around \$3,400,000, reflecting a 10% annual growth. Outstanding mortgage on the flat is \$300,000. The flat is about 600 square feet in size and a bit small for a family of four with a live-in Pilipino domestic helper. Eva and Adam hope to move to a new flat of larger size in a better school district as their son is about to attend primary school in a few years. They have been shopping for such a flat in Kowloon Tong lately and it is now under consideration.
16. Adam's mother comes to the flat every weekday and takes care of the children while Eva and Adam are at work. She would stay there until one of them returns home from work. Every now and

then she would stay for the dinner. During weekends, Eva and Adam would take the children to the theme parks and beaches. They believe that outdoor activities are good for the children and help build a better relationship in the family. Before having the children, Eva and Adam travelled a couple times a year. But now they would like to spend the time in Hong Kong because their kids are too young for long distance flights.

17. Eva takes Alan to an English playgroup twice a week so he can learn English with other children. She is also considering giving her son piano or violin lessons. She believes that learning musical instrument can increase the chance being admitted to a reputable primary school. Adam however has no confidence in Hong Kong's public education system at all. In his opinion, Hong Kong's public education system would only stifle a child's creativity. He would like to send his children to international school as early as they start primary education at the age of 5.
18. Eva quitted school at very young age, she still regrets very much about not having tertiary education. She considers it a huge disadvantage if her children do not receive tertiary education. She and Adam agreed that they would spare nothing to make sure that their children receive the best education, and they are willing to sacrifice their current living standard to make provision for it. They prefer the British education system.
19. Wages and other expenses paid in relation to the maid is approximately \$60,000 per year. Other family expenses incurred are indicated as below:

- Average monthly family expenditure paid by Adam:	
Food/Beverages	5,000
Health and Personal care	3,000
Utilities	1,200
Phone	1,000
Transportation	3,000
Sundries	1,000
Management fee	600
Other child related expenses	11,900

20. Adam and Eva expect the family expenses will be increased largely when the kids join school. The burden will only be relieved until the kids graduate at 21. The couple expects the kids can take over to support the family's living expenses 4 years after Avon's graduation.

tion.

21. Adam considers himself as a cautious investor. He does not take risk very often and invests conservatively. Adam's adventure into risky investments was not a happy one. A few years ago he subscribed to IPOs of new stocks a couple times, but ended up losing every time. Since then he would only invest in established blue chip companies. He currently owns a portfolio of blue chip stocks with a market value of around \$300,000. The return of his stock portfolio was around 7 percent annually last year.
22. Eva investments involve only conservative ones. She does not have any financial investment except for deposits in banks. However, she has seen the return on such deposit decreasing lately and the inflation has been picking up. She wonders whether there would be enough for her children when she needs it.
23. Eva and Adam do not have any definite plan for their retirement as they are still young at this moment. However, they hope to retire together when Adam reach age 55, and maintain a decent living in retirement. While the fixed living expenses and Eva's personal expenses shall remain the same, they expect the variable part (including Food /Beverages, Health and Personal care, Phone, Transportation and Sundries) of the family living consumption for post-retirement period will be reduced to 80% of pre-retirement level. By the time one of them passes away, they expect this part of family living consumption will further reduce to 60% of original level.
24. The performance of Adam's MPF investment is not spectacular as well. For the past few years, it has generated an average annual return of 3%.
25. Eva's MPF investment is a conservative one. She chose a conservative fund for her MPF saving whose return has been decreasing lately.
26. Eva and Adam are interested in exploring different investment options to enhance the return of their assets; they are willing to take up more risk. Although the returns for this year weren't satisfactory, they hope that it can generate an average return of 5% annually in the future after restructuring their portfolio, except for Eva's USD savings set aside for the kid's college fund, which will gener-

ate only 2% return.

27. During the meeting you have asked the couple to fill in a risk profiling questionnaire, the total score of 22 suggests that the couple is fairly conservative. According to the asset allocation recommendation of ABC financial planning company, clients who are fairly conservative will be recommended a portfolio with 7% expected return at 8% standard deviation.
28. The couple does not have personal medical insurance policies. They rely on the medical benefits provided by the family's business. As Eva's salaries is not one of the main source for the family income, she and Adam decide that her need for insurance coverage is minimal and they would be better off without another premium payment obligation.
29. Adam performs medical check-up annually. Report from his last check-up shows no major health problem. Eva considers herself very healthy and does not perform check-up regularly.
30. Adam would like to be well-prepared for possible medical expenses in case he catches critical illness. He considers a \$600,000 lump sum for medical expenses (as shown below) will provide enough protection to the family in case of his critical illness.

Hospitalization cost	200,000
Advance medical treatment cost	200,000
Special equipment and operation cost	200,000

In case of such, Eva may need quit her job and stay home taking care of the family. He would like to sustain the family's living standard without placing extra financial burden to Eva.

31. Adam understand that in case of his premature death, it is very difficult to have the family's living standard sustain as it was, however he considers the family can tolerate at most 20% reduction on variable living expenses, without changes to the other fixed cost.

Shown below are the documents brought to the meeting by Adam as per your request

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I. INVESTMENT/SAVING ANNUAL STATEMENT:

Adam Lee					
Asset Class	Issuer	Current Price	Quantity Held	Dividend	Current Value
HK Equity	ABC Ltd*	\$15.25	3,000	\$1,200.00	\$45,750.00
HK Equity	MNO Ltd*	\$18.50	2,000	\$400.00	\$37,000.00
HK Equity	DEF Ltd*	\$32.75	4,000	\$4,800.00	\$131,000.00
HK Equity	XYZ Ltd#	\$22.75	4,000	\$2,000.00	\$91,000.00
				\$8,400.00	\$304,750.00
Adam Lee					
Savings	Institute	Opening Balance		Interest In- come	Ending Balance
US Dollar	IJK Bank	US\$180,000.00		US\$180.00	US\$180,180.00
HK Dollar	IJK Bank	\$700,000.00		\$350.00	\$700,350.00
Euro	IJK Bank	€ 22,500.00		€ 56.25	€ 22,556.25
Eva Lee					
Savings	Institute	Opening Balance		Interest In- come	Ending Balance
HK Dollar	TUV Bank	\$77,205.94		\$772.06	\$77,978.00
US Dollar	TUV Bank	US\$64,184.85		US\$320.92	US\$64,505.77
*Financial Institutions					
#Property Developer					

## II. MPF INVESTMENT DETAIL:

## Adam Lee: DEF MPF Master Trust Plan

Opening Balance	211,000
Total Contribution invested	24,000
Total Amount Transferred into Scheme	0
Total Amount Transferred Out of Scheme	0
Account Gain/(Loss) During the Period	(7,000)
Closing Balance	228,000

Fund	share
Stable Mixed Asset Fund 20/40	50%
MK Hong Kong Dollar Conservative Fund	50%

	Fund Code	Mandatory contributions		Voluntary contributions		Total
		Employer	Member	Employer	Member	
Opening Balance	Stable Mixed Asset Fund 20/40	51,000	51,000	0	0	102,000
	MK HK Dollar Conservative Fund	54,500	54,500	0	0	109,000
		105,500	105,500	0	0	211,000
Closing Balance	Stable Mixed Asset Fund 20/40	52,500	52,500	0	0	105,000
	MK HK Dollar Conservative Fund	61,500	61,500	0	0	123,000
		114,000	114,000	0	0	228,000

## Eva Lee: TWV MPF Master Trust

Opening Balance	82,300
Total Contribution invested	18,500
Total Amount Transferred into Scheme	0
Total Amount Transferred Out of Scheme	0
Account Gain/(Loss) During the Period	1,200
Closing Balance	102,000

Fund	share
CJ Conservative Fund	100%

	Fund Code	Mandatory contributions		Voluntary contributions		Total
		Employer	Member	Employer	Member	
Opening Balance	CJ Conservative Fund	40,100	40,100	0	0	82,800
		40,100	40,100	0	0	82,800
Closing Balance	CJ Conservative Fund	51,000	51,000	0	0	102,000
		51,000	51,000	0	0	102,000

## III. INSURANCE POLICY DETAIL:

**AXYZ Insurance Company Limited**

IMPORTANT: This is a summary illustration of the benefits of your policy and in no way affects the terms and conditions stated in the policy document.

Name (Policy Owner) : Adam Lee  
Age : 38  
Gender : M  
Smoker / Non Smoker : Non Smoker

**COMPREHENSIVE Policy**

Basic Plan : Whole life insurance policy  
Insured : Adam Lee  
Beneficiary : Eva Lee  
Sum Insured : US\$600,000  
Benefit Riders : Critical Illness Benefits (Accelerated Death Benefits, 50% of sum insured)  
Annual Premium : HK\$30,000  
Maturity (age) : 100  
Cash Value : US\$14,121  
Cash Value at Maturity : US\$600,000

**EDUCATION Policy 1**

Basic Plan : Whole life policy with guarantee insurability option  
Insured : Alan Lee  
Beneficiary : Eva Lee  
Sum Insured : HK\$500,000  
Benefit Riders : Medical Benefits  
Annual Premium : HK\$20,000  
Maturity (age) : 18  
Cash Value : HK\$15,600  
Cash Value at Maturity : HK\$300,000

**EDUCATION Policy 2**

Basic Plan : Whole life policy with guarantee insurability option  
Insured : Avon Lee  
Beneficiary : Eva Lee  
Sum Insured : HK\$500,000  
Benefit Riders : Medical Benefits  
Annual Premium : HK\$20,000  
Maturity (age) : 18  
Cash Value : HK\$6,800  
Cash Value at Maturity : HK\$300,000

IV. TAX RETURN (LAST YEAR<sup>17</sup>)

			<u>Adam</u>	<u>Eva</u>
			\$	\$
<b>Salary Income</b>			480,000	180,000
<b>Bonus</b>			400,000	15,000
<b>Total</b>			<b>880,000</b>	<b>195,000</b>
<hr/>				
<b>Deduction</b>				
<b>MPF Contribution</b>			12,000	9,250
<b>Deduction for Home Loan Interest</b>			17,607	
<b>Donation</b>			0	500
<b>Allowance</b>				
<b>Personal</b>			108,000	108,000
<b>Children</b>			100,000	0
<b>Net Chargeable Income</b>			<b>642,393</b>	<b>77,250</b>
<hr/>				
			\$	\$
	Net Chargeable Income	Rate		
<b>On the First</b>	40,000	2%	800	800
<b>On the Next</b>	40,000	7%	2,800	2,608
<b>On the Next</b>	40,000	12%	4,800	0
<b>Over</b>	120,000	17%	88,807	0
<b>Total</b>			97,207	3,408
<b>Less: One time tax deduction</b>			6,000	2,556
<b>Tax Payable</b>			91,207	852
<hr/>				
<b>Family Total</b>			<b>92,059</b>	

<sup>17</sup> Assume current (2009/10) tax rate.

# Exercise Questions

**Step 1 Establishing Client-Planner Relationship**

Q1.1 Who is/are your client(s)?

**Step 2 Determining Client Goals and Expectations and Gathering Client Data**

- Q2.1 From the information given, what does the Lee couple want to achieve in this plan?
- Q2.2 Depends on the information given, as a preliminary understanding, what do you think should be the possible priorities of the Lees' wants?
- Q2.3 What personal factors that may affect the Lees' actual financial goals and priorities?
- Q2.4 Please describe the life goals and corresponding financial goals accordingly.
- Q2.5 When collecting information, what factors do you need to pay attention to?
- Q2.6 Can you identify any other needs that the Lees' may need to be aware of?

**Step 3 Determining Client's Financial Status**

- Q3.1 Fill the Client Data Sheet
- Q3.2 List the assumptions to be made in evaluating the Lees' financial status.
- Q3.3 What is the corresponding market data needed?
- Q3.4 Choose the appropriate market data for analysis.
- Q3.5 Calculate returns on Adam and Eva's MPF portfolio according to the MPF statement provided. Estimate the value of the MPF account balance by the time they retire, based on a 5% annual return.
- Q3.6 With the following assumption, calculate return on each assets, by asset class and as a whole, of the Lees.
- rate of return on cash value of Adam's life Insurance policies = 0%
  - no change in exchange rate
- Q3.7 Based only on the information provided in the case, calculate the mortgage interest rate of the Lees' property. Comment.
- Q3.8 Adam's sources of income include salaries and income from investment. Comment on his income stability.
- Q3.9 Calculate the Net Worth, Net Cash Flow (Annually and monthly) and Disposable Income of the Lees.
- Q3.10 Calculate the common financial ratios for analysis.
- Q3.11 Comment on the Lees' solvency.
- Q3.12 Is the Lees well prepared for emergency in terms of liquidity?
- Q3.13 Draw a timeline indicating the key events for the Lees.
- Q3.14 Project the cash flow for the Lees for the next 20 years. Comment.



- Q3.15 Assuming Adam invests all his excess cash inflows, project the asset level of the Lees from now till their retirement.
- Q3.16 Quantify the financial goals according to your assumptions made in previous questions.
- Q3.17 Evaluate the gap at this moment regarding of the Lees' financial goals.

#### Step 4 Developing and Presenting the Financial Plan

- Q4.1 Recommend the Lees on different planning areas.
- Q4.2 Based on the following information, project the recommended assets allocation suggested by ABC Financial Planning Company.

	Bonds	Large value stocks	Small value stocks
Expected Return	4.77%	7.03%	11.97%
Standard Deviation	6.31%	15.48%	18.67%

Covariance	Bonds	Large value stocks	Small value stocks
Bonds	0.00398		
large value stocks	0.00330	0.02395	
Small value stocks	0.00325	0.01891	0.03487

- Q4.3 How is Adam and Eva's cash flows and assets projection if they follow the recommendations?
- Q4.4 The Lees accept your recommendation. Develop the financial plan accordingly.

# Client Data Sheet

Fill the following Client data sheet with information collected.

=====

## Personal Data

	Client1	Spouse/ Client2
Name		
Other names/Alias		
Date of birth / Age		
Nationality		
Marital status		
Work status – full time/part time/casual/retired/other		
Occupation		
Employer		
Telephone – home		
Email address		

## HEALTH

	Client1	Spouse/ Client2
Regular medical check-up		
Suffer from any long term disability		
Health problems		

## DEPENDENTS/CHILDREN

Name	Date of Birth	Gender	Relationship

**INCOME**

	<b>Client1</b>	<b>Spouse/ Client2</b>
Gross salary/wages		
Bonus		
Business profits		
Commission		
Alimony & child support		
Other income		

**EXPENSES**

	<b>Client1</b>	<b>Spouse/ Client2</b>
<b>Food</b>		
<b>Health and Personal Care</b>		
<b>Housing</b>		
Mortgage repayments / Rent		
Home insurance		
Utilities – electricity, water, telephone		
Other		
<b>Household expenses</b>		
Child care/Maid		
Other (Sundries, etc.)		
<b>Transportation</b>		
Car loan repayments		
Personal accident insurance		
Fuel, maintenance & repairs		
Other		
<b>Education and recreation</b>		
School & tuition fees		
Other child related expenses		
Vacation		
Other recreation		
<b>Medical</b>		
<b>Insurance</b>		
<b>Other expenses</b>		
MPF contribution		
Credit card repayment		
Business expenses		
Phone		
Other (e.g., donations/charities, gifts)		
<b>Tax Payment*</b>		

**ASSETS**

Cash/Cash Management Account

<b>Financial Institution</b>	<b>Owner (Self/Spouse/Joint)</b>	<b>Amount Invested</b>	<b>Rate of Interest %</b>	<b>Account Purpose</b>

## Fixed Interest Portfolio

Financial Institution	Owner (Self/Spouse/ Joint)	Amount Invested	Rate of Interest %	Maturity Date	Interest Frequency

## Managed Funds/Unit Trusts

Fund	Owner (Self/Spouse/Joint)	Value \$	No. of Units	Details of Regular Investment (if appli- cable)

## Shares and Other Listed Securities

Name of Security	Owner (Self/Spouse/ Joint)	Purchase Date	Purchase Price	No. of Units	Dividend	Value \$

## Property

Address	Owner (Self/Spouse/Joint)	Purchase Date	Purchase Price	Net Rent Return \$	Growth Expect- ation %	Loan yes/no	Value \$

LIABILITIES

Lender	Loan Purpose	Loan Security	Borrower	Original Amount	Repayment Amount	Interest Rate %	Amount Outstanding	Interest Only

INSURANCE COVERAGE

Type of Insurance	Insured	Amount Insured \$	Premium \$	Maturity Date	Company	Beneficiaries

# Suggested Solutions

The suggested solutions provided below are for candidates' reference only. The suggested solutions are provided based on the understanding of the case writer and the editor towards the case materials. As there are many possible solutions, it is not the intention of the publisher to hold out that the suggested solutions and methodologies provided are necessary the best, or are commonly used by financial planning practitioners.

## Step 1. Establishing Client-Planner Relationship

### Q1.1 Who is/are your client(s)?

As both Adam and Eva have established the official client-planner relationship with you via the meeting and the letter of engagement, both of them are your clients.

## Step 2. Determining Client Goals and Expectations and Gathering Client Data

### Q2.1 From the information given, what does the Lee couple want to achieve in this plan?

- They want to sustain the family's living in the event of Adam's premature death or critical illness.
- They want to retire together when Adam reaches 55, and would like to have a post-retirement living standard similar to the current level.
- They would like to provide their two children with first-class university education, if they have the ability to be admitted.
- They want to purchase bigger flat in a district with better school network.
- They want to send their two children to international school.

### Q2.2 Depends on the information given, as a preliminary understanding, what do you think should be the possible priorities of the Lees' wants?

From the information given, the Lees didn't express their preference over different planning areas. Without further information, assumption will be made in line with the financial planning pyramid, their priorities of areas could be:

1. Risk Management /Insurance Planning - Premature death and critical illness protection
2. Short-term/medium-term investment planning - Children education & Purchasing a new flat
3. Retirement Planning - Retirement

**Q2.3 What personal factors that may affect the Lees' actual financial goals and priorities?**

Personal beliefs, value, preferences, and attitude may affect the client's financial objectives and their priorities. Also the client's personal experiences and upbringing will also influence the client's financial objectives and priorities. For example, Adam's lack of confidence in Hong Kong education system and Eva's regret of not having college education will affect Adam to put the overseas study for their son to a higher priority than other saving or investment goals. The priorities of area will become:

- Premature death and critical illness protection
- Children education
- Purchasing a new flat
- Retirement

**Q2.4 Please describe the life goals and corresponding financial goals accordingly.**On Pre-mature death

In order to support the family without placing extra burden on Eva in the event of Adam's premature death, the corresponding financial goals are:

- To sustain family living expenses
- To fund Eva's personal expenses after her retirement
- To fund education expenses for the kids
- To pay the premium for the education policies
- To pay up the mortgage balance
- To prepare Adam's funeral expenses

On Critical illness

In order to ensure sufficient fund for medical treatment and to maintain the family's living as usual without extra financial burden to Eva in the event of Adam having critical illness, the corresponding financial goals are:

- To reserve adequate fund for medical treatment
- To sustain family living expenses
- To fund education expenses for the kids
- To pay the mortgage payment
- To prepare a fund of income replacement such that Eva can quit her job at that critical moment
- To continue Adam's contribution to his plans such that no disturbance to his existing saving plan

On Education

As Eva considers that it is a huge disadvantage if her children do not receive college education and Adam has no confidence in Hong Kong's public education system, in order to let both kids have prosperous future through providing the best education, the corresponding financial goals are:

- To prepare education funds in order to provide adequate tuition fee and overseas living expenses for their two children of first-class university education in British at their age of 18 respectively
- To ensure enough cash flow for tuition fee to send their two children to international school

On Property Acquisition

In order to live in a better environment, increase the chance for their kids to get into a good school and secure their home from frequent moving, Adam's corresponding financial goals are:

- To prepare the fund for purchasing a bigger flat in a district with better school network e.g. Kowloon Tong, including the settlement cost and agent's commission involved.

- To prepare the cash flow for the regular expense incurred, including the mortgage payment if any.

#### On Retirement

In order to retire together when Adam reaches 55 and have a smooth transition to post-retirement life stage, the corresponding financial goals are:

- To prepare retirement fund at age 55 which is sufficient to support the required post retirement living expenses until they all pass away.
- To fund Eva's personal expenses after her retirement

### **Q2.5 When collecting information, what factors do you need to pay attention to?**

Understanding client's goals, needs and priorities helps to set the foundation for the whole financial planning process. Besides collecting quantitative financial data, a financial planner needs to explore values, attitudes, and expectations of the clients as these affect the goals, needs, and priorities.

Financial planners must also abide by the Personal Data (Privacy) Protection Act. One should collect only data relevant to development of the financial plan in areas defined within the scope of the engagement. For information concerning planning areas which falls outside the scope of engagement, such as tax planning and estate planning issues, expressive consent must be obtained.

### **Q2.6 Can you identify any other needs that the Lees' may need to be aware of?**

- The life protection of Eva because she plays a major role of saving education fund for their children
- The medical needs of Eva which may become a burden to Adam if it is not well prepared
- Dread disease protection needs of the couple which falls outside the coverage under critical illness
- Disability income protection needs for the family.
- Estate issues in case Adam and Eva pass away at the same time
- Tax saving issue may arise from the relationship between Adam and his family business
- Business succession issues as Adam's father is getting old and children are too young.



**Step 3. Determining Client's Financial Status****Q3.1 Fill the Client Data Sheet****Personal Data**

	<b>Client1</b>	<b>Spouse/ Client2</b>
Name	Adam Lee	Eva Lee
Other names/Alias	-	-
Date of birth / Age	38	29
Nationality	-	-
Marital status	Married	Married
Work status - full time/part time/casual/retired/other	Full time	Full Time
Occupation	Director of Operation	Executive Assistant
Employer	Chinese Herbal	Small Trading firm
Telephone - home	9876xxxx	8765xxxx
Email address	adam@xx.com	eva@xx.com

**HEALTH**

	<b>Client1</b>	<b>Spouse/ Client2</b>
Regular medical check-up	Yes	No
Suffer from any long term disability	No	No
Health problems	No	No

**DEPENDENTS/CHILDREN**

<b>Name</b>	<b>Date of Birth</b>	<b>Gender</b>	<b>Relationship</b>
Alan Lee	3 yrs-old	M	Son
Avon Lee	1 yr-old	F	Daughter

**INCOME**

	<b>Client1</b>	<b>Spouse/ Client2</b>
Gross salary/wages	480,000	180,000
Bonus	400,000*	15,000
Business profits	- -	- -
Commission	- -	- -
Alimony & child support	- -	- -
Other income	8,400	

\* Bonus for the current year is 400,000. However being conservative in estimation, 300,000 (minimum of Adam's bonus range) will be used in forecasting future income.

**EXPENSES**

	<b>Client1</b>	<b>Spouse/ Client2</b>
<b>Food</b>	60,000	
<b>Health and Personal Care</b>	36,000	
<b>Housing</b>		
Mortgage repayments / Rent	108,000	
Home insurance		
Utilities – electricity, water, telephone	14,400	
Other	7,200	
<b>Household expenses</b>		
Child care/Maid	60,000	
Other (Sundries, etc.)	12,000	
<b>Transportation</b>		
Car loan repayments		
Personal accident insurance		
Fuel, maintenance & repairs		
Other	36,000	
<b>Education and recreation</b>		
School & tuition fees		
Other child related expenses	142,800	
Vacation		
Other recreation		
<b>Medical</b>		
<b>Insurance</b>	70,000	
<b>Other expenses</b>		
MPF contribution	12,000	9,250
Credit card repayment		
Business expenses		
Phone	12,000	
Other (e.g., donations/charities, gifts)		29,750
<b>Tax Payment*</b>	92,059	

\* Adam pays taxes for both Eva and himself.

**ASSETS**

## Cash/Cash Management Account

Financial Institution	Owner (Self/Spouse/Joint)	Amount Invested	Rate of Interest %	Account Purpose
IJK Bank	Adam	US\$180,180		
IJK Bank	Adam	\$700,350		
IJK Bank	Adam	Euro22,556.25		
TUV Bank	Eva	US\$64,506		
TUV Bank	Eva	\$77,978		

## Fixed Interest Portfolio

Financial Institution	Owner (Self/Spouse/ Joint)	Amount Invested	Rate of Interest %	Maturity Date	Interest Frequency

## Managed Funds/Unit Trusts

Fund	Owner (Self/Spouse/Joint)	Value \$	No. of Units	Details of Regular Invest- ment (if applicable)
MPF Stable Mixed Asset Fund	Adam	\$105,000		
MPF MK \$ Conservative Fund	Adam	\$123,000		
MPF CJ Conservative Fund	Eva	\$102,000		

## Shares and Other Listed Securities

Name of Security	Owner (Self/Spouse/ Joint)	Purchase Date	Purchase Price	No. of Units	Dividend	Value \$
ABC Ltd*	Adam			3,000	\$1,200	\$45,750
MNO Ltd*	Adam			2,000	\$400	\$37,000
DEF Ltd*	Adam			4,000	\$4,800	\$131,000
XYZ Ltd#	Adam			4,000	\$2,000	\$91,000

## Property

Address	Owner (Self/Spouse/Joint)	Purchase Date	Purchase Price	Net Rent Return \$	Growth Expecta- tion %	Loan yes/no	Value \$
Kowloon	Self					Yes	3,400K

**LIABILITIES**

Lender	Loan Purpose	Loan Security	Borrower	Original Amount	Repayment Amount	Interest Rate %	Amount Outstanding	Interest Only
GLH Bank	Mortgage		Adam		\$9,000		\$300,000	

**INSURANCE COVERAGE**

Type of Insurance	Insured	Amount Insured \$	Premium \$	Maturity Date	Company	Beneficiaries
Whole Life	Adam	US\$600,000	\$30,000 pa		XYZ	Eva
Education	Alan	\$1,000,000	\$20,000 pa		XYZ	Eva
Education	Avon	\$1,000,000	\$20,000 pa		XYZ	Eva

**Q3.2 List the assumptions to be made in evaluating the Lees' financial status.**

- Average tax rates (for cash flow projection purpose)
- Expected Long term inflation rate in Hong Kong
- Growth rate on education fee in British
- Growth rate on education fee in Hong Kong
- Growth rate on Adam's income
- Growth rate on Eva's income
- Growth rate on living expenses
- Adam's life expectancy
- Eva's life expectancy
- Expected average return on investment

**Q3.3 What is the corresponding market data needed?**

- Financial information such as interest rate and inflation rate within a period and on spot
- Life Expectancy
- MPF regulation information
- Education information
- Properties market information

Below are the sample collected secondary data for the following analysis

=====

## 1. Financial market information

## a. Exchange Rate – historical average

Currency	Inflation	Interest	Exchange rate
HKD	4.02%	4.64%	1
USD	3.38%	6.45%	7.130
GPB	2.72%	8.58%	12.6198
EUR	2.24%	2.89%	8.413

## b. Spot Rate at the day of analysis

Currency	Inflation	Interest	Exchange rate
HKD	2.90%	0.50%	1
USD	2.10%	0.25%	7.790
GPB	3.70%	0.50%	12.526
EUR	2.40%	1.00%	11.062

## 2. Life Expectancy

Average Life expectancy of male in Hong Kong	79.84	2010 est.
Average Life expectancy of female in Hong Kong	84.43	2010 est.

## 3. MPF regulation information

ER contribution rate	5%
EE contribution rate	5%
ER contribution range	\$0-\$20,000
EE contribution range	\$5,000-\$20,000 (lower limit change to \$6,500 on Nov 2011)

## 4. Education information

Items	Amount per year (\$)	Remarks
International school fee in HK (current year)		
- Kindergarten (2 years)	\$ 36,000	Admissible at age of 3
- Primary school (6 years)	\$ 61,000	Admissible at age of 5
-Secondary School (7 years)	\$ 93,000	Admissible at age of 11
College fee and living cost for study in British (3 years)	\$ 252,396	
All school fees payable at start of the year		

## 5. Properties market information

Items	Amount
Property price:	\$8,962/ sqft
- Kowloon Tong Property, 16-25 yr, 703 sqft	\$6,300,000
Agent's commission and other legal fees	3%
	\$189,000

**Q3.4 Choose the appropriate market data for analysis.**

Assumption items	Assumptions made	Assumed Value
Average tax rates (for cash flow projection purpose)	Same as this year	8.56%
Long term inflation rate in Hong Kong	As historical data shows	4.0%
Growth rate on education fee in British	British past long term inflation	3.0%
Growth rate on education fee in Hong Kong	Slightly lower than Hong Kong past long term inflation rate	3.5%
Growth rate on Adam's income	Equal to Hong Kong past long term inflation	4.0%
Growth rate on Eva's income	Lower than Hong Kong past long term inflation	3.0%
Growth rate on living expenses	Lower than Hong Kong past long term inflation	3.0%
Adam's life expectancy	The life expectancy of male in Hong Kong	80
Eva's life expectancy	The life expectancy of female in Hong Kong	84
Expected average return on investment	As the Lees expected	5.0%

**Q3.5 Calculate returns on Adam and Eva's MPF portfolio according to the MPF statement provided.**

	<u>Adam</u>	<u>Eva</u>
Opening Balance	\$211,000	\$82,800
Closing Balance	\$228,000	\$102,000
Monthly contribution	\$2,000	\$1500*
Monthly Return	RATE (12,-2K,-211K,228K)	RATE (12,-1500,-82.8K,102K-500)
Annual Return= $(1+RATE)^{12}-1$	-3.15%	0.77%

\*As Eva's salary income does not hit the upper limit of the MPF requirement, i.e. 2,000 per month, only the contribution of the month she receive the bonus will reach the limit \$2,000, As the cash flow is uneven, using the cash flow below for calculation.

- Monthly contribution (first 11 months) = \$1,500
- Monthly contribution (Assume bonus will was released at last month) = \$2,000

**Estimate the value of the MPF account balance by the time they retire, based on a 5% annual return.**

- To simply calculation, forecast will be made based on an annual basis, instead of a monthly basis where cashflow for Eva is uneven. Further, cash flows will be assumed end-mode.

	<u>Adam</u>	<u>Eva</u>
Opening Balance	\$228,000	\$102,000
Annual contribution	\$24,000	Uneven, please refer to details below
Annual Return= $(1+RATE)^{12}-1$	5%	5%
Closing Balance	FV (5%, 17, -24K, -228K,) = \$1,142,749	\$838,624

<u>Year</u>	<u>Eva's Contribution</u> (increased at 3% per year, cap at 24000)	<u>Eva's MPF account balance</u> (End of year)
0		102,000
1	19,055**	127,108
2	19,627	154,071
3	20,215	183,001
4	20,822	214,014
5	21,447	247,234
6	22,090	282,790
7	22,753	320,819
8	23,435	361,467
9	24,000	404,741
10	24,000	450,178
11	24,000	497,887
12	24,000	547,981
13	24,000	600,580
14	24,000	655,809
15	24,000	713,800
16	24,000	774,690
17	24,000	838,624

\*\* current year contribution 18,500 with 3% growth.



**Q3.6** With the following assumption, calculate return on each assets, by asset class and as a whole, of the Lees.

- rate of return on cash value of Adam's life Insurance policies = 0%
- no change in exchange rate

	Amount (\$)	Return Last year	Remarks
<b>Currency</b>			
Adam HKD Saving	\$700,350	0.50%	=350/700,000 x 100%
Eva HKD saving	\$77,978	0.50%	=250/500,000 x 100%
Foreign currency – Eva USD	\$502,500	1.00%	=10/10,000 x 100%
Foreign currency – Adam USD	\$1,403,602	1.00%	=180/180,000 x 100%
Foreign currency – Adam EUR	\$249,513	0.25%	=56.25/22,500 x 100%
<b>Sub Total</b>	<b>\$2,933,943</b>	<b>0.80%</b>	
<b>Equity and Funds</b>			
Hong Kong blue-chip stock	\$304,750	7.00%	Refer to Client Data
Stable Mixed Asset Fund – Adam MPF	\$105,000	-3.15%	
MK \$ Conservative Fund – Adam MPF	\$123,000		
CJ Conservative Fund – Eva MPF	\$102,000	0.77%	
<b>Sub Total</b>	<b>\$634,750</b>	<b>2.35%</b>	
<b>Life Insurance</b>			
Life Insurance cash value	\$132,400	0.00%	As assumed
<b>Sub Total</b>	<b>\$132,400</b>	<b>0.00%</b>	
<b>Real Estate</b>			
Home Residence	\$3,400,000	10.00%	Refer to Client Data
<b>Sub Total</b>	<b>\$3,400,000</b>	<b>10.00%</b>	
<b>Total</b>	<b>\$7,101,093</b>	<b>5.33%</b>	

The overall rate of return is 5.33%. However it should be noted that out of the 5.33% returns, 4.79% derives from its home residence, which is not considered as an investment asset. A relatively high proportion of their assets are in form of savings which generate a very low return.

**Q3.7** Based only on the information provided in the case, calculate the mortgage interest rate of the Lees' property. Comment.

- Interest rate per month = Rate (36, 9000, -300000) = 0.42%
- APR = interest rate per month x 12 = 5.04%

This figure implies Adam is paying a much higher rate, equivalent to prime rate, while the current rate is around 2% below the prime. Adam can consider refinancing his mortgage so to reduce interest payment.

At the APR of 3%, the monthly payment will be  $PMT(3\%/12, 36, -300000) = 8,724.4$ , providing a monthly saving of 275.6. Given only 3 years away from maturity, Adam should check the cost effectiveness of refinancing taking into account the administration cost to be involved.

**Q3.8 Adam's sources of income include salaries and income from investment. Comment on his income stability.**

Adam's salaries income is quite stable for his low chance of being laid off (working in a family business), and the business itself is quite mature. However 45.5% of his annual income comes in the form of bonus which is rather fluctuated, ranging from \$300,000 to \$500,000,

The ability to earn salaries income relies highly on the health of a person, if Adam catches critical illness or even passes away, this income source for the family would be largely affected. In view of Eva's contribution of 80% of her income the kids' education fund, her health condition is critical to the accumulation of the fund.

Investment income depends on economic situations, investment literacy and attitude. Adam, considers himself a cautious investor and has an unhappy investment experience, his investment is rather conservative and the income generated plays a very minimal role. Portfolio restructuring is needed to provide the family a 5% return at their acceptable risk level. Given an expected inflation rate of 4%, the target long term nominal rate of return at 5% will not be considered aggressive. According to the score on their risk tolerance questionnaire, they can even reach an expected return of 7% at their acceptable risk level.

**Q3.9 Calculate the Net Worth, Net Cash Flow (Annually and monthly) and Disposable Income of the Lees.**

Financial Position	Definition	Value
Net Worth	= Total Assets - Total Liabilities	\$6,801,093
Net Cash Flow (monthly)	= Total Monthly Income - Total Monthly Expenses	-\$7,783
Net Cash Flow (annually)	= Total Income - Total Expenses	\$225,941
Disposable Income	= Total Income - Tax - MPF	\$970,091

**Q3.10 Calculate the common financial ratios for analysis.**

Ratio Analysis	Definition	Value
Solvency Ratio	= Net Worth / Total Assets	95.8%
Debt-to-Asset Ratio	= Total Liabilities/Total Assets	4.2%
Debt payment-to-Income Ratio (monthly)	= Monthly Debt Payment/Monthly Total Income	16.4%
Return on Assets	= Total return/Total assets	5.33%

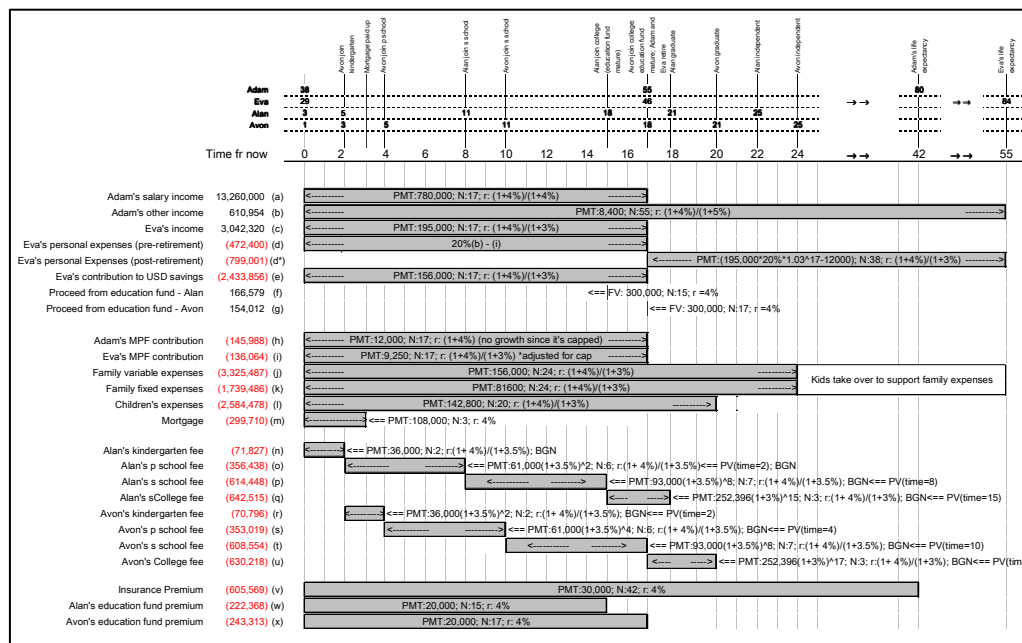
**Q3.11 Comment on the Lees' solvency.**

Solvency ratio shows the percentage of assets really belongs to the person after settling his/her debts. With \$6,801,093 net worth and 95.8% solvency ratio, the family's financial position is very solid.

Debt payment-to-Income ratio is an indicator of how likely it is that a borrower will repay the loan. A commonly used benchmark for mortgages and loans in Hong Kong is 50%. With 16.4% debt payment-to-Income ratio, Adam is an eligible candidate to most mortgages and loans.

**Q3.12 Is the Lees well prepared for emergency in terms of liquidity?**

The Lees has reserved more than 15 months of emergency fund in cash as financial cushion for any unexpected circumstances, far exceed the 3–6 months benchmark. In consideration of his career security and expenses elasticity, there is an over-provision for liquidity which may lower the family's asset efficiency.

**Q3.13 Draw a timeline indicating the key events for the Lees.**

\* The cashflows are discounted using inflation rate for comparison.

**Q3.14 Project the cash flow for the Lees for the next 20 years. Comment.**

Cash flows are further divided into "College fund related" and "Others" for easier understanding. The following table shows "College Fund Related" cash flow, where net cash flow will be transferred to/from Eva's USD savings account.

Year	Inflow		Outflow				Net
	Eva's Salary Income	Education policies	Eva's MPF	Alan's college fee	Avon's college fee	Eva's personal expense	
0	195000		(9250)	0	0	(29750)	156000
1	200850	0	(9528)	0	0	(30643)	160680
2	206876	0	(9813)	0	0	(31562)	165500
3	213082	0	(10108)	0	0	(32509)	170465
4	219474	0	(10411)	0	0	(33484)	175579
5	226058	0	(10723)	0	0	(34488)	180847
6	232840	0	(11045)	0	0	(35523)	186272
7	239825	0	(11376)	0	0	(36589)	191860
8	247020	0	(11718)	0	0	(37686)	197616
9	254431	0	(12000)	0	0	(38886)	203545
10	262064	0	(12000)	0	0	(40413)	209651
11	269926	0	(12000)	0	0	(41985)	215940
12	278023	0	(12000)	0	0	(43605)	222419
13	286364	0	(12000)	0	0	(45273)	229091
14	294955	0	(12000)	0	0	(46991)	235964
15	303804	300000	(12000)	(393225)	0	(48761)	149818
16	312918	0	(12000)	(405022)	0	(50584)	(154688)
17	322305	300000	(12000)	(417172)	(417172)	(52461)	(276501)
18						(429688)	(429688)
19						(442578)	(442578)
20							

The following table shows "Others" cash flow, where net cash flow will be transferred to/from Adam's Assets.

BoYr	Inflow		Outflow									Net
	Adam's Salary Income	Adam's other income	Living Outflow	Adam's MPF	Mortgage Payment	Insurance Premium	Alan Tuition fee#	Avon Tuition fee#	Other Children Exp	Eva's personal expense	Tax (avg 8.5%)	
0	880000	8400	(237600)	(12000)	(108000)	(70000)	(37260)	0	(142800)		(92059)	188681
1	811200	8820	(244728)	(12000)	(108000)	(70000)	(38564)	0	(147084)		(69702)	129942
2	843648	9261	(252070)	(12000)	(108000)	(70000)	(67632)	(39914)	(151497)		(72490)	79307
3	877394	9724	(259632)	(12000)		(70000)	(69999)	(41311)	(156041)		(75389)	202746
4	912490	10210	(267421)	(12000)		(70000)	(72449)	(72449)	(160723)		(78405)	189254
5	948989	10721	(275444)	(12000)		(70000)	(74985)	(74985)	(165544)		(81541)	205212
6	986949	11257	(283707)	(12000)		(70000)	(77609)	(77609)	(170511)		(84803)	221967
7	1026427	11820	(292218)	(12000)		(70000)	(80325)	(80325)	(175626)		(88195)	239557
8	1067484	12411	(300985)	(12000)		(70000)	(126749)	(83137)	(180895)		(91723)	214406
9	1110183	13031	(310014)	(12000)		(70000)	(131186)	(86047)	(186322)		(95392)	232255
10	1154591	13683	(319315)	(12000)		(70000)	(135777)	(135777)	(191911)		(99207)	204286
11	1200774	14367	(328894)	(12000)		(70000)	(140529)	(140529)	(197669)		(103176)	222344
12	1248805	15085	(338761)	(12000)		(70000)	(145448)	(145448)	(203599)		(107303)	241332
13	1298757	15839	(348924)	(12000)		(70000)	(150539)	(150539)	(209707)		(111595)	261295
14	1350708	16631	(359391)	(12000)		(70000)	(155807)	(155807)	(215998)		(116058)	282277
15	1404736	17463	(370173)	(12000)		(70000)		(161261)	(222478)		(120701)	465587
16	1460925	18336	(381278)	(12000)		(50000)		(166905)	(229152)		(125529)	514398
17	1519362	19253	(392717)	(11999)		(50000)			(236027)		(130550)	717323
18		20216	(404498)			(30000)			(243107)	(54035)		(711425)
19		21226	(416633)			(30000)			(250401)	0		(675807)
20		22288	(429132)			(30000)				0		(436844)

\* the current year income is based on the actual income and bonus received, while next year's income is calculated based on current income of 480,000 plus 300,000 bonus ( a conservative figure taking the lower bound of the bonus range) at the expected growth rate. i.e.  $780,000 \times (1+4\%) = 811,200$

# Tuition fees and college fees are paid at the beginning of each year, the cash flows of such will be displayed in the year before, for easy calculation.

The current annual Net Cash Flow value of the Lees is \$225,941 ( before paying tuition fee at the beginning of next year ), equivalent to 20.9% of their total income. In view of their keeping a large portion of their outflows as savings, MPF and asset accumulation, this level is quite healthy in general. However, 38.3% of the family's income comes from annual bonus, which varies from year to year. When evaluating their cash flow on a monthly basis, it can be easily found that their cash flow is quite tight except for the month where bonus comes in.

According to the projection, the net cash flow value will be keep at a positive level throughout their working lives.

### Q3.15 Assuming Adam invests all his excess cash inflows, project the asset level of the Lees from now till their retirement.

According to the case information, the Lees expect an average of 5% return on their investment, except for Eva's USD savings which will generate a 2% return. We further categorize assets into Property, Eva's USD savings and Other Assets for easy reference:

Assets	\$	\$
Foreign currency - Eva USD		502,500
Home Residence		3,400,000
Adam HKD Saving	700,350	
Eva HKD saving	77,978	
Foreign currency - Adam USD	1,403,602	
Foreign currency - Adam EUR	249,513	
Hong Kong blue-chip stock	304,750	
Stable Mixed Asset Fund - Adam MPF	105,000	
MK \$ Conservative Fund - Adam MPF	123,000	
CJ Conservative Fund - Eva MPF	102,000	
Life Insurance cash value	132,400	3,198,593
		7,101,093

The projected Asset value shall be as follow:

Year	Property (5% growth)	Other Assets (5% growth)			Eva's USD Savings ( 2% growth)		
	Opening	Opening	Addition (from net cashflow)	Closing	Opening	Addition/ withdrawal	Closing
0	\$3,400,000		\$188,681	\$3,198,593		\$156,000	\$502,500
1	\$3,570,000	\$3,358,523	\$129,942	\$3,488,465	\$512,550	\$160,680	\$673,230
2	\$3,748,500	\$3,662,888	\$79,307	\$3,742,195	\$686,695	\$165,500	\$852,195
3	\$3,935,925	\$3,929,305	\$202,746	\$4,132,051	\$869,239	\$170,465	\$1,039,704
4	\$4,132,721	\$4,338,653	\$189,254	\$4,527,907	\$1,060,498	\$175,579	\$1,236,078
5	\$4,339,357	\$4,754,302	\$205,212	\$4,959,514	\$1,260,799	\$180,847	\$1,441,646
6	\$4,556,325	\$5,207,490	\$221,967	\$5,429,457	\$1,470,479	\$186,272	\$1,656,751
7	\$4,784,141	\$5,700,930	\$239,557	\$5,940,487	\$1,689,886	\$191,860	\$1,881,747
8	\$5,023,349	\$6,237,511	\$214,406	\$6,451,917	\$1,919,381	\$197,616	\$2,116,998
9	\$5,274,516	\$6,774,513	\$232,255	\$7,006,768	\$2,159,338	\$203,545	\$2,362,882
10	\$5,538,242	\$7,357,107	\$204,286	\$7,561,392	\$2,410,140	\$209,651	\$2,619,791
11	\$5,815,154	\$7,939,462	\$222,344	\$8,161,806	\$2,672,187	\$215,940	\$2,888,127
12	\$6,105,912	\$8,569,896	\$241,332	\$8,811,229	\$2,945,890	\$222,419	\$3,168,308
13	\$6,411,207	\$9,251,790	\$261,295	\$9,513,085	\$3,231,674	\$229,091	\$3,460,766
14	\$6,731,767	\$9,988,739	\$282,277	\$10,271,016	\$3,529,981	\$235,964	\$3,765,945
15	\$7,068,356	\$10,784,567	\$465,587	\$11,250,153	\$3,841,264	\$149,818	\$3,991,082
16	\$7,421,774	\$11,812,661	\$514,398	\$12,327,059	\$4,070,903	-\$154,688	\$3,916,216
17	\$7,792,862	\$12,943,411	\$717,323	\$13,660,735	\$3,994,540	-\$276,501	\$3,718,040
18	\$8,182,505	\$14,343,771	-\$711,425	\$13,632,347	\$3,792,400	-\$429,688	\$3,362,713
19	\$8,591,631	\$14,313,964	-\$675,807	\$13,638,157	\$3,429,967	-\$442,578	\$2,987,389
20	\$9,021,212	\$14,320,064	-\$436,844	\$13,883,220			

The total asset at retirement will equal to \$25.17 million. With property value equals \$7.79 million, USD savings amount to \$3.72 million and other assets at \$13.66 million.

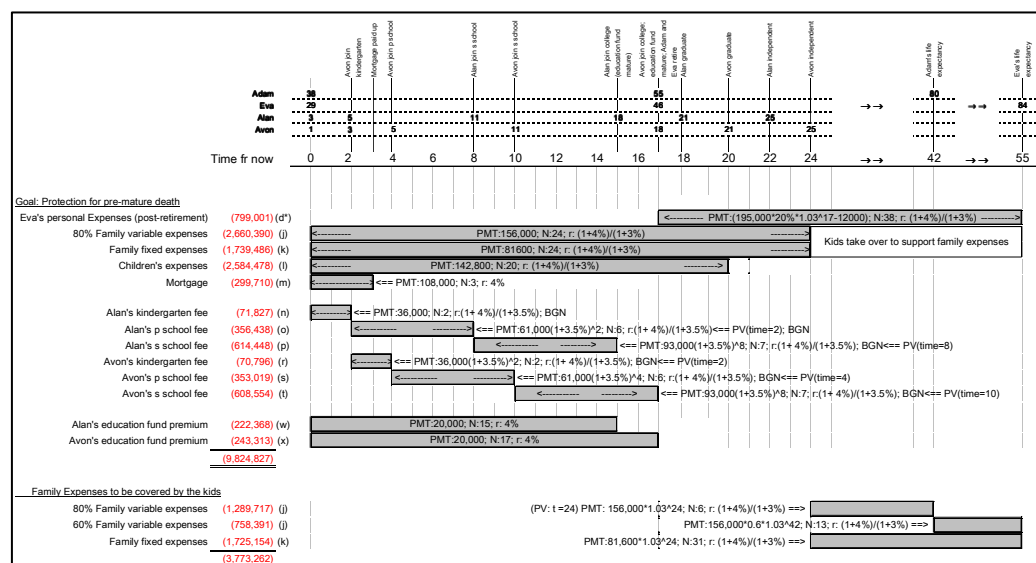
### Q3.16 Quantify the financial goals according to your assumptions made in previous questions.

#### Pre-mature death

Based on the needs approach, it takes approximately 9.8 million to cover all the liabilities and ongoing consumption needs of Eva and the kids. College fees for the kids are not counted as needs since it'll be covered by Eva's USD savings.

However in calculating the needs, the Lees assume their kids will pay family expenses once they become independent, amounting to a total of 3.7 million at today's value. It is recommended that the Lees should calculate their retirement needs without taking into account their kid's contributions to the family expenses. Relationship changes over time. There is no guarantee to the kids' ability and willingness to shoulder the family's burden.

Adding funeral expenses and the cost of columbarium, we can round up for an estimated needs for pre-mature death coverage as 14 million.

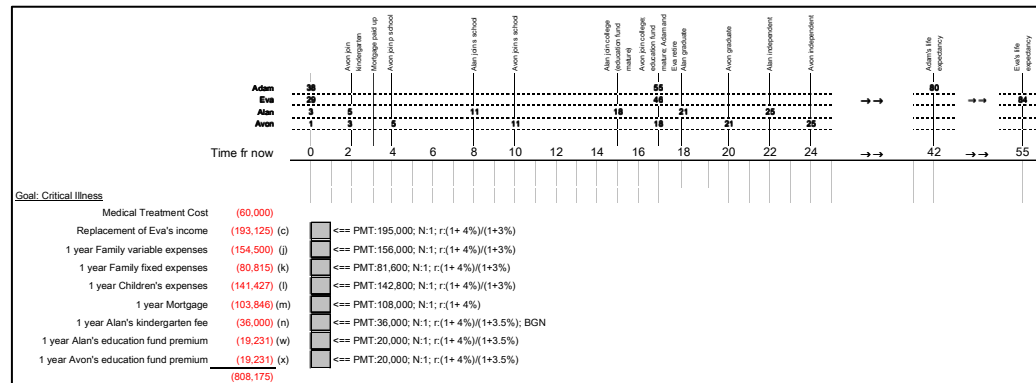


Critical illness

Critical illness insurance pays out to those suffering from terminal illness and has a life expectancy of less than one year.

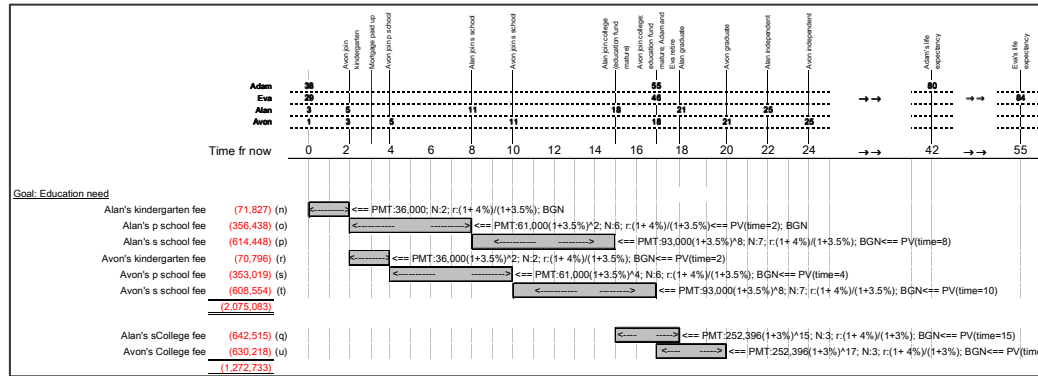
Based on the needs approach, expenses that may be incurred during the one year period amounted to 0.8 million, in which most items have already been covered in the calculation of protection need in case of pre-mature death. One should notice that beneficiary will get the death benefits only upon death of the insured. In case of critical illness, liquidity for the total of 0.8 million shall be prepared for. And the extra cost (those not covered in pre-mature death protection needs) including 600,000 medical expenses and Eva's income replacement of 190,128 needed to be taken care of.

Protection need for critical illness changes overtime, requiring a more frequent review schedule.



**Education**

To provide for high-quality tertiary education for the kids, the couple will need provide a sum equivalent to 1.27 million at today's value. The pre-college education cost approximately \$2.08 million at today's value.

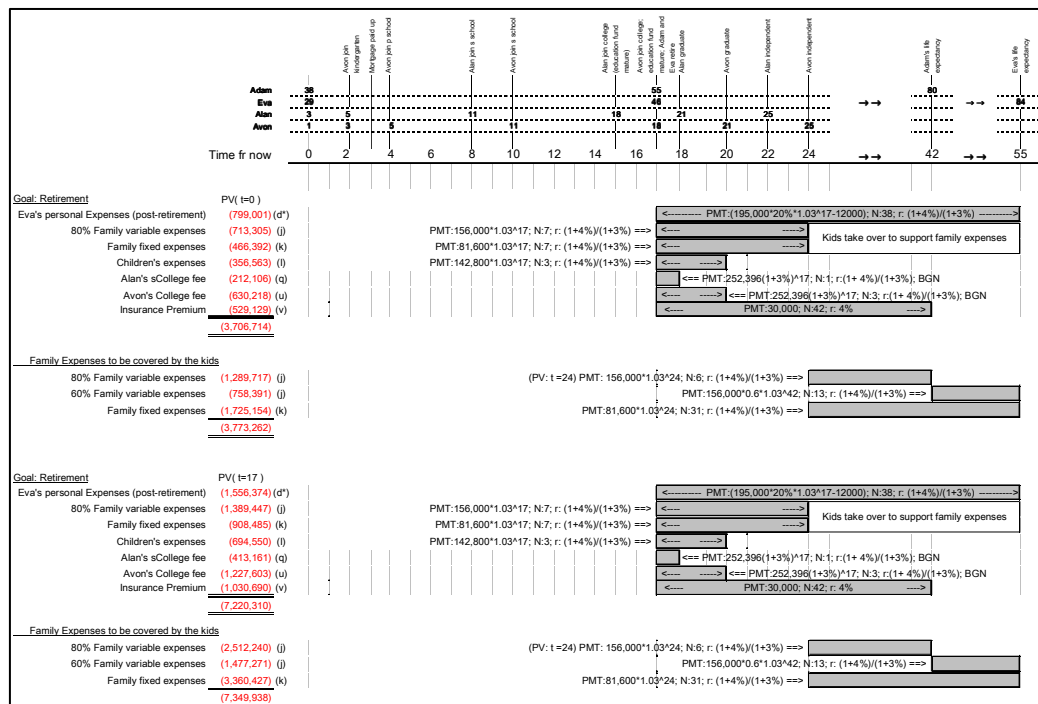
**Property Acquisition**

The total consideration for the property acquisition will be approximately 6.5 million.

**Retirement**

Adam and Eva will need 7.2 million 17 years later when they retire, equivalent to 3.7 million at today's value.

Similar to the calculation the family needs in case of pre-mature death, it is recommended that the Lees should calculate their needs without taking into account their kid's contributions to the family expenses. The total needs will become 14.6 million in 17 years time (equivalent to 7.5 million at today's value).



**Q3.17 Evaluate the gap at this moment regarding of the Lees' financial goals.**Pre-mature death

In case of Adam's pre-mature death, the following resources will be available to cover family needs:

Assets	\$	Remark
Foreign currency - Eva USD	0	Reserved for College Fund
Home Residence	0	Home residence shall be kept as shelter
Adam HKD Saving	460,350	Of \$700,350, \$240,000 is keep as emergency fund*
Eva HKD saving	77,978	
Foreign currency - Adam USD	1,403,602	
Foreign currency - Adam EUR	249,513	
Hong Kong blue-chip stock	304,750	
Stable Mixed Asset Fund - Adam MPF	105,000	
MK \$ Conservative Fund - Adam MPF	123,000	
CJ Conservative Fund - Eva MPF	102,000	
Life Insurance Proceed	4,680,000	USD 600,000
	7,506,193	

\* 6 months emergency fund is adopted. Since Adam spends almost his full salary (except bonus) every month, his monthly salary of \$40,000 is taken as a benchmark of monthly outflow.

To fully cover the need of \$14 million coverage in case of pre-mature death, Adam will need to take out extra coverage of 6.5 million.

Critical illness

Adam's whole life policy comes with an Accelerated Benefit Rider, in which 50% of the death proceed will be paid in case of critical illness. With this 2.34 million resources, the liquidity needs are well taken-care of.

Using payouts from the whole life insurance as coverage for critical illness will erodes the protection originally prepared for pre-mature death. Extra protection should be prepared. With the hospitalization insurance provided by Adam's employer covering 200,000 medical expenses, extra coverage for the remaining 400,000 medical expenses and Eva's income replacement of 190,128 is needed.

Education

From Q3.15, Eva's USD Savings can fully cover the kids' college fee, and will accumulate an excess of \$2.9 mil by the time Avon graduates ( $t=19$ ), equivalent to approximately \$1.4 mil at today's value.

Other pre-college tuition fee and education expenses will be covered by Adam's salary income over time.

Property Acquisition

Assuming Adam's current property can be sold at its market value of 3.4 million, the Lees need an extra 3.1 million to facilitate the acquisition of their new property.

Retirement

When the couple retires, the following resources will be available to cover their retirement needs (value at  $t=17$ ):

Assets	\$	Remark
Home Residence	0	Home residence shall be kept as shelter
Foreign currency - Eva USD	3,718,040	
Other Assets	13,660,735	
	17,378,775	

Assuming a return rate of 5% on assets (except for Eva's USD savings), the Lees have 17.4 million to cover their 14.6 million retirement needs.

## Step 4. Developing and Presenting the Financial Plan

**Q4.1 Recommend the Lees on different planning areas**



### Pre-mature death

A typical whole life insurance policy will cost Adam approximately \$8,000 annually for coverage per million (Age 38, non-smoker with no known health problem). An extra 6.5 million needs in pre-mature death will cost him around \$52,000 per annum.

Alternatively term life insurance (with guaranteed renewable and convertible options) can be an economical way to purchase such a large amount of coverage. As the couple ages, the pre-mature death needs will be lowered and the need for extra protection will be diminished. The Lees can lock in a relatively long period, say 10 years until the kids become independent, at a cost of \$700 per million coverage. With this, the shortfall can be covered at \$4,550 per annum

➔ cost implication: outflow of \$4550 annually

## Critical Illness

With the same rationale as above, it is suggested to cover the critical illness needs through term life insurance. The shortfall of \$230,000 can be covered at \$161 annually.

➔ cost implication: outflow of \$161 annually

## Education

The current arrangement has already covered the education need. Eva however can consider investing in T-bills to enhance return ( to 4.5%) on the education fund without taking up extra risk.

➔ Implication: enhance return ( impact to be shown in assets projection)

### Property Acquisition

The 30% minimum down payment can be financed by proceeds from selling existing property.

In view of the low mortgage rate of approximately 2.5%, the remaining can be financed by mortgage. It should be noticed that the acquisition of property will take up resources planned for retirement. Besides, with such low mortgage rate, it is highly likely that the rate will go up in the future.

- 30% downpayment =  $30\% \times 6.3 \text{ million} = 1.89 \text{ million}$
- monthly mortgage payment (20 years term) =  $\text{PMT} (2.5\%/12, 70\% \times 6.3 \text{ million}, 240) = 23,369$
- Proceed from selling existing property 3.40 million
  - Less: downpayment 1.89 million
  - Less: administration and legal fees 0.19 million
- Net proceed = 1.32 million

→ cost implication: outflow of  $\$23,369 \times 12 = \$280,428$  annually for 20 years  
Cost saving of  $\$108,000$  on current mortgage payment, for 3 years

➔ investment asset implication: increased by \$1.32 million

➔ fixed assets (property value) increased by \$2.9 million

Retirement

With property acquisition, the fund of retirement will be lowered and will not be able to cover all retirement needs of the Lees. The following shows possible solution to the problem

- Be more aggressive in investment to generate a return higher than 5%, through portfolio restructuring (which comes with higher risk, but still limit to the risk tolerance range for those who are fairly conservative)
- Review spending pattern so to squeeze resources for investment
- Lower the required post retirement living standard
- Postpone retirement age
- Consider negative mortgage on their residential property upon retirement.

**Q4.2 Based on the following information, project the recommended assets allocation suggested by ABC Financial Planning Company.**

	Bonds	Large value stocks	Small value stocks
Expected Return	4.77%	7.03%	11.97%
Standard Deviation	6.31%	15.48%	18.67%

Covariance	Bonds	Large value stocks	Small value stocks
Bonds	0.00398		
large value stocks	0.00330	0.02395	
Small value stocks	0.00325	0.01891	0.03487

The Lees are facing the following constrain in their asset allocation decision:

- Set aside 6 months emergency cash ( approximately \$0.3 million )
- Eva's USD savings account shall be independent from the overall portfolio allocation, and be invested to T-bills as recommended.
- Risk tolerance as fairly conservative → asset allocation target expected return of 7% and standard deviation of 8%

Calculation:

Given the following information:

- Weighting  $w_a + w_b + w_c = 1$
- Expected return  $E(r_p) = w_a E(r_a) + w_b E(r_b) + w_c E(r_c)$
- Variance  $\sigma^2(r_p) = w_a^2 \sigma^2(r_a) + w_b^2 \sigma^2(r_b) + w_c^2 \sigma^2(r_c) + 2w_a w_b \text{COV}(r_a, r_b) + 2w_a w_c \text{COV}(r_a, r_c) + 2w_b w_c \text{COV}(r_b, r_c)$
- Standard Deviation  $\sigma(r_p) = \sqrt{\sigma^2(r_p)}$

	Bonds	Large value stocks	Small value stocks
Expected Return	$E(r_a)=4.77\%$	$E(r_b)=7.03\%$	$E(r_c)=11.97\%$
Standard Deviation	$\sigma(r_a)=6.31\%$	$\sigma(r_b)=15.48\%$	$\sigma(r_c)=18.67\%$

Covariance	Bonds	Large value stocks	Small value stocks
Bonds	$\sigma^2(r_a)=0.00398$		
large value stocks	$\text{COV}(r_a, r_b)=0.00330$	$\sigma^2(r_b)=0.02395$	
Small value stocks	$\text{COV}(r_a, r_c)=0.00325$	$\text{COV}(r_b, r_c)=0.01891$	$\sigma^2(r_c)=0.03487$

One can input different combinations of  $w_a$ ,  $w_b$ ,  $w_c$  into the above equation, or with the use of computer program such as excel, to solve for efficient portfolio choices as follow:

$w_a$	$w_b$	$w_c$	$E(r_p)$	$\sigma(r_p)$
75%	0%	25%	6.57%	7.51%
70%	5%	25%	6.69%	7.77%
70%	0%	30%	6.93%	8.03%
65%	5%	30%	7.05%	8.32%
65%	0%	35%	7.29%	8.62%
60%	5%	35%	7.41%	8.94%

←

From the list of efficient portfolios, we can assume the following recommendation for clients of ABC financial Planning Company who is 'fairly conservative':

- 70% in bonds
- 30% in small value stocks

#### Q4.3 How is Adam and Eva's cash flows and assets projection if they follow the recommendations?

To recap the implications on cashflows and assets projection:

- buy term life for 6.73 million coverage → annual outflow \$4711, for 10 years
- convert USD savings to T-bills to enhance return to 4.5%
- property acquisition →
  - annual outflow of \$280,428, for 20 years
  - annual saving of 108,000, for 3 years
  - investment asset increased by 1.32 million
  - fixed assets increased by \$2.9 million

There will be no change to Eva's cash flow. The cash flow for Adam will be changed as follow:

BoYr	Inflow		Outflow										Net
	Adam's Salary Income	Adam's other income	Living Outflow	Adam's MPF	Mortgage Payment	Insurance Premium	Alan Tuition fee#	Avon Tuition fee#	Other Children Exp	Eva's personal expense	Mortgage payment	Tax (avg 8.5%)	
0	880000	8400	(237600)	(12000)		(70000)	(37260)	0	(142800)			(92059)	296681
1	811200	8820	(244728)	(12000)		(75000)	(38564)	0	(147084)		(280428)	(69702)	(47486)
2	843648	9261	(252070)	(12000)		(75000)	(67632)	(39914)	(151497)		(280428)	(72490)	(98121)
3	877394	9724	(259632)	(12000)		(75000)	(69999)	(41311)	(156041)		(280428)	(75389)	(82682)
4	912490	10210	(267421)	(12000)		(75000)	(72449)	(72449)	(160723)		(280428)	(78405)	(96174)
5	948989	10721	(275444)	(12000)		(75000)	(74985)	(74985)	(165544)		(280428)	(81541)	(80216)
6	986949	11257	(283707)	(12000)		(75000)	(77609)	(77609)	(170511)		(280428)	(84803)	(63461)
7	1026427	11820	(292218)	(12000)		(75000)	(80325)	(80325)	(175626)		(280428)	(88195)	(45871)
8	1067484	12411	(300985)	(12000)		(75000)	(126749)	(83137)	(180895)		(280428)	(91723)	(71022)
9	1110183	13031	(310014)	(12000)		(75000)	(131186)	(86047)	(186322)		(280428)	(95392)	(53173)
10	1154591	13683	(319315)	(12000)		(75000)	(135777)	(135777)	(191911)		(280428)	(99207)	(81142)
11	1200774	14367	(328894)	(12000)		70000	(140529)	(140529)	(197669)		(280428)	(103176)	81916
12	1248805	15085	(338761)	(12000)		70000	(145448)	(145448)	(203599)		(280428)	(107303)	100904
13	1298757	15839	(348924)	(12000)		70000	(150539)	(150539)	(209707)		(280428)	(111595)	120867
14	1350708	16631	(359391)	(12000)		70000	(155807)	(155807)	(215998)		(280428)	(116058)	141849
15	1404736	17463	(370173)	(12000)		70000		(161261)	(222478)		(280428)	(120701)	325159
16	1460925	18336	(381278)	(12000)		(50000)		(166905)	(229152)		(280428)	(125529)	233970
17	1519362	19253	(392717)	(12000)		(50000)			(236027)		(280428)	(130550)	436894
18		20216	(404498)			(30000)			(243107)	(54035)	(280428)		(991853)
19		21226	(416633)			(30000)			(250401)	(55656)	(280428)		(1011891)
20		22288	(429132)			(30000)				(57326)	(280428)		(774598)

The asset projection will be as follow:

Year	Property (5% growth)	Other Assets (7% growth)			Eva's USD Savings ( 4.5% growth)		
	Opening	Opening	Addition (from net cashflow)	Closing	Opening	Addition/ withdrawal	Closing
0	\$6,500,000		\$296,681	\$4,518,593		\$156,000	\$502,500
1	\$6,825,000	\$4,834,895	-\$47,486	\$4,787,409	\$525,113	\$160,680	\$685,793
2	\$7,166,250	\$5,122,527	-\$98,121	\$5,024,407	\$716,653	\$165,500	\$882,154
3	\$7,524,563	\$5,376,115	-\$82,682	\$5,293,433	\$921,850	\$170,465	\$1,092,316
4	\$7,900,791	\$5,663,973	-\$96,174	\$5,567,799	\$1,141,470	\$175,579	\$1,317,049
5	\$8,295,830	\$5,957,544	-\$80,216	\$5,877,328	\$1,376,317	\$180,847	\$1,557,163
6	\$8,710,622	\$6,288,741	-\$63,461	\$6,225,281	\$1,627,236	\$186,272	\$1,813,508
7	\$9,146,153	\$6,661,050	-\$45,871	\$6,615,179	\$1,895,116	\$191,860	\$2,086,976
8	\$9,603,460	\$7,078,242	-\$71,022	\$7,007,220	\$2,180,890	\$197,616	\$2,378,506
9	\$10,083,633	\$7,497,725	-\$53,173	\$7,444,552	\$2,485,539	\$203,545	\$2,689,084
10	\$10,587,815	\$7,965,671	-\$81,142	\$7,884,529	\$2,810,092	\$209,651	\$3,019,743
11	\$11,117,206	\$8,436,446	\$81,916	\$8,518,362	\$3,155,632	\$215,940	\$3,371,572
12	\$11,673,066	\$9,114,647	\$100,904	\$9,215,552	\$3,523,293	\$222,419	\$3,745,712
13	\$12,256,719	\$9,860,640	\$120,867	\$9,981,507	\$3,914,269	\$229,091	\$4,143,360
14	\$12,869,555	\$10,680,212	\$141,849	\$10,822,061	\$4,329,811	\$235,964	\$4,565,775
15	\$13,513,033	\$11,579,605	\$325,159	\$11,904,764	\$4,771,235	\$149,818	\$4,921,053
16	\$14,188,685	\$12,738,097	\$233,970	\$12,972,067	\$5,142,500	-\$154,688	\$4,987,813
17	\$14,898,119	\$13,880,112	\$436,894	\$14,317,006	\$5,212,264	-\$276,501	\$4,935,764
18	\$15,643,025	\$15,319,196	-\$991,853	\$14,327,343	\$5,157,873	-\$429,688	\$4,728,186
19	\$16,425,176	\$15,330,257	-\$1,011,891	\$14,318,366	\$4,940,954	-\$442,578	\$4,498,376

**Q4.4** The Lees accept your recommendation. Develop the financial plan accordingly.

# The Plan

After agreeing with Adam and Eva on their goals and objectives, you have presented the following Plan to them on 23/02/20xx

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**SECTION I – OUR SCOPE OF SERVICES*****Our Role***

- We were introduced to each other through one of our existing clients, *Mr. Adrian Lam*.
- We will provide Independent Financial Advisory services to you.
- We will understand your financial situation, life objectives and financial needs.
- We will perform a thorough analysis and evaluation of the information you provided.
- Based on the results of our analysis, we will make use of our professional financial knowledge to search for suitable provider(s) and product(s) in the financial market. As an Independent Financial Advisor, we are not affiliated with any single product providers, and thus you can rest assured that you will obtain impartial advice from us.
- Subject to the condition that you consider our advice and recommendations appropriate to you, you will open an account(s) with the financial product provider(s), with the facilitation from us. That is to say, your money will NOT pass through us, but is maintained directly with the financial product provider(s), and all of them have sound financial strength and enjoy credit ratings of A+ or above from Standard and Poor's.
- You will then receive formal contract(s) from the financial product provider(s).
- You will also receive regular account statements from the financial product provider(s).
- We, as your financial planning advisor, are your life-long partners. We will provide ongoing support and services to you, including but not limited to:
  - E-mail market updates on a weekly basis;
  - Client seminars on a quarterly basis;
  - Personal face-to-face reviews on a yearly basis.

The purposes of the reviews are two-fold. First, we will get to know whether there are any changes to your financial status and needs. Second, we will provide reviews on the performance of your account(s) and recommend suitable adjustments if considered appropriate.

***Our Charges***

- We will not charge any consultation fees.
- In case you consider our financial advice is suitable to you and you decide to purchase the financial product(s) we recommend, we shall receive commission from the corresponding product provider(s).

***Our Limitation***

- Currently, we do not provide services for specific stocks, bonds, warrants, options and equity-linked instruments.

**SECTION II – OUR UNDERSTANDING OF YOUR CURRENT SITUATION*****Your Basic Information***

- Eva and Adam Lee, aged 29 and 38 respectively
- Both non-smoker.
- Married with 1 son, Alan Lee (three years old) and 1 daughter, Avon Lee (one year old).
- Adam is a director of a Chinese herbal importing company established by him family some 50 years ago.
- Eva is an executive assistant in a small trading company.
- Adam's annual basic salary is in the region of \$480,000. Annual bonus, depending on the company's financial performance, fluctuates from \$300,000 to \$500,000. You consider it is prudence to assume annual bonus at \$300,000 per year.
- Eva earns a monthly salary of \$15,000 and a year-end bonus amounting to one month of salary.

***Your Family Situation***

- Your family is employing a Filipino maid to look after your two children and do the housework.
- According to your information, your family expense is around \$660,000 annually.
- Eva is responsible for accumulation of the kid's college fund, contributing approximately 80% of her salary to the fund as USD savings.

***Your Assets and Liabilities***

- Adam owns a residential property in Kowloon. The property was bought seventeen years ago and its latest valuation amount is \$3.4 million.
- Adam is responsible for the mortgage payment and the outstanding mortgage amount is \$300,000, at a monthly mortgage payment of \$9,000. Remaining term of the mortgage is around 3 years.
- Adam is holding bank deposits in USD, HKD and EUR, sum up to approximately \$2,350,000. Eva is holding bank deposits in USD and HKD sum up to approximately \$580,000.
- Adam is also holding some Hong Kong blue chip stocks for long term capital gain. Total current market value of these investments is approximately \$300,000.
- Adam describes himself as a cautious investor.
- Both of you are interested in exploring different investment options to enhance the return of your assets and are willing to take up more risk. You hope your portfolio can generate an average return of 5% annually in the future after restructuring their portfolio, except for Eva's USD savings set aside for the kid's college fund, which will generate only 2% return.

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***Your Insurance***

- Adam, you have taken out a whole life insurance policy with US\$600,000 sum insured and a 50% critical illness benefit rider. The annual premium of the plan is about \$30,000.
- You have also taken out two whole life policies with guarantee insurability option with the same insurance company, serving as your children's education fund. Sum insured for each policy amounted to \$500,000 and medical benefits. Projected cash value when your children reach 18 years of age is about \$300,000 each policy. The annual premium is about \$20,000 each.

***Your MPF***

- Adam, your current MPF account balance is around \$228,000 and your ongoing monthly contribution from employer and yourself is \$2,000
- Eva, the balance on your MPF account is around \$102,000 and your ongoing monthly contribution from employer and yourself is \$1,500.
- You hope that your MPF accounts, together with your other assets, can generate an average annual return of 5%.

***Your Risk Tolerance***

During the meeting you have filled in a risk profiling questionnaire, the total score of 22 suggests that you are fairly conservative.



**SECTION III – OUR UNDERSTANDING OF YOUR GOALS AND OBJECTIVES**

According to our previous discussions, we understand that you have the following life goals and corresponding evaluated financial needs:

**1. Pre-mature Death Protection**

Adam, you wish to sustain the family's living (with 20% reduction on variable expenses) without placing extra financial burden to Eva. Your immediate need for protection would be \$14 million.

Notes of the evaluation

- Expected growth rate on living expenses = 3%
- Expected inflation rate = 4%
- No need for Alan and Avon to take care of the family expenses after they become independent

**2. Critical Illness Protection**

Adam, would like to be well-prepared for possible medical expenses in case he catches critical illness. You consider a \$600,000 lump sum for medical expenses will provide enough protection to the family in case of his critical illness. In case of such, Eva may need quit her job and stay home taking care of the family. You would like to sustain the family's living standard without placing extra financial burden to Eva. Liquidity need at such will be \$0.8 million.

Notes of the evaluation

- Dread diseases and disabilities protection is not included
- Expected growth rate on living expenses = 3%
- Expected growth rate on Eva's income = 3%

**3. Education for Alan and Avon**

You have no confidence in Hong Kong's public education system and wish to make sure that your children receive the best education. You are willing to sacrifice your current living standard to make provision for it. Your immediate need would be \$3.3 million, with \$1.3 million for college and \$2 million for pre-college period.

Notes of the evaluation

- Expected growth on tuition fee (HK) = 3.5%
- Expected growth on tuition fee (UK) = 3%
- Expected rate of return on College Fund = 4.5%
- Expected growth on Eva's income = 3%
- Expect timeline: Alan will enter college 15 years from now and Avon will enter college 17 years from now.

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**4. Property acquisition**

You wish to move to a new flat of larger size in a better school district as Alan is about to attend primary school in a few years. You have been shopping for such a flat in Kowloon Tong lately and it is now under consideration. The price of such flat is about \$6.3 million. You also need to prepare an additional 3% for administrative and legal expenses.

Notes of the evaluation

- Expected location: Kowloon Tong
- Preferred size : around 700 square feet
- Preferred age : below 25

**5. Retirement**

You wish to retire together when Adam reach age 55, and maintain a decent living in retirement. While the fixed living expenses and Eva's personal expenses shall remain the same, you expect the variable part of the family living consumption for post-retirement period will be reduced to 80% of pre-retirement level. By the time one of you passes away, you expect this part of family living consumption will further reduce to 60% of original level. Your need prepare for an amount of \$14.6 million 17 years from now.

Notes of the evaluation

- Expected growth on living expenses = 4%
- Expected life expectancy : Adam 80; Eva 84
- Expected growth on Adam's income = 4%
- Expected growth on Eva's income = 3%

**SECTION IV – YOUR PRESENT FINANCIAL STATUS****Cash Flow Statement**

The following table shows your current cash flow position (in \$):

**Annual Cash Inflow:**

▪ Adam's income	888,400
▪ Eva's income	195,000
Sub-total	1,083,400

**Annual Cash Outflow:**

▪ Family Expenses - variable	156,000
▪ Family Expenses - fixed	81,600
▪ Eva's personal expenses	29,750
▪ Children related expenses	142,800
▪ Mortgages	108,000
▪ Others (MPF, insurance, taxes)	183,309
▪ Savings to College Fund	156,000
Sub-total	\$857,459

<b>Annual NET Cash Inflow</b>	<b>\$225,941</b>
-------------------------------	------------------

Your current net cash flow is \$225,941. Unless otherwise stated, return from investment assets are assumed to be reinvested for asset growth. The lower bound for bonus will be taken for future projection.

**Financial Position and Ratio Analysis**

The following table shows your financial position and ratios:

<b>Financial Position</b>	<b>Value</b>
Net Worth	\$6,801,093
Net Cash Flow (monthly)	-\$7,783
Net Cash Flow (annually)	\$225,941
Disposable Income	\$970,091

<b>Financial Ratio</b>	<b>Value</b>
Solvency Ratio	95.8%
Debt-to-Asset Ratio	4.2%
Debt payment-to-Income Ratio	16.4%
Return on Assets	5.33%

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With \$6,801,093 net worth and 95.8% solvency ratio, your financial position is very solid as solvency ratio shows the percentage of assets really belongs to the person after settling his/her debts. Debt payment-to-Income ratio is an indicator of how likely it is that a borrower will repay the loan. A commonly used benchmark for mortgages and loans in Hong Kong is 50%. With 16.4% debt payment-to-Income ratio, you are an eligible candidate to most mortgages and loans.

Your annual Net Cash Flow value is \$225,941 ( before paying tuition fee at the beginning of next year ), equivalent to 20.9% of your total income. In view of your keeping a large portion of their outflows as savings, MPF and asset accumulation, this level is quite healthy in general. However, 38.3% of the family's income comes from annual bonus, which varies from year to year. When evaluating your cash flow on a monthly basis, it is quite tight except for the month where bonus comes in.

#### Asset Performance

The overall rate of return is 5.33%. However it should be noted that out of the 5.33% returns, 4.79% derives from your home residence, which is not considered as investment asset. A relatively high proportion of his assets are in form of savings which generate a very low return.

	Amount	%	Past Return
Currency	\$2,933,943	41.32%	0.80%
Equity and Funds	\$634,750	8.94%	2.35%
Life Insurance	\$132,400	1.86%	0%
Real Estate	\$3,400,000	47.88%	10.00%
<b>Total</b>	<b>\$7,101,093</b>	<b>100.00%</b>	<b>5.33%</b>

**SECTION V – FINANCIAL OBJECTIVE ANALYSIS****1. Pre-mature Death Protection**

You have a shortfall of \$6.5 million in order to secure your family in regarding of premature death.

Notes of the evaluation

- The value of property, as a family shelter, is not included as current coverage.

**2. Critical illness**

You have a shortfall of approximately \$230,000. Liquidity needs is fully covered by the accelerated benefit rider of your whole life policy.

Notes of the evaluation

- Dread diseases and disabilities protection is not included

**3. Education for Avon and Alan**

Children's pre-college tuition fee can be covered by your income flow. College tuition fee will be fully covered by Eva's savings, with a surplus of approximately \$2.9 million by the time Avon graduates, equivalent to approximately \$1.4 million at today's value.

Notes of the evaluation

- Assume 80% of Eva's total income is saved for college fund;
- Provision from education policy can provide \$300,000, as projected by the insurance company, by the time the children enter university.

**4. Property Acquisition**

You have a shortfall of \$3.1 million in purchasing the new flat and need to consider financing it from bank.

Notes of the evaluation

- Assume the current property can be sold at its market value of \$3.4 million.

**5. Retirement**

You have a shortfall of approximately \$1 million by the time you retire. The shortfall can be fully covered by surplus from the college fund.

Notes of the evaluation

- The cash value of your existing insurance plan is excluded.
- Expected average return on investment = 5%
- The MPF fund is in general not available at age 55.

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**SECTION VI – RECOMMENDATIONS****1. Pre-mature Death Protection**

To protect your family from the impact of Adam's premature death and critical illness, you are recommended to:

Acquire renewable 10-year term life insurance \$6.73 million to protect your family from the risk of premature death at cost of \$4,711 p.a.

**2. Education for Alan and Avon**

To accumulate adequate fund for Alan and Avon's education without taking up extra risk, we recommend:

- Reallocate Eva's USD savings to T-bills that generate 4.5% expected return
- The surplus can be used as retirement fund

**3. Property Acquisition**

In view of your intention in property acquisition, recommendations include:

- Sell your existing property at market price
- Pay 30% of the new property price as down payment, finance the remaining with the bank at 2.5% mortgage rate.
- Monthly mortgage payment will be \$23,369. With this, your monthly expenses will be increased substantially and be covered by some of your existing assets. In view of the low mortgage rate and the relatively high return on your investment, you are recommended to pay the least amount of down payment and retain resources for better return.

**4. Retirement**

In view of your low return on investment, recommendations include:

- Reallocate your portfolio to generate a 7% return (at 8% standard deviation which is within your risk tolerance range). Setting aside \$0.3 million cash for family emergency and reallocate the remaining with 70% in bond and 30% in small value stock.

**Investment risk:**

Investment involves risks. If the actual average return turns out to be just, say 3% per annum, the consequence is that you may suffer a loss in living standard.

**Budget reallocation summary**

Our above recommendations will have the following cash flow implications on an annual basis:

Mortgage payment increase to	\$280,428
Additional term life insurance	\$4,711

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**Monitoring of the Financial Plan**

As discussed before, after implementation of these recommendations, we shall monitor the plan on an on-going basis. We recommend an annual review of your financial and personal situation to ensure your financial and personal goals are still appropriate.

**Additional Needs**

Our analysis of your financial situation has identified some additional financial planning needs that would like to bring for your attention:

- The life protection of Eva because she plays a major role of saving education fund for children
- The medical needs of Eva which may become a burden to Adam if not well prepare
- Estate issues arises if Adam and Eva pass away at the same time
- Tax saving issue may arise from the relationship between him and his family business
- Business succession issues as his father is getting old and children are too young.

We would like to discuss with you on providing the planning services related to the above areas mentioned above.


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# SAMPLE EXAMINATION QUESTIONS :

CFP<sup>CM</sup> Certification

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE  
INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE  
INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE  
INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE  
INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT

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**CFP CERTIFICATION EXAMINATION (FOUNDATION LEVEL)****Question 1 (Subject Area: Financial Management)**

Jonathan is applying for a personal loan from a local bank. As part of its standard procedure for loan assessment, the bank has asked him to provide his financial information. Jonathan provides the requested information as follows:

Bank Deposits	\$50,000
Treasury Bills	\$55,000
3-month Certificate of Deposit	\$50,000
Credit Card Balance	\$10,000
Listed Stocks	\$120,000
Life Insurance Cash Value	\$125,000
MPF Account Balance	\$350,000
Mortgage Loan	\$1,500,000
Residential Flat	\$3,000,000

What is Jonathan's net worth?

- A. \$1,880,000
- B. \$2,115,000
- C. \$2,240,000
- D. \$3,750,000

\*\*\*\*\*

Answer: C

Explanation:

Net Worth = Total Assets – Total Liabilities

Total Assets= Bank Deposits + Treasury Bills + Certificate of Deposit + Listed Stocks + Life Insurance Cash Value + MPF Account Balance + Residential Flat = \$3,750,000

Total Liabilities=Credit Card Balance + Mortgage Loan= \$1,510,000

Net worth → \$3,750,000 – \$1,510,000 = \$2,240,000

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), page 115.

**Question 2 (Subject Area: Financial Management)**

Mr. and Mrs. Yung, both aged 48 and each with a life expectancy of 90, have a current annual household income of \$600,000. They would like to retire in 12 years' time on 70% of their current income adjusted for inflation. They also wish to leave an estate of \$3 million to their only daughter, Tina, upon their deaths. The inflation rate is expected to be 3% p.a. In order to achieve the Yungs' objectives, how much capital should they accumulate at age 60 if the expected rate of return is 8% p.a.?

- A. \$7.04 million
- B. \$7.29 million
- C. \$9.36 million
- D. \$10.08 million

\*\*\*\*\*

Answer: D

Explanation:

Calculation of PV of a future stream of income:

$N=30, I=\{(1.08/1.03)-1\}=4.854369\%$

$PMT=(-600,000 \times 70\%)*1.03^{12}=-598,819.57,$

$FV=-3m$

$PV=10.08m$

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), pages 59-62.

**Question 3 (Subject Area: Financial Management)**

Ronald has taken out a car loan of \$280,000 to be repaid over 3 years. Interest rate is at 3.5% for the first year, 4.5% for the second year, and 5.5% for the third year. Calculate Ronald's monthly payment in the first, second and third year respectively.

- A. \$8,205; \$7,924; \$7,421
- B. \$8,205; \$8,289; \$8,334
- C. \$8,205; \$12,221; \$24,034
- D. \$8,329; \$8,329; \$8,329

\*\*\*\*\*

Answer: B

Explanation:

$N=36$ ,  $I=3.5\%/12=0.291667\%$ ,  $FV=0$ ,  $PV=280,000$

1<sup>st</sup> year  $PMT=-8,205$

Balance of the loan =  $-8,205 * PVIFA(I=3.5\%/12, N=24) = 189,909$

$N=24$ ,  $I=4.5\%/12=0.375\%$ ,  $FV=0$ ,  $PV=189,909$

2<sup>nd</sup> year  $PMT=-8,289$

Balance of the loan =  $-8,289 * PVIFA(I=4.5\%/12, N=12) = 97,087$

$N=12$ ,  $I=5.5\%/12=0.458333\%$ ,  $FV=0$ ,  $PV=97,087$

3<sup>rd</sup> year  $PMT=-8,334$

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), pages 44-48.

**Question 4 (Subject Area: Financial Management)**

Which of the following types of business ownership imply that the nature of the liability of the owner(s) with respect to the business is a personal one?

- I. Limited liability company.
  - II. Partnership.
  - III. Sole proprietorship.
- 
- A. III only
  - B. I & II only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: C

Explanation:

II & III are correct. The liability of the owners or shareholders of a limited liability company is limited to the amount of their shareholding in the company. The partners of a partnership and sole proprietors are personally liable for all claims and liabilities with respect to their business. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 299 and AFP Supplementary Notes (2011 edition) #004, 005 and 006.

**Question 5 (Subject Area: Financial Management)**

Ruby is 60 years old and expects to live until at least age 80. She is considering a proposal of an annuity from an insurance company. For a premium of \$250,000, the annuity will pay her \$2,500 per month for the rest of her life until she passes away. Assume Ruby invests her savings in US Treasury Bills (US T-Bills) earning a rate of return of 3% p.a. Which of the following statements about the proposed annuity and the US T-Bills are CORRECT?

- I. The rate of return on the annuity is higher than the rate of return on US T-Bills.
  - II. The rate of return on the annuity is the same as the rate of return on US T-Bills.
  - III. The rate of return on the annuity is lower than the rate of return on US T-Bills.
  - IV. The present value of benefit payments to be made from the annuity are worth more than its premium.
  - V. The present value of benefit payments to be made from the annuity are worth less than its premium.
- 
- A. I & IV only
  - B. II & IV only
  - C. II & V only
  - D. III & V only

\*\*\*\*\*

Answer: A

Explanation:

I & IV are correct.

PV=250,000; PMT=2,500; N=12\*20

Compute  $I=0.877009\%$  → annual rate = 10.524%

Also NPV=200,777.29 >0 using 3% discount rate (monthly rate: 0.25%)

Please also refer to IFPHK's Fundamentals of Financial Planning Textbook (1st edition), page 53-54.

**Question 6 (Subject Area: Financial Management)**

Mr. and Mrs. Chan are a young married couple. The following shows some of their financial figures:

	Mr. Chan	Mrs. Chan
Annual income:	\$336,000	\$264,000
Annual bonus:	\$28,000	N/A
Annual household and personal expenses:	\$270,000	\$180,000
Personal possession:	\$80,000	\$19,000
Annual interest and dividend income:	\$15,000	\$9,000
Stockholding:	\$100,000	N/A
Savings:	\$220,000	\$300,000
Credit card and/or personal loan:	\$80,000	\$11,000

Based on the figures provided, calculate the debt ratio of the Chan couple.

- A. 0.12
- B. 0.14
- C. 0.18
- D. 0.21

\*\*\*\*\*

Answer: B

Explanation:

Net worth=Total assets-total liabilities

→ \$719,000-\$91,000=\$628,000

Debt ratio = liabilities/net worth → \$91,000/\$628,000=0.1449

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 103.



**Question 7 (Subject Area: Financial Planning Principles)**

A financial planner has extracted the following information about a client from his file:

“Existing investment portfolio: aggressive  
Findings of risk-profiling questionnaire: conservative”

In light of the above, what is the BEST approach that the client’s financial planner should take?

- A. Adopt the client’s existing investment portfolio.
- B. Ask the client to do the risk-profiling questionnaire again.
- C. Discuss with the client the possible need for adjusting his asset allocation.
- D. Follow the findings of the risk-profiling questionnaire.

\*\*\*\*\*

Answer: C

Explanation:

The best approach is to take into account the mismatch between the client’s investment portfolio and the findings of risk-profiling. Please also refer to IFPHK’s Fundamentals of Financial Planning textbook (1st edition), page 325.

**Question 8 (Subject Area: Financial Planning Principles)**

Robert is a 35-year old single male who has just lost his job as a salesperson due to the recent economic downturn. Which of the following are appropriate actions that Robert's financial planner should recommend him to take in the event of a prolonged period of reduced income?

- I. Keep up his monthly savings plans.
  - II. Reduce his discretionary spending.
  - III. Reduce his financial responsibilities.
- 
- A. I & II only
  - B. I & III only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: C

Explanation:

II & III are correct. Due to Robert's job nature and the economic situation, it is likely that Robert will suffer a period of reduced income which will last for a while. As such, he should reduce discretionary spending and financial responsibilities. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), chapter 4.

**Question 9 (Subject Area: Financial Planning Principles)**

Generally speaking, a financial planner is expected to ensure that the client's

- I. goals are prioritized in the order of importance.
  - II. investment goals are clearly stated.
  - III. risk tolerance level is maintained.
- A. I only
  - B. I & II only
  - C. I & III only
  - D. II & III only

\*\*\*\*\*

Answer: B

Explanation:

I & II are correct. Goals should be concrete and achievable and should be prioritized in the order of importance. Client's risk tolerance may change due to changes to his/her circumstances. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), pages 368-371.

**Question 10 (Subject Area: Financial Planning Principles)**

Amy and Ben are a married couple aged 30 and 32 respectively, they are concerned about their heavy debt load as below:

I.	Mortgage (interest at 4.5% p.a.):	\$2,000,000
II.	Unsecured credit line (interest at 6.5% p.a.):	\$15,000
III.	Amy's student loan (interest at 10% p.a.):	\$40,000
IV.	Amy's credit card balance (interest at 18% p.a.):	\$10,000

Their goal is to pay off their mortgage loan as quickly as possible. List, from the FIRST to the LAST, the order in which their debt should be paid off that will be the MOST cost-effective for them.

- A. I, III, II, IV
- B. I, IV, III, II
- C. IV, I, II, III
- D. IV, III, II, I

\*\*\*\*\*

Answer: D

Explanation:

Although their goal is to pay off their mortgage, they need to pay down the debt with the highest cost of borrowing. The cost of borrowing from descending order would be: credit card (18%); student loan (10%), credit line (6.5%) and mortgage (4.5%). Please also refer to IFPHK's Fundamentals of Financial Planning Textbook (1st edition), page 95.

**Question 11 (Subject Area: Retirement Planning)**

A financial planner is writing an article on financial activities for readers over 60 years of age who have a personal profile typical for that age group. To cater for the common needs of this age group, the planner should emphasize which of the following topics in the article?

- I. Estate planning.
  - II. Long-term healthcare coverage.
  - III. Real estate investments.
  - IV. Retirement planning.
- 
- A. I & II only
  - B. III & IV only
  - C. I, II & IV only
  - D. II, III & IV only

\*\*\*\*\*

Answer: C

Explanation:

I, II & IV are correct. Estate planning, long-term healthcare coverage and retirement planning are topics relevant to this age group. Real estate investments will involve liquidity issues and high costs, and may not necessarily be suitable, therefore it should not be emphasized. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 328.

**Question 12 (Subject Area: Retirement Planning)**

Freshly Restaurant (Freshly) has employed Rose as a full-time waitress for 6 months. Rose receives a fixed monthly salary, and at the end of each month, she also receives her share of tips collected by Freshly. She also collects tips directly from customers. When computing contributions to the Mandatory Provident Fund Scheme, which of the following items should be included in Rose's "relevant income"?

- I. Monthly salary paid by Freshly.
  - II. Rose's share of tips collected by Freshly.
  - III. Tips that Rose collected directly from customers.
- A. I only
  - B. I & II only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: B

Explanation:

I & II are correct. Tips retained by employees themselves are not regarded as "relevant income" for the purpose of computing contributions to the Mandatory Provident Fund Scheme. Please also refer to Insurance Intermediaries Quality Assurance Examination Scheme: MPF Schemes Examination Study Notes (8th edition), Appendix IV.

**Question 13 (Subject Area: Retirement Planning)**

Richard is an Australian citizen who came to Hong Kong under an employment visa in June 2010. He was contracted to work in the Hong Kong subsidiary of an Australian-based company for a period of 12 months. Which ONE of the following statements regarding Richard's obligation to enroll in the Mandatory Provident Fund (MPF) Scheme is CORRECT?

- A. Richard is automatically exempted from joining the MPF Scheme on the basis that he is an expatriate with an employment visa.
- B. Richard is required to enroll in an MPF Scheme after he has remained in Hong Kong for 60 days.
- C. Richard is not required to enroll in any MPF Scheme during the 12 months he was in Hong Kong.
- D. Richard is not required to enroll in any MPF Scheme until he has obtained a valid Hong Kong Identity Card.

\*\*\*\*\*

Answer: C

Explanation:

Foreign employees entering Hong Kong with an employment visa for a period not exceeding 13 months are exempted persons under the MPF Scheme. Please also refer to Insurance Intermediaries Quality Assurance Examination Scheme: MPF Schemes Examination Study Notes (8th edition), Section 3.5 & Appendix III.

**Question 14 (Subject Area: Introduction to Investments)**

Which of the following statements CORRECTLY describe “H-shares”?

- I. They are traded either in Hong Kong dollars or in Renminbi.
  - II. They are issued by Mainland Chinese entities.
  - III. They are listed on the Stock Exchange of Hong Kong.
  - IV. They are referred to as “red chips”.
- 
- A. I & II only
  - B. II & III only
  - C. I, III & IV only
  - D. I, II, III & IV

\*\*\*\*\*

Answer: B

Explanation:

II & III are correct. H-shares are issued by Mainland Chinese companies and listed on the Stock Exchange of Hong Kong, and are traded in Hong Kong dollars. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), page 804.



**Question 15 (Subject Area: Introduction to Investments)**

A monetary policy involves the control of:

- I. interest rates.
  - II. government spending.
  - III. the supply of money.
  - IV. tax rates.
- 
- A. I & III only
  - B. II & IV only
  - C. I, II & IV only
  - D. I, III & IV only

\*\*\*\*\*

Answer: A

Explanation:

I & III are correct. A monetary policy relates to money supply and interest rates. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1st edition), page 5.

**Question 16 (Subject Area: Introduction to Investments)**

Economic indicators suggest that there will be a rise in interest rates in the coming six months. Which ONE of the following investment portfolios would be LEAST exposed to such a rise in interest rates?

- A. One-third in cash, one-third in short-term bonds and one-third in shares.
- B. One-third in long-term bonds, one-third in property and one-third in shares.
- C. One-third in cash, one-third in long-term bonds and one-third in shares.
- D. One-third in short-term bonds, one-third in property and one-third in shares.

\*\*\*\*\*

Answer: A

Explanation:

Property and long-term bonds are expected to be adversely affected when there is a rise in interest rate(s). Please also refer to IFPHK's Essentials of Investments textbook (1st edition), pages 340-342.

**Question 17 (Subject Area: Introduction to Investments)**

Which of the following are typical features of a forward contract?

- I. The price of the goods is determined at the time of making the contract.
  - II. The payment for the goods is made at the time of making the contract.
  - III. The goods will be delivered upon maturity of the contract.
- 
- A. I & II only
  - B. I & III only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: B

Explanation:

I & III are correct. The price of the goods is determined when the forward contract is made, the goods will be delivered and cash settlement is made upon maturity of the underlying contract. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), pages 534-535.

**Question 18 (Subject Area: Introduction to Investments)**

Which of the following statements CORRECTLY describe(s) a bearer bond?

- I. It usually does not have a maturity date.
  - II. It is considered to be owned by the holder of the bond.
  - III. It has no coupon payment.
- 
- A. II only
  - B. I & II only
  - C. I & III only
  - D. I, II & III

\*\*\*\*\*

Answer: A

Explanation:

Only II is correct. The holder of a bearer bond is considered to be the owner. A bearer bond has a maturity date and it can have coupon that is numbered and dated. Please also refer to IFPHK's Essentials of Investments textbook (1st edition), page 299.

**Question 19 (Subject Area: Introduction to Investments)**

The following table lists out the transactions in an investor's securities account. What is the dollar-weighted average return of this account?

Year	Transactions
0	Bought 2 shares of \$60 each
1	Received a dividend of \$4 per share Sold 1 share at \$66 each
2	Received a dividend of \$4 per share Sold the remaining 1 share at \$63 each

- A. 9.38%
- B. 11.67%
- C. 15.53%
- D. 17.58%

\*\*\*\*\*

Answer: B

Explanation:

$$120 = (66+8)/(1+r) + (63+4)/(1+r)^2$$

$$\text{Return } (r) = 11.67\%$$

Please also refer to IFPHK's Essentials of Investments textbook (1st edition), page 134.

**Question 20 (Subject Area: Fundamentals of Insurance)**

Janis is the Human Resources Manager of Company X and she is looking for a group life insurance policy. The insurance agent informs her that Company X must ensure that a minimum number of employees will be covered under the group policy. The main purpose of this requirement is to:

- A. avoid adverse selection.
- B. ensure insurability.
- C. increase agency commission.
- D. reduce premium.

\*\*\*\*\*

Answer: A

Explanation:

Adverse selection refers to the tendency of persons whose exposure to loss is higher than average to purchase insurance to a greater extent than those whose exposure is less than average. Adverse selection works in the direction of accumulating bad risk and causes the insurance plan to be unviable. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), page 48.

**Question 21 (Subject Area: Fundamentals of Insurance)**

Bill submitted his proposal for a whole life insurance policy with a sum insured of \$1,000,000 and paid the first premium of \$2,000. He has passed the medical check-up, and the underwriting process was duly completed. If Bill dies before the policy was issued, how much will his beneficiary recover under the policy?

- A. \$0
- B. \$2,000
- C. \$998,000
- D. \$1,000,000

\*\*\*\*\*

Answer: D

Explanation:

The beneficiary could get the sum insured as the life insurance contract is a valid contract, although the actual policy document has not yet been issued. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 150-152.

**Question 22 (Subject Area: Fundamentals of Insurance)**

Which of the following is/are the effects of the principle of indemnity in insurance?

- I. It prevents the insured from profiting from insurance.
  - II. It reduces physical hazard.
  - III. It reduces moral hazard.
- A. I only
  - B. III only
  - C. I & III only
  - D. I, II & III

\*\*\*\*\*

Answer: C

Explanation:

I & III are correct. The principle of indemnity maintains that the insured should not profit from insurance. The principle of indemnity cannot reduce physical hazard. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), page 5 and page 153.



**Question 23 (Subject Area: Fundamentals of Insurance)**

Ronald purchased his life insurance policy 5 years ago and committed suicide last month. When the insurance company processed the claim, it was found that Ronald had not fully disclosed information about his health condition in the life insurance proposal form. In the circumstances, the insurance company \_\_\_\_\_ payment under the policy by reason of the \_\_\_\_\_ clause.

- A. can reject; entire contract
- B. can reject; suicide
- C. cannot reject; incontestable
- D. cannot reject; ownership

\*\*\*\*\*

Answer: C

Explanation:

In accordance with the incontestable clause, the validity of the insurance contract cannot be questioned for any reason whatsoever after it has, during the lifetime of the insured, been in force for some time, typically 2 years. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 226 -231.

**Question 24 (Subject Area: Fundamentals of Insurance)**

Which of the following statements with respect to a disability income benefit rider in a life insurance policy are CORRECT?

- I. Income benefits will be provided during the insured's disability.
  - II. Death benefits will be reduced if income benefits are provided to the insured.
  - III. A waiting period normally applies before income benefits are provided to the insured.
- A. I & II only
  - B. I & III only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: B

Explanation:

Only I & III are correct. There will be no deduction of the death benefits if the insured receives income benefits during the period of disability. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), pages 247-248.

**Question 25 (Subject Area: Fundamentals of Insurance)**

Which of the following statements regarding a convertible term life insurance policy are CORRECT?

- I. The insured has the option of converting the policy subject to the provision of satisfactory evidence of insurability.
  - II. The insured has the option of converting the policy without having to provide evidence of insurability.
  - III. The insured has the option of exchanging the term life insurance policy for a permanent health insurance policy.
  - IV. The insured has the option of exchanging the term life insurance policy for some other type of permanent life insurance policy.
- A. I & III only
  - B. I & IV only
  - C. II & III only
  - D. II & IV only

\*\*\*\*\*

Answer: D

Explanation:

II & IV are correct. A conversion provision gives the insured the option to exchange the term insurance policy for some category of permanent life insurance policy without having to prove insurability. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1<sup>st</sup> edition), page 199.

**- End of Sample CFP Certification Examination Questions (Foundation Level) -**

**CFP CERTIFICATION EXAMINATION (LEVEL 1)****Question 26 (Subject Area: Investment Planning/Asset Management)**

Using the capital market line (CML) in analyzing a risky portfolio, \_\_\_\_\_ performance is indicated by a position below the CML, \_\_\_\_\_ performance is indicated by a position above the CML and \_\_\_\_\_ performance is indicated by a position on the CML.

- A. inferior ; optimal ; superior
- B. inferior ; superior ; optimal
- C. optimal ; superior ; inferior
- D. superior ; inferior ; optimal

\*\*\*\*\*

Answer: B

Explanation: B is correct. The capital market line (CML) is a line used in the capital asset pricing model to illustrate the rates of return for efficient portfolios depending on the risk-free rate of return and the level of risk (standard deviation) for a particular portfolio. Inferior performance is indicated by a position below the CML, superior performance is indicated by a position above the CML and optimal performance is indicated by a position on the CML. Please also refer to IFPHK's Essential of Investments textbook (1<sup>st</sup> edition), pages 221-222.

**Question 27 (Subject Area: Investment Planning/Asset Management)**

Mr. A, a risk-averse investor, is considering to invest in either an US Treasury bill which currently pays a 4.5% rate of return, or a risky portfolio which pays a 8% return with a probability of 40%, and a 3% return with a probability of 60%. Mr. A asks his financial planner to help him calculate the risk premium of investing in the risky portfolio, and to give him some investment advice. Which ONE of the following statements is the MOST appropriate for Mr. A's financial planner to make?

- A. The risk premium is 0 and Mr. A should invest in the risky portfolio.
- B. The risk premium is 0 and Mr. A should invest in the US Treasury bill.
- C. The risk premium is 0.5% and Mr. A should invest in the risky portfolio.
- D. The risk premium is 0.5% and Mr. A should invest in the US Treasury bill.

\*\*\*\*\*

Answer: C

Explanation: C is correct. Risk premium =  $[(8\% \times 40\%) + (3\% \times 60\%)] - 4.5\% = 0.5\%$ . Mr. A should invest in the risky portfolio because he is rewarded with a risk premium. Please also refer to IFPHK's Essentials of Investments textbook (1<sup>st</sup> edition), pages 137-139.

**Question 28 (Subject Area: Investment Planning/Asset Management)**

**Please refer to the following information to answer Question 28 and Question 29:**

Portfolio XYZ is well diversified. It has a return of 10.5%, a portfolio beta of 1.2 and a standard deviation of 5%. Assume the risk free rate is 3% and the interest rate on long-term government bonds is 6%.

What is the Sharpe measure of the portfolio?

- A. 0.9
- B. 1.2
- C. 1.5
- D. 6.25

\*\*\*\*\*

Answer: C

Explanation: C is correct. Sharpe measure is calculated by dividing the portfolio excess return (i.e. portfolio return minus risk free rate) by the standard deviation of the portfolio. Please also refer to IFPHK's Essentials of Investments textbook (1<sup>st</sup> edition), page 628.

**Question 29 (Subject Area: Investment Planning/Asset Management)**

What is the Treynor measure of the portfolio?

- A. 0.9
- B. 1.2
- C. 1.5
- D. 6.25

\*\*\*\*\*

Answer: D

Explanation: D is correct. Treynor measure is calculated by dividing the portfolio excess return (ie. portfolio return minus risk free rate) by the portfolio beta. Please also refer to IFPHK's Essentials of Investments textbook (1<sup>st</sup> edition), page 628.

**Question 30 (Subject Area: Investment Planning/Asset Management)**

If other factors remain constant, for an investment grade corporate bond, the higher its liquidity, the:

- A. higher its coupon rate.
- B. longer its duration.
- C. lower its default risk.
- D. lower its yield to maturity.

\*\*\*\*\*

Answer: D

Explanation: D is correct. Higher liquidity leads to lower liquidity premium, hence lower required rate of return, which in turn causes higher price. Therefore, the bond yield will be lower. Please also refer to IFPHK's Essentials of Investments textbook (1<sup>st</sup> edition), page 306.



**Question 31 (Subject Area: Insurance Planning/Risk Management)**

Jane is 30 years old now and is considering taking out a life insurance policy. The quotations for four different policies have been obtained, all based on level premium payable by yearly installments. Which ONE of the following policies is MOST LIKELY to charge the HIGHEST annual premium?

- A. 35-year endowment life insurance policy.
- B. 35-year term life insurance policy.
- C. 65-year paid-up non-participating whole life insurance policy.
- D. Non-participating whole life insurance policy.

\*\*\*\*\*

Answer: A

Explanation: A is correct. It is an endowment life insurance policy that normally requires a high premium, and compared with the other options, is most likely to charge the highest annual premium. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1<sup>st</sup> edition), chapter 11.

**Question 32 (Subject Area: Insurance Planning/Risk Management)**

Ricky and Susan are a married couple and each of them has taken out a whole life insurance policy with beneficiary details as below:

Insured	Primary Beneficiary	Contingent Beneficiary
Ricky	Susan	Ricky's brother, Tommy
Susan	Susan's sister, Janet	Ricky

Ricky and Susan were involved in a traffic accident. Susan passed away at the scene and Ricky passed away one month later. Which ONE of the following statements about entitlement to the life insurance benefits in this case is CORRECT?

- A. Tommy is entitled to the benefits under both Ricky's and Susan's policies.
- B. Tommy is entitled to the benefits under Susan's policy and Janet is entitled to the benefits under Ricky's policy.
- C. Janet is entitled to the benefits under both Ricky's and Susan's policies.
- D. Janet is entitled to the benefits under Susan's policy and Tommy is entitled to the benefits under Ricky's policy.

\*\*\*\*\*

Answer: D

Explanation: D correct in this case. The contingent beneficiary will be entitled to the death benefits upon the death of the primary beneficiary. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1<sup>st</sup> edition), pages 227-228.

**Question 33 (Subject Area: Insurance Planning/Risk Management)**

**Please refer to the following information to answer Question 33, Question 34 and Question 35:**

Derek is the owner of a factory in Hong Kong. A German buyer recently placed an order with Derek, included in the contract is a provision that Derek should hold the buyer harmless of any liability incurred due to his products. Derek was required to take out product liability insurance for the exporting products and set up new testing equipment in his factory in order to meet the safety standards in Germany. Derek then approached a few insurance companies for product liability insurance on the exporting products, however the insurance companies refused to insure only the exporting products, but offered to insure all his factory's products instead. Derek expected that it would take 10 years for him to cover the set up cost of the testing equipment. He ultimately decided to give up the contract with the German buyer.

What type of risk management approach has been adopted by the German buyer for applying the hold-harmless provision in the contract with Derek?

- A. Avoidance.
- B. Prevention.
- C. Retention.
- D. Transfer.

\*\*\*\*\*

Answer: D

Explanation: A hold-harmless provision is the same as an indemnity. By including the provision in the contract with Derek, the German buyer is getting an indemnity from Derek for any losses that it may suffer. The nature of an indemnity is to transfer risk. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1<sup>st</sup> edition), pages 17-19.

**Question 34 (Subject Area: Insurance Planning/Risk Management)**

In requiring Derek to insure all his products, the insurance companies are MOST LIKELY protecting themselves against which ONE of the following issues?

- A. Adverse Selection.
- B. Moral Hazard.
- C. Morale Hazard.
- D. Physical Hazard.

\*\*\*\*\*

Answer: A

Explanation: Adverse selection is the tendency of the persons whose exposure to loss is higher than average to take out insurance. By requiring Derek to insure all his products, the insurance companies are protecting themselves against higher exposure to product liability claims in Germany. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1<sup>st</sup> edition), page 48.

**Question 35 (Subject Area: Insurance Planning/Risk Management)**

In giving up the contract with the German buyer, Derek is MOST LIKELY to have taken which ONE of the 6 steps in the risk management process?

- A. Consideration of alternatives and selection of risk treatment device.
- B. Evaluation and review.
- C. Evaluation of risks.
- D. Implementation of the decision.

\*\*\*\*\*

Answer: D

Explanation: Derek has already decided on which risk management approach to adopt. His action of giving up the contract with the German buyer is an implementation of his decision. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1<sup>st</sup> edition), pages 25-33.

**Question 36 (Subject Area: Tax Planning)**

Identify from the following cases where married person's allowance will be granted to the taxpayer who files the tax return for the year of assessment 2010/11:

- I. Mr. P has been married to his wife for 10 years. His wife has no assessable income for the year of assessment 2010/11.
  - II. Mr. Q has been separated from his wife since the year of assessment 2009/10, but he is maintaining his wife by paying a monthly alimony of \$10,000.
  - III. Mr. R was divorced from his wife in the year of assessment 2009/10, but he is still maintaining his ex-wife by paying a monthly alimony of \$12,000.
- A. I only
  - B. I & II only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: B

Explanation: I & II are correct. To qualify for married person's allowance, the taxpayer must be married for all or part of the year of assessment, and the spouse did not have any income chargeable to Salaries Tax during the year. Please also refer to Section 29 of the Inland Revenue Ordinance.

**Question 37 (Subject Area: Tax Planning)**

Under the Inland Revenue Ordinance, which of the following is/are grounds for a taxpayer to apply to an assessor for correction of errors in a tax return or the assessment?

- I. There was an arithmetical error in the calculation of the amount of the tax charged.
  - II. There was an omission in any tax return submitted.
  - III. There was an error in the statement submitted with respect to the tax charged.
- 
- A. III only
  - B. I & II only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: D

Explanation: I, II & III are correct. A tax assessor appointed under the Inland Revenue Ordinance has the power to correct an assessment. Please also refer to Section 70A of the Inland Revenue Ordinance.

**Question 38 (Subject Area: Tax Planning)**

XYZ Limited is considering providing medical benefits to its employees. Which of the following ways of providing such benefits will be efficient to the employees in the context of Salaries Tax?

- I. Arranging group medical insurance cover for the employees and paying the insurance premium for all employees.
  - II. Contracting with a few designated doctors to provide medical consultation to employees free-of-charge.
  - III. Reimbursing employees' medical expenses for different doctors of their own choice upon presentation of the medical bills.
- A. I only
  - B. I & II only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: B

Explanation: I & II are correct. Employee benefits that represent a discharge of an employee's own personal liability by the employer will be taxable. Therefore III is taxable and not efficient to employees under Salaries Tax. Please also refer to Section 9 of the Inland Revenue Ordinance.



**Question 39 (Subject Area: Estate Planning)**

Which of the following is/are reasons for an individual to set up a trust for estate planning purposes?

- I. To avoid probate.
- II. To reduce estate planning costs.
- III. To protect vulnerable beneficiaries.

- A. I only
- B. I & II only
- C. I & III only
- D. I, II, & III

\*\*\*\*\*

Answer: C

Explanation: I & III are correct. A trust is not part of a deceased person's probate estate. It can be used to provide for vulnerable beneficiaries. The cost for setting up a trust is usually high. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1<sup>st</sup> edition), Chapter 8.

**Question 40 (Subject Area: Estate Planning)**

Generally speaking, a financial planner is expected to carry out which of the following activities in his client's will-making process?

- I. To co-ordinate with other members of the estate planning team.
  - II. To review the will to ensure the contents fulfill the client's objectives.
  - III. To recommend the client appointing him as the executor of the will.
- A. I only
  - B. I & II only
  - C. I & III only
  - D. II & III only

\*\*\*\*\*

Answer: B

Explanation: I & II are correct. A financial planner is not expected to recommend himself as the executor of his client's will. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1<sup>st</sup> edition), pages 117-118.

**- End of Sample CFP Certification Examination Questions (Level 1) -**

**Please refer to the following information to answer Question 41, Question 42, Question 43 and Question 44:**

Mathew is 50 years old and single. He was employed for over 14 years as a full-time chef of a restaurant. However, Mathew had a car accident 3 months ago and his right shoulder was badly injured as a result. Mathew spent a month in hospital, and his doctor told him that he is now severely disabled because he will not be able to use his right shoulder for the rest of his life. The accident occurred when Mathew was going to work in a bus operated by his employer, and the driver of the bus was successfully prosecuted by the police for his careless driving that caused the accident. Mathew's claim under the Employees' Compensation Ordinance was successful. Mathew recently checked with an insurance agent of Great Insurance Company as to his needs for whole life insurance. He learnt that, due to his disability, the cover will require a longer waiting period and a higher-than-standard premium level. He did not take out the cover.

Mathew and his father jointly own a flat in Tuen Mun as tenants-in-common where they live together with Mathew's 52-year-old elder brother, Mark. The flat is fully paid up and has a current market value of around \$2,800,000. Mathew's father intends for Mathew to take up his share in the flat on his death. Neither Mathew nor his father has made wills, and apart from Mark they do not have other living relatives.

**Question 41 (Subject: Insurance Planning/Risk Management)**

Mathew is currently eligible for assistance under which TWO of the following government social welfare schemes in Hong Kong?

- I. Comprehensive Social Security Assistance Scheme.
  - II. Emergency Relief.
  - III. Social Security Allowance Scheme.
  - IV. Traffic Accident Victims Assistance Scheme.
- 
- A. I & II only
  - B. I & III only
  - C. II & IV only
  - D. III & IV only

\*\*\*\*\*

Answer: D

Explanation: III and IV are correct. Mathew satisfies the current eligibility criteria for the Social Security Allowance Scheme and the Traffic Accident Victims Assistance Scheme. For details, please refer to the website of the Social Welfare Department.

**Question 42 (Subject: Insurance Planning/Risk Management)**

Which of the following factors are relevant to Mathew's success in his claim under the Employees' Compensation Ordinance for the traffic accident?

- I. The operator of the bus in which Mathew traveled.
  - II. The party liable for Mathew's accident.
  - III. The period of time that Mathew had been employed by his employer.
  - IV. The purpose of Mathew's travel in the bus.
- 
- A. I & II only
  - B. I & IV only
  - C. I, III & IV only
  - D. II, III & IV only

\*\*\*\*\*

Answer: B

Explanation: I and IV are correct. The identity of the operator of the transport in which an employee traveled and the purpose of the travel are relevant factors for a claim to succeed under the Employees' Compensation Ordinance. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1st edition), page 16-17.

**Question 43 (Subject: Insurance Planning/Risk Management)**

Which of the following statements in relation to Great Insurance Company's requirements for Mathew's life insurance cover are CORRECT?

- I. A longer waiting period is required to enforce the principle of indemnity.
  - II. The level of premium quoted is a result of the use of a different mortality table.
  - III. The level of premium quoted violates the Disability Discrimination Ordinance.
  - IV. The purpose for the level of premium quoted is to avoid adverse selection.
- 
- A. II & IV only
  - B. I, II & III only
  - C. I, III & IV only
  - D. II, III & IV only

\*\*\*\*\*

Answer: A

Explanation: II and IV are correct. People whose exposure to loss is higher than average have a tendency to require greater protection cover than others. Please also refer to IFPHK's Fundamentals of Risk and Insurance textbook (1st edition), page 48 and 324.

**Question 44 (Subject: Estate Planning)**

Assume that other factors remain constant. Which of the following statement(s) about the succession of the Tuen Mun flat is/are CORRECT?

- I. If Mathew and his father pass away at the same time, ownership in the flat will be distributed according to the Intestates' Estates Ordinance.
  - II. If Mathew predeceases his father, his share in the flat will automatically pass to his father without having to go through the probate process.
  - III. If Mathew's father predeceases Mathew, his share in the flat will be distributed between Mark and Mathew.
- A. I only
  - B. I & II only
  - C. I & III only
  - D. II & III only

\*\*\*\*\*

Answer: C

Explanation: I and III are correct. Tenants-in-common do not have the right of survivorship. Therefore the distribution of the flat will be governed by the Intestates' Estates Ordinance. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1st edition), page 185, and section 4 of the Intestates' Estate Ordinance.

**- End of Sample CFP Certification Examination Questions (Level 1) -**

**CFP CERTIFICATION EXAMINATION (LEVEL 2)****Question 45 (Subject Area: Financial Management)**

When investing in real assets such as properties or land at times of inflation, the future cash-flows from the investments are likely to rise in:

- I. intrinsic value.
  - II. nominal value.
  - III. real value.
- 
- A. II only
  - B. III only
  - C. I & II only
  - D. I & III only

\*\*\*\*\*

Answer: A

Explanation: II is correct. Nominal value refers to a value expressed in money terms in a given year or series of years; it is likely to rise at times of inflation. Real value adjusts nominal value to remove effects of price changes over time. Intrinsic value refers to the actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), pages 63-70.

**Question 46 (Subject Area: Financial Management)**

Which of the following abilities of a financial planning strategy can be evaluated with reference to information provided by a financial budget?

- I. Its ability to maintain a certain level of living standard.
  - II. Its ability to maintain a sufficient amount of emergency cash.
  - III. Its ability to maintain investment risk at an acceptable level.
  - IV. Its ability to maintain wealth accumulation at a reasonable pace.
- 
- A. I & IV only
  - B. I, II & III only
  - C. I, II & IV only
  - D. II, III & IV only

\*\*\*\*\*

Answer: C

Explanation: I, II & IV are correct. Living standard can be measured by the amount of consumption. The sufficiency of emergency cash is usually measured by the amount of expenses in a number of months. Wealth is usually accumulated through regular savings. These are components in a budget. Investment risk is reflected in the balance sheet. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), pages 105-112.



**Question 47 (Subject Area: Financial Planning Principles)**

In the early stage of establishing a relationship with a client, a financial planner should:

- I. discuss the process and concepts of financial planning with the client.
  - II. inform the client about the limitation and scope of the services that the planner can provide legally.
  - III. clarify the respective responsibilities of the planner and the client.
  - IV. explore the risk attitude of the client.
- 
- A. I & III only
  - B. II & IV only
  - C. I, II & III only
  - D. I, III & IV only

\*\*\*\*\*

Answer: C

Explanation: I, II & III are correct as they are all actions that should be taken by a financial planner in Step 1 of the financial planning process. Exploring the risk attitude of the client should be done in Step 2 of the financial planning process. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), pages 342-348.

**Question 48 (Subject Area: Financial Planning Principles)**

Which of the following statements about determining the client's personal and financial goals, needs and priorities are CORRECT?

- I. They must be determined mutually by the planner and the client.
  - II. They must be determined with sole reference to the client's financial strengths and weaknesses.
  - III. Those relevant to the scope of engagement need to be determined in clear and measurable objectives.
- 
- A. I & II only
  - B. I & III only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: B

Explanation: I & III are correct. A client's personal and financial goals, needs and priorities must not be limited only to the client's financial strengths and weaknesses. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), pages 366-371.

**Question 49 (Subject Area: Financial Planning Principles)**

Evaluating the client's financial position is an important step in the financial planning process. Which of the following tasks should be completed in this step?

- I. Assessing the liabilities of the client.
  - II. Identifying the client's financial strengths and weaknesses.
  - III. Preparing cashflow statements of the client.
  - IV. Recommending appropriate insurance policies to the client.
- 
- A. I & III only
  - B. I, II & III only
  - C. I, II & IV only
  - D. II, III & IV only

\*\*\*\*\*

Answer: B

Explanation: I, II & III are correct. They are all tasks that should be completed in Step 3 of the financial planning process. Recommending appropriate insurance policies to the client should be done in Step 4 of the financial planning process. Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), chapter 13.

**Question 50 (Subject Area: Retirement Planning)**

Which of the following is/are disadvantages of defined-contribution plans from the employee's perspective?

- I. Amount of actual retirement benefit is not known.
  - II. Individual members solely account for contributions.
  - III. Investment losses must be borne by the employee.
- A. I only
  - B. I & III only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: B

Explanation: I & III are correct. Apart from employees, employers usually also contribute to defined-contribution plans. The Hong Kong Mandatory Provident Fund Scheme is an example of a defined-contribution plan. Please also refer to IFPHK's Employee Benefits and Estate Planning textbook (1<sup>st</sup> edition), page 53.

**Question 51 (Subject Area: Retirement Planning)**

Tim plans to set up a retirement fund to provide an amount of \$50,000 per year over 20 years starting next year. Assume that the expected rate of return to the fund is 10% per year, how much money would he have invested today if the expected inflation rate is 6%?

- A. \$296,442
- B. \$425,678
- C. \$573,496
- D. \$693,346

\*\*\*\*\*

Answer: D

Explanation: D is correct. It is calculated as follows:

Present value of the retirement fund after one year =  
 $PV(bgn) I = \{(1.10/1.06) - 1\}$ ,  $n=20$ ,  $PMT = -\$50,000$ ,  
 $PV = \$719,510$

Amount of investment today =  $\$719,510 / (1.1/1.06) = \$693,346$

Please also refer to IFPHK's Fundamentals of Financial Planning textbook (1<sup>st</sup> edition), pages 53-62.

**Case Study - Case Facts**David Jones

1. Today is 1 June 2010. Lily Fong, a financial planner of Happy Insurance Company, received a call from her current client, David Jones, to review his financial plan.
2. Below is some information about David that Lily has gathered so far:
3. Client information:

	Client	Client's Spouse
Name	David Jones	Nancy Jones
Date of birth	1 June 1958	2 March 1962
Nationality	Canadian	Canadian
Marital status	Married	Married
Occupation	Chief Financial Officer	Housewife
Employer	Tasty Foods Limited*	N/A
Work status	Full-Time	N/A
Time with present employer	Since 1 April 1999	N/A
Regular medical check-up?	Yes	Yes
Any long-term disability or health problems?	High blood pressure	No

\* Company listed on the Toronto Stock Exchange

## 4. Dependant information:

	Dependant 1	Dependant 2
Name	Sunny Jones	Sandy Jones
Relationship with client	Son	Daughter
Date of birth	15 May 2000	5 April 2002
Health	Good	Good

## 5. Annual income of the Jones family for the period from 1 April 2009 to 31 March 2010:

	Amount (in HKD unless otherwise specified)
<b>Salary income received*</b>	1,680,000
<b>Bonus income received</b>	280,000
<b>Reimbursement received from employer</b>	
Rent payment (Sai Kung flat) <sup>€</sup>	480,000
Annual airfare to Canada	50,000
<b>Other benefits received from employer</b>	
Scholarships for David's children	10,000
Tuition fees for David's children paid by employer directly to the school	216,000
<b>Income received from other sources</b>	
Interest and dividends	60,000
Rental income from Ma Wan flat <sup>#</sup>	Unknown

\* before deducting the premium for the group medical insurance policy for Nancy & David's children and the MPF contributions

<sup>€</sup> rateable value of the property: HKD450,000

<sup>#</sup> rateable value of the property: HKD250,000

6. Annual expenses of the Jones family for the period from 1 April 2009 to 31 March 2010:

	Amount (in HKD unless otherwise specified)
<b>Expenditure on food</b>	240,000
<b>Housing expenses (for Sai Kung flat)</b>	
Rent	480,000
Utilities and others	80,000
Management fees	48,000
<b>Household expenses</b>	
Filipino domestic helper	54,000
Others (e.g. clothing, personal grooming, toiletries)	700,000
<b>Transportation expenses</b>	
Fuel, maintenance & repairs, parking, vehicle licence	80,000
Others (including taxis & public transport)	50,000
<b>Education and recreation expenses</b>	
Other school expenses	50,000
Vacation	100,000
Other recreation	100,000
<b>Medical expenses</b>	
Pharmacy/drugs	10,000
<b>Insurance</b>	
Life insurance premium for David	18,000
Life insurance premium for Nancy	15,000
Group medical insurance premium for Nancy, Sunny and Sandy	5,000
Building insurance premium (Ma Wan flat)	4,000
Household contents insurance premium (Sai Kung flat)	6,000
<b>Others</b>	
Contributions to Mandatory Provident Fund Scheme	12,000
Mortgage payment for Ma Wan flat	Unknown
Management fee for Ma Wan flat	12,000
Government rent for Ma Wan flat	4,800
Rates for Ma Wan flat	8,000
Support to George (David's nephew)	60,000
Donations to the Community Chest of Hong Kong	20,000



7. Assets and liabilities of the Jones family (as at 31 March 2010):

	Amount (in HKD unless otherwise specified)
Property in Ma Wan	3,200,000
Mortgage loan	Unknown
Motor car	400,000
Stocks	500,000
Unit trusts and bonds	300,000
Savings in HKD	500,000
Savings in CAD	CAD50,000
Mandatory Provident Fund Scheme account balance	180,000
Canadian superannuation account	CAD300,000
Cash value of life insurance policies	800,000
Hi-Fi system	200,000
Credit card balance	20,000

8. Both David Jones and his wife Nancy are great fans of Chinese culture. They considered Hong Kong the perfect place for them to stay. To this end, David applied to his employer to be relocated to the Hong Kong office of Tasty Foods Limited (Tasty) from the Toronto headquarters several years ago. Although he is employed on contract basis, David managed to negotiate a very generous expatriate package. As time goes by, the Jones will soon obtain the right of abode in Hong Kong.
9. The Jones live in a house in Sai Kung arranged by Tasty. Under the arrangement, David pays rent every month in advance and receives reimbursement from Tasty the month after. Sunny and Sandy attend an international school in Clearwater Bay. The annual tuition fee is HKD108,000 for each of them which are directly paid for by Tasty to their school as part of David's expatriate package. Tasty also pays a scholarship of HKD5,000 each per annum in respect of Sunny and Sandy under the company's standing policy for senior staff. Recently, the school they are attending announced that a debenture of HKD150,000 should be purchased for every student starting from the academic year 2010/11. The debenture is redeemable when a student leaves the school. Tasty agreed to buy and hold the debentures on David's behalf.
10. David is very fond of his 20-year-old nephew, George, and has been supporting him financially since he was born. David knows that George is grateful for his money because he has just entered university and needs the money to support his living and pay his tuition fees.
11. David is covered by a group medical policy and a group term life insurance policy offered by Tasty. The medical policy has an in-patient policy with hospital cash of a maximum coverage of HKD300,000 per annum, together with dental insurance. Tasty allows David to enroll his direct relatives for the same medical policy at cost, and David has exercised his right and enrolled Nancy and their children to the policy at an annual premium of HKD5,000 which is deducted from his salary income. The life policy covers 2 years of David's salary with a permanent total disablement rider.

12. On top of David's group term life policy, both David and Nancy have taken out other life insurance policies. The table below summarizes details of the life insurance policies of David and Nancy:

Insured	David	David	Nancy
Policy type	Whole life	Group term life	Term life
Sum insured	HKD3,000,000	2 x annual salary	HKD2,000,000
Year of Purchase	1990	- -	1993
Policy provider	Happy Ins. Co.	ABC Ins. Co.	Happy Ins. Co.
Riders	<ul style="list-style-type: none"> <li>• Personal Accident</li> <li>• Double Indemnity</li> </ul>	<ul style="list-style-type: none"> <li>• Permanent total disablement</li> </ul>	<ul style="list-style-type: none"> <li>• Personal Accident</li> <li>• Double Indemnity</li> </ul>
Primary beneficiary	Nancy	Nancy	David
Contingent beneficiary	George	Sunny	Sunny
Cash values	HKD800,000	- -	---

As a reward to loyal customers, Happy Insurance Company has recently offered two extra riders free-of-charge to David, who aims to maximize the long-term benefits he can get from them.

13. David is still uncomfortable with his current insurance coverage, and would like to make sure that Nancy and their children will be provided with the largest amount of income as soon as possible if he predeceases them, or if his children are suddenly orphaned. Because one of his friends has bought an annuity for this purpose and recommends it to him, David asks Lily for a proposal for a pure life annuity.
14. Other employee benefits provided by Tasty include annual return airfare to Canada, and a Canadian superannuation account into which Tasty contributes 9% of David's salary every month. The account balance can be withdrawn upon David's retirement. Though not required by law, both Tasty and David also contribute to the Mandatory Provident Fund Scheme in Hong Kong.
15. On 1 June 2004, Nancy bought a small residential flat in Ma Wan at HKD2,500,000 as part of her investment. The purchase of the flat was fully financed by a mortgage with Coco Bank for a term of 15 years at a fixed rate of 6% p.a. The first mortgage payment was made on 30 June 2004. The current market value of the flat is HKD3,200,000 and it is expected to grow at an annual rate of 4% in the future. The flat has been let out for rental income since it was bought. Nancy is responsible for the management fee, government rent and rates. After deducting these expenses, the remaining rental income is exactly enough to pay for the monthly mortgage. Nancy expects that the rental income will remain stable for the duration of the mortgage term. Nancy has taken out a building insurance policy on the flat since purchasing it. She is not sure if she should adjust the sum insured since it has been over 5 years when she bought the flat.

16. David would like to restructure his investment portfolio by including one of the following funds into it:

	Fund			
	SUN	MOON	STAR	EARTH
Average annual return during the last five years	9.5%	12%	13%	13.5%
Standard deviations of return during the last five years	6%	8%	8.5%	9.5%

- Fund SUN: An equity income mutual fund investing in Hong Kong stocks.
  - Fund MOON: A growth-oriented mutual fund investing in Hong Kong stocks.
  - Fund STAR: An international equity mutual fund.
  - Fund EARTH: Taiwan equity index exchange-traded fund.
- The short-term certificate of deposit rate in Hong Kong is 4%. The correlation coefficients of the above four funds during the last five years are:

	SUN	MOON	STAR	EARTH
SUN	1.0			
MOON	0.7	1.0		
STAR	0.5	0.4	1.0	
EARTH	0.7	0.7	0.2	1.0

17. As David is approaching his intended retirement date, which falls on his 60<sup>th</sup> birthday, the family has been thinking about returning to Canada. Sunny and Sandy will definitely go back to Canada for their university education, where they will work part-time and pay for their own tuition fees like their father did. The family has therefore made up its mind to return to Canada after David retires, by which time they will sell the flat in Ma Wan and use the proceeds to buy a house in Canada. David has been researching the prices of property in Canada, and found that a property that fits the needs of the family is selling at a price equivalent to HKD3,000,000 Hong Kong dollars today, and is expected to grow at an annual rate of 6%.
18. David and Nancy have both made wills two years ago while they were on their annual trip to Canada. Nancy has kept the only copy of her will with a relative in Toronto while David has kept his with a friend who Nancy does not know. In David's will, he has made bequests in favour of Nancy and his children only.

19. Other information:

Exchange rate: CAD1.00 = HKD7.80  
 CAD stands for Canadian dollars.

**- End of Case Facts -**

**Question 52**

Which of the following are David's personal and financial goals?

- I. Ensure a stable stream of income for his family after his retirement and after his death.
  - II. Arrange for long-term health care protection for both himself and Nancy.
  - III. Provide for housing arrangements in retirement.
  - IV. Set up a fund for the university education of Sunny and Sandy.
- 
- A. I & IV only
  - B. II & III only
  - C. I, II & III only
  - D. I, II, III & IV

\*\*\*\*\*

Answer: C

**Question 53**

What is the amount of rental income from the Ma Wan flat for the year ended 31 March 2010?

- A. HKD253,152
- B. HKD257,460
- C. HKD277,952
- D. HKD325,460

\*\*\*\*\*

Answer: C

**Question 54**

Which of the following statement(s) about the Jones couple's current financial status and investment position is/are CORRECT?

- I. Based on the information provided, their solvency ratio is greater than 0.6.
  - II. The length of their pre-retirement investment horizon is of an intermediate term.
  - III. They have a high net worth hence they have a high risk tolerance level.
  - IV. They should allocate part of their savings to high leverage investments.
- 
- A. II only
  - B. I & II only
  - C. I, II & IV only
  - D. I, III & IV only

\*\*\*\*\*

Answer: B

**Question 55**

What is the appropriate advice for Nancy regarding the insurance policy she took out on her flat in Ma Wan?

- A. Nancy should adjust the sum insured with reference to the change in repair/rebuilding cost of the flat, if any.
- B. Nancy should adjust the sum insured with reference to the value of the household contents in the flat.
- C. Nancy should increase the sum insured to reflect the increase in the property price.
- D. There is no need for Nancy to review the sum insured since the premium is calculated with reference to the gross floor area of the flat.

\*\*\*\*\*

Answer: A

**Question 56**

Assume that relevant factors remain constant. Which of the following items should Lily Fong include in a Needs Approach analysis in order to ascertain whether David currently has adequate life insurance cover?

- I. Education fees for Sunny and Sandy.
  - II. Financial support to Nancy.
  - III. Mortgage repayments for the Ma Wan flat.
  - IV. Support to George.
  - V. Term life insurance cover of Nancy.
- 
- A. II & V only
  - B. I, II & IV only
  - C. I, III & V only
  - D. I, II, III, IV & V

\*\*\*\*\*

Answer: B



**Question 57**

To address David's aim, which TWO of the following riders offered free-of-charge by Happy Insurance Company should Lily advise him to choose?

- I. Critical/terminal illness benefit rider.
  - II. Disability income benefit rider.
  - III. Medical benefits rider.
  - IV. Waiver of premium rider.
- 
- A. I & III only
  - B. I & IV only
  - C. II & IV only
  - D. III & IV only

\*\*\*\*\*

Answer: A

**Question 58**

With respect to David's request for a proposal for an annuity, which of the following is/are APPROPRIATE piece(s) of advice that Lily should give him (see paragraph 13 of this case)?

- I. For the purposes of attaining David's goal, a Joint-and-Last Survivor Annuity is more suitable than his original choice.
  - II. David can achieve his aim to a certain extent by utilizing a suitable settlement method for his whole life policy.
  - III. David's original choice of an annuity will help him cope with the impact of inflation.
- A. I only
  - B. I & II only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: B

**Question 59**

What is/are the advantage(s) of choosing Fund EARTH compared with the other three potential funds that David is considering?

- III. Easier to trade.
- IV. International diversification.
- V. Lower bid-ask spread.

- A. I only
- B. I & II only
- C. II & III only
- D. I, II & III

\*\*\*\*\*

Answer: A

**Question 60**

David would like to know the performance of the four funds according to the Sharpe's performance index. Which ONE has the WORST performance?

- A. Fund SUN.
- B. Fund MOON.
- C. Fund STAR.
- D. Fund EARTH.

\*\*\*\*\*

Answer: A

**Question 61**

Assume that David would like to restructure his portfolio so that half of his portfolio's value will be invested in Fund MOON, and the other half in Fund STAR. What would be the expected standard deviation for his portfolio after the proposed change?

- A. 0.5%
- B. 5.8%
- C. 6.5%
- D. 6.9%

\*\*\*\*\*

Answer: D

**Question 62**

Assume that David begins to withdraw from his superannuation account when he retires, and transfers the money to one of his following existing investments. Ignoring tax issues, which ONE of them is the MOST SUITABLE choice for him?

- A. Canadian dollar time deposit account which generates an annual return of 5%.
- B. Canadian stock market portfolio which generates an average annual return of 12%.
- C. Emerging markets long-term bond fund which generates an average annual return of 8%.
- D. Money market mutual fund which invests in Euro money market securities and generates an average annual return of 6%.

\*\*\*\*\*

Answer: A

**Question 63**

Which ONE of the following statements about David's tax position as a Canadian expatriate is CORRECT?

- A. David is liable to pay Salaries Tax in Hong Kong because he has made Hong Kong his home and ordinarily resides in Hong Kong.
- B. David is liable to pay Salaries Tax in Hong Kong because under the double tax treaty signed between China and Canada, anyone who spends more than 180 days in Hong Kong in a year is liable.
- C. David is liable to pay Salaries Tax in Hong Kong but income generated from any services rendered outside Hong Kong can be excluded.
- D. David is liable to pay Salaries Tax in Hong Kong but is entitled to claim exemption from Salaries Tax on the ground that all his salary income has been taxed in Canada.

\*\*\*\*\*

Answer: C

**Question 64**

In relation to the education benefits from Tasty to David as regards Sunny and Sandy, which ONE of the following is a CORRECT Hong Kong tax implication with respect to David?

- A. Debentures to be provided by Tasty will be taxable because they are deemed to be income from employment.
- B. Scholarships for Sunny and Sandy are not taxable because they are not income received by David.
- C. Tuition fees paid by Tasty are not taxable if Tasty enters into contract with the school and pays directly.
- D. Tuition fees paid by Tasty are taxable because this is a fringe benefit provided by the employer.

\*\*\*\*\*

Answer: D



**Question 65**

Which of the following ways can help the Jones to minimize their Property Tax payable in Hong Kong?

- I. Ask the tenant to pay the management fees directly to the property management company and reduce the monthly rent by the corresponding amount.
  - II. Ask the tenant to shoulder the rates and reduce the monthly rent by the corresponding amount.
  - III. End the existing tenancy agreement and enter into a new contract with rent payable annually in advance in lump sum.
  - IV. Have Nancy elect to be assessed under Personal Assessment.
- A. I only
  - B. I & III only
  - C. I, II & IV only
  - D. II, III & IV only

\*\*\*\*\*

Answer: A

**Question 66**

What is the net assessable value of the Ma Wan flat under the Hong Kong Property Tax for the year of assessment 2009/10?

- A. HKD169,952
- B. HKD215,962
- C. HKD253,152
- D. HKD269,952

\*\*\*\*\*

Answer: B

**Question 67**

For the purpose of calculating David's Salaries Tax for the year of assessment 2009/10, what is the amount of rental value to be considered as part of his assessable income?

- A. HKD201,000
- B. HKD223,600
- C. HKD240,000
- D. HKD480,000

\*\*\*\*\*

Answer: B

**Question 68**

Why is Tasty NOT obliged to enroll David to the Mandatory Provident Fund (MPF) Scheme in Hong Kong?

- A. David's employment is on contract basis, therefore he is not considered a permanent employee and is exempted.
- B. David has no right of abode in Hong Kong and is exempted as an expatriate.
- C. Tasty has enrolled David in a Canadian superannuation scheme and is exempted.
- D. Tasty is a Canadian company and is exempted as an overseas company.

\*\*\*\*\*

Answer: C

**Question 69**

What piece(s) of advice should Lily give David with respect to estate planning for himself and his wife?

- I. To arrange for ancillary probate of the Ma Wan flat with the probate court in Canada.
  - II. To ensure that their respective wills comply with the Wills Ordinance in order for them to be enforceable in Hong Kong.
  - III. To make copies of their respective wills so that they have copies in Hong Kong and Canada.
- A. II only
  - B. I & III only
  - C. II & III only
  - D. I, II & III

\*\*\*\*\*

Answer: C

**Question 70**

Assume that relevant factors remain constant. Which of the following actions should David take to help fulfill his wish in paragraph 13 of this case?

- I. Appointing more than one executor for his will.
  - II. Changing the contingent beneficiary in his whole life policy.
  - III. Having joint bank and investment accounts with Nancy.
  - IV. Setting up an enduring power of attorney for himself.
- 
- A. II & III only
  - B. II & IV only
  - C. I, II & III only
  - D. I, III & IV only

\*\*\*\*\*

Answer: A

**Question 71**

If David passes away in Hong Kong tomorrow and because no one can find his will, he is deemed to be intestate, which of the following statements about the succession of his estate are CORRECT?

- I. George is entitled to apply to the court for reasonable financial provisions from David's estate.
  - II. Nancy, Sunny and Sandy will be entitled to share David's personal chattels.
  - III. Nancy will first be entitled to a net sum of HKD500,000 from David's residuary estate with interest, as well as a half of the remainder of his residuary estate.
  - IV. Sunny and Sandy will be entitled to share the remainder of David's residuary estate, but their share will be held on statutory trusts.
- 
- A. I & II only
  - B. I & III only
  - C. I, III & IV only
  - D. II, III & IV only

\*\*\*\*\*

Answer: C

**- End of Sample CFP Certification Examination Questions (Level 2) -**

**- End of Sample CFP Certification Examination Questions -**



# ANNEX :

## CFP<sup>CM</sup> Certification

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
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FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT  
TAX PLANNING AND ESTATE PLANNING  
FINANCIAL PLANNING PRACTICE

INVESTMENT PLANNING AND ASSET MANAGEMENT  
INSURANCE PLANNING AND RISK MANAGEMENT

CFP<sup>CM</sup>, CERTIFIED FINANCIAL PLANNER<sup>CM</sup>, ,  CERTIFIED FINANCIAL PLANNER<sup>TM</sup>, AFP<sup>TM</sup>, ASSOCIATE FINANCIAL PLANNER<sup>TM</sup>,  AFP<sup>®</sup> and  ASSOCIATE FINANCIAL PLANNER<sup>®</sup> are certification marks and / or trademarks owned outside the U.S. by Financial Planning Standards Board Ltd. The Institute of Financial Planners of Hong Kong is the marks licensing authority for the CFP marks and AFP marks in Hong Kong and Macau, through agreement with FPSB.



## PRE-REQUISITE / LISTS OF CHALLENGE STATUS

"E" - EXEMPTED

	Course 1	Course 2	Course 3	Course 4	Foundation Level <sup>18</sup>	Level 1	Level 2
	Education				Examination		
List A ( Pre-requisite for CFP Certification)							
<ul style="list-style-type: none"><li>■ Bachelor degree in all disciplines<sup>19</sup></li><li>■ Financial Planning qualifications:<ul style="list-style-type: none"><li>- Associate of the Hong Kong Institute of Bankers (AHKIB);</li><li>- Chartered Insurance Agency Manager (CIAM);</li><li>- Chartered Wealth Manager (CWM);</li><li>- Fellow, Australian and New Zealand Institute of Insurance and Finance (ANZIIF (Fellow));</li><li>- Fellow, Financial Services Institute (FFSI);</li><li>- Fellow, Life Management Institute (FLMI);</li><li>- Financial Advisers’ International Qualification (FAIQ(CII))</li><li>- LUTCF Fellow (LUTCF)</li><li>- Qualified Retirement Advisor (QRA) Holder</li><li>- Society of Registered Financial Planners (HKRFP)</li></ul></li></ul>							
List B							
<ul style="list-style-type: none"><li>■ Financial Planning qualifications:<ul style="list-style-type: none"><li>- ASSOCIATE FINANCIAL PLANNER / AFP</li><li>- Certified Financial Management Planner (CFMP);</li><li>- Chartered Financial Consultant (ChFC);</li><li>- Chartered Life Underwriter (CLU);</li><li>- Fellow Chartered Financial Practitioner (FChFP);</li><li>- Financial Risk Manager (FRM)</li></ul></li></ul>					E		
List C							
<ul style="list-style-type: none"><li>■ Master Degree program in relevant discipline<sup>20</sup> e.g. Economics / Business</li></ul>	E	E	E		E		
List D							
<ul style="list-style-type: none"><li>■ Associate / Fellow of Association of Chartered Certified Accountants (ACCA/FCCA);</li><li>■ Associate / Fellow of Association of International Accountants (AAIA/FAIA);</li><li>■ Associate / Fellow of Chartered Institute of Management Accountants (ACMA/FCMA);</li><li>■ Certified General Accountant (CGA);</li><li>■ Certified Management Accountant (CMA) (Australia, Canada &amp; US);</li><li>■ Certified Public Accountant / Certified Practising Accountant (CPA/FCPA) (Australia, Hong Kong, US);</li><li>■ Chartered Accountant (CA) (Australia, Canada, England and Wales, Ireland, New Zealand, Scotland, South Africa, Zimbabwe);</li><li>■ Chartered Financial Analyst (CFA);</li><li>■ Fellow of Chartered Insurance Institute (FCII);</li><li>■ Fellow of the Society of Actuaries (FSA);</li><li>■ Members of Chartered Institute of Public Finance and Accountancy (CPFA);</li><li>■ Members of Hong Kong Bar Association;</li><li>■ Members of Hong Kong Law Society;</li><li>■ Doctoral Degrees in Economics / Business *</li></ul>	E	E	E	E	E		

Individuals who qualify for Challenge Status are considered to have fulfilled the Education requirement through the self study mode, and are required to purchase the respective course textbooks upon their application for Challenge Status.

<sup>18</sup> The *Foundation Level* examination paper also serves as the "Examination" element of the 4Es requirement for AFP™ certification. All terms relevant to the Foundation Level examination apply also to candidates/examinees for AFP Certification.

<sup>19</sup> The academic qualification must be awarded by accredited education institutes.

<sup>20</sup> The academic qualification must be awarded by accredited education institutes. To apply for List C Challenge Status, the Master Degree program must substantially cover topics of the CFP Certification Education Program (course 1 to 3) in order to demonstrate the relevancy of discipline to the CFP Certification Education Requirements.

## SYLLABUS

### Descriptive content coverage

The below descriptive content coverage contains 87 broad topic areas for CFP<sup>CM</sup> Certification Program (Foundation and Level 1) and the relevant topics for Cross-Border Examination. As the CFP Certification Examination (Level 2) integrates the entire syllabus, no separate description content coverage is provided for it. The relevant examination that each of the subtopic areas is assigned to is indicated in the "Examination" column. Users of the descriptive content coverage should bear in mind that:

- the syllabus of *Level 1* overlaps with that of *Foundation Level*. This means that the cognitive requirement/learning outcomes as articulated in the syllabus of *Foundation Level* form part of the cognitive requirement/learning outcomes of *Level 1*, but NOT vice versa (please see the below diagram for a general representation).
- the syllabus of *Level 2* overlaps with those of *Level 1* and *Foundation Level*. This means that the cognitive requirement/learning outcomes as articulated in the syllabuses of the *Level 1* and *Foundation Level* form part of the cognitive requirement/learning outcomes of *Level 2*, but NOT vice versa (please see the below diagram for a general representation).
- The below descriptive content coverage should be read together with the SYLLABUS which provides also information on the topic weighting and question distribution for the Certification Examinations.



The below descriptive content coverage also indicates the cognitive requirement for each of the detailed subtopic areas under the CFP Certification Examination (Foundation and Level 1). The level of cognitive requirement is shown by the "◆", "◆◆" or "◆◆◆" symbols. Users should note that the highest cognitive requirement (shown by the "◆◆◆" symbol) applies to the CFP Certification Examination (Level 2). For the particular descriptions and verbs used for the cognitive<sup>Δ</sup> requirement, the following list of cognitive requirements/learning outcomes should be referred to.

Key*	Description	Outcome-Illustrating Verbs	
◆	<b>Knowledge</b> of terminology; specific facts; ways and means of dealing with specifics (conventions, trends and sequences, classifications and categories, criteria, methodology); universals and abstractions in a field (principles and generalizations, theories and structures). Knowledge is (here) defined as the remembering (recalling) of appropriate, previously learned information.	defines; describes; identifies; lists;	matches; selects; states;
	<b>Comprehension:</b> Grasping (understanding) the meaning of informational materials.	classifies; describes;	explains; understands
◆◆	<b>Application:</b> The use of previously learned information in new and concrete situations to solve problems that have single or best answers.	applies; computes; determines;	relates; solves;
	<b>Analysis:</b> The breaking down of informational materials into their component parts, examining (and trying to understand the organizational structure of) such information to develop divergent conclusions by identifying motives or causes, making inferences, and/or finding evidence to support generalizations.	analyzes; compares; contrasts; correlates; differentiates; discriminates;	distinguishes; illustrates; outlines; prioritizes; recognizes;
◆◆◆	<b>Synthesis:</b> Creatively or divergently applying prior knowledge and skills to produce a new or original whole.	compiles; develops;	integrates;
	<b>Evaluation:</b> Judging the value of material based on personal values/opinions, resulting in an end product, with a given purpose, without real right or wrong answers.	decides; interprets;	judges; justifies;

The below descriptive content coverage is for reference only. The Institute of Financial Planners of Hong Kong may change it from time to time. Should any discrepancy and/or inconsistency exist between the English and the Chinese versions, the English version of the Syllabus – descriptive content coverage shall prevail.

<sup>Δ</sup> source: (Bloom) <http://www.krummefamily.org/guides/bloom.html>  
 \* Used in the "cognitive requirement" column of the descriptive content coverage

		EXAMINATION*	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>1</b>	<b>STEP 1 OF THE FINANCIAL PLANNING PROCESS - ESTABLISHING AND DEFINING THE RELATIONSHIP WITH A CLIENT</b>			
1 (a)	DEFINING THE SCOPE OF THE ENGAGEMENT			
	CANDIDATES SHOULD BE ABLE TO:			
	- UNDERSTAND THE RELEVANT PRACTICE STANDARD	FL		◆
	- EXPLAIN THE IMPORTANCE OF MUTUALLY DEFINED PRINCIPLES	FL		◆
	- EXPLAIN THE VALUE OF THE SCOPE OF ENGAGEMENT	FL		◆
1 (b)	COMMUNICATION TECHNIQUES			
	CANDIDATES SHOULD BE ABLE TO:			
	- DESCRIBE COMMUNICATION TECHNIQUES FOR FINANCIAL PLANNING	FL		◆
1 (c)	RULES FOR SOLICITING AND COMMUNICATING WITH CLIENTS			
	CANDIDATES SHOULD BE ABLE TO:			
	- EXPLAIN THE KEY ELEMENTS IN PREPARING AN INTERVIEW WITH CLIENTS	FL		◆
1 (d)	DISCLOSURES TO CLIENTS			
	CANDIDATES SHOULD BE ABLE TO:			
	- EXPLAIN THE IMPORTANCE OF DISCLOSURE TO CLIENTS	FL		◆
1 (e)	SIX STEPS FINANCIAL PLANNING PROCESS			
	CANDIDATES SHOULD BE ABLE TO:			
	- RELATE THE SIX STEPS PROCESS WITH RELEVANT PRACTICE STANDARD	FL		◆◆
<b>2</b>	<b>STEP 2 OF THE FINANCIAL PLANNING PROCESS - GATHERING CLIENT DATA</b>			
2 (a)	DETERMINING A CLIENT'S PERSONAL AND FINANCIAL GOALS, NEEDS AND PRIORITIES			
	CANDIDATES SHOULD BE ABLE TO:			
	- UNDERSTAND THE RELEVANT PRACTICE STANDARD	FL		◆
	- DISTINGUISH NEEDS AND WANTS	FL		◆◆
	- UNDERSTAND THE CONCEPT OF GOAL PRIORITIZATION	FL		◆
	- IDENTIFY COMMON GOALS AND OBJECTIVES OF CLIENTS	FL		◆
	- UNDERSTAND THE FINANCIAL PLANNING PYRAMID	FL		◆
	- EXPLAIN HOW TO MANAGE CLIENTS' EXPECTATION	FL		◆
2 (b)	OBTAINING QUANTITATIVE INFORMATION AND DOCUMENTS			
	CANDIDATES SHOULD BE ABLE TO:			
	- LIST THE TYPES OF INFORMATION TO BE COLLECTED	FL		◆
	- UNDERSTAND HOW TO USE QUESTIONS EFFECTIVELY	FL		◆
2 (c)	THE CLIENT'S UNSTATED NEEDS/NON-FINANCIAL NEEDS			
	CANDIDATES SHOULD BE ABLE TO:			
	- EXPLAIN THE IMPORTANCE OF UNDERSTANDING CLIENTS' UNSTATED NEEDS/ NON-FINANCIAL NEEDS	FL		◆
	- LIST COMMON UNSTATED NEEDS/NON-FINANCIAL NEEDS	FL		◆
2 (d)	STORAGE AND MAINTENANCE OF CLIENT'S DATA			
	CANDIDATES SHOULD BE ABLE TO:			
	- DESCRIBE THE APPROPRIATE WAYS TO HANDLE CLIENT'S DATA	FL		◆
<b>3</b>	<b>STEP 3 OF THE FINANCIAL PLANNING PROCESS - ANALYZING AND EVALUATING THE CLIENT'S FINANCIAL STATUS</b>			
3 (a)	CLIENT'S BACKGROUND AND CLIENT'S FINANCIAL STATUS			
	CANDIDATES SHOULD BE ABLE TO:			
	- UNDERSTAND THE RELEVANT PRACTICE STANDARD	FL		◆
	- ANALYZE THE RELATIONSHIP BETWEEN FINANCIAL NEEDS AND THE LIFE CYCLE	FL		◆◆
	- ANALYZE THE EFFECTS OF THE ECONOMIC AND FINANCIAL ENVIRONMENT ON FINANCIAL STATUS ANALYSIS	FL		◆◆
3 (b)	ANALYZING AND EVALUATING CLIENT'S INFORMATION			
	CANDIDATES SHOULD BE ABLE TO:			
	- OUTLINE THE RELATIONSHIP AMONG FINANCIAL DOCUMENTS AND MONEY MANAGEMENT	FL		◆◆
	- OUTLINE THE RELATIONSHIP BETWEEN FINANCIAL STATUS ANALYSIS AND VARIOUS PLANNING NEEDS	FL		◆◆
<b>4</b>	<b>STEP 4 OF THE FINANCIAL PLANNING PROCESS - DEVELOPING AND PRESENTING THE FINANCIAL PLANNING RECOMMENDATIONS</b>			
4 (a)	IDENTIFYING AND EVALUATING FINANCIAL PLANNING ALTERNATIVES			

\*

FL – FOUNDATION LEVEL  
L1 – LEVEL 1  
L2 – LEVEL 2

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE RELEVANT PRACTICE STANDARD	FL		◆
- EXPLAIN THE IMPORTANCE OF IDENTIFYING AND EVALUATING FINANCIAL PLANNING ALTERNATIVES	FL		◆
4 (b) DEVELOPING THE FINANCIAL PLANNING RECOMMENDATIONS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE MAJOR STEPS AND CONCERNS IN DEVELOPING RECOMMENDATIONS FOR VARIOUS PLANNING AREAS	FL		◆
- DESCRIBE THE PROCEDURES IN FORMING ASSET ALLOCATION STRATEGIES	FL		◆
- EXPLAIN THE CONCEPT OF COMPLEMENTARY PORTFOLIO	FL		◆
- DESCRIBE THE CORE CONTENT AND OTHER CONTENT OF THE FINANCIAL PLAN	FL		◆
4 (c) PRESENTING THE FINANCIAL PLANNING RECOMMENDATION(S)			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE PREPARATION WORK INVOLVED IN PRESENTING FINANCIAL PLANNING RECOMMENDATION(S)	FL		◆
<b>5 STEP 5 OF THE FINANCIAL PLANNING PROCESS - IMPLEMENTING THE FINANCIAL PLANNING RECOMMENDATIONS</b>			
5 (a) AGREEING ON IMPLEMENTATION RESPONSIBILITIES			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE RELEVANT PRACTICE STANDARD	FL		◆
- EXPLAIN THE IMPORTANCE OF AGREEING ON IMPLEMENTATION RESPONSIBILITIES	FL		◆
5 (b) SELECTING PRODUCTS AND SERVICES FOR IMPLEMENTATION			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE AND EXPLAIN THE STEPS IN SELECTING PRODUCTS AND SERVICES	FL		◆
5 (c) OTHERS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE ISSUES IN IMPLEMENTING THE FINANCIAL PLAN	FL		◆
<b>6 STEP 6 OF THE FINANCIAL PLANNING PROCESS - MONITORING</b>			
6 (a) DEFINING MONITORING RESPONSIBILITIES			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE RELEVANT PRACTICE STANDARD	FL		◆
6 (b) SOURCE OF CHANGES/REASONS FOR REVIEW OR REVISION OF FINANCIAL PLANS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE MACRO-LEVEL AND MICRO-LEVEL FACTORS THAT TRIGGER A NEED FOR PLAN REVISION/REVIEW	FL		◆
6 (c) CONDUCTING AND SUPERVISING A REVIEW			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE IMPORTANCE OF PERIODIC REVIEW AND PLAN MONITORING	FL		◆
6 (d) ONGOING SERVICES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE METHODS TO HANDLE DISPUTES WITH CLIENTS	FL		◆
<b>7 REGULATORY REQUIREMENTS FOR AFP AND CFP CERTIFICANTS</b>			
7 (a) BECOMING AFP AND CFP CERTIFICANTS/4ES REQUIREMENTS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE 4ES REQUIREMENTS OF AFP AND CFP CERTIFICATION	FL	√	◆
7 (b) PROPER USAGE OF AFP AND CFP CERTIFICATION MARKS			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE PROPER USAGE OF AFP AND CFP CERTIFICATION MARKS	FL	√	◆
7 (c) IFPHK'S DISCIPLINARY RULES AND PROCEDURES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE IFPHK'S DISCIPLINARY RULES AND PROCEDURES	FL	√	◆
7 (d) AFP AND CFP CERTIFICATION RENEWAL AND ONGOING CERTIFICATION REQUIREMENTS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE AFP AND CFP CERTIFICATION RENEWAL AND ONGOING CERTIFICATION REQUIREMENTS	FL	√	◆
<b>8 ETHICAL AND PROFESSIONAL CONSIDERATIONS IN FINANCIAL PLANNING</b>			
8 (a) IFPHK'S CODE OF ETHICS AND PROFESSIONAL RESPONSIBILITY			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND IFPHK'S CODE OF ETHICS AND PROFESSIONAL RESPONSIBILITY AND THE RELEVANT RULES	FL	√	◆

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>8 (b) PROFESSIONAL LIABILITY AND FIDUCIARY DUTY</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE "ETHICS" IN GENERAL	FL		◆
- EXPLAIN THE FIDUCIARY DUTY OF PROFESSIONALS	FL		◆
- IDENTIFY THE COMPONENTS AND OBJECTIVES OF PROFESSIONAL CODE OF ETHICS	FL		◆
- UNDERSTAND THE COMMON PROFESSIONAL AND ETHICAL CHALLENGES FOR FINANCIAL PLANNERS	FL		◆
- DESCRIBE THE WAYS TO MANAGE CONFLICTS OF INTERESTS	FL		◆
<b>9 ASSESSMENT OF RISK AND CLIENT BEHAVIOUR</b>			
<b>9 (a) RISK PROFILING/RISK TOLERANCE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE FUNCTIONS OF RISK PROFILING	FL		◆
- DESCRIBE THE CHARACTERISTICS OF UTILITY-BASED QUESTIONS	FL		◆
- DESCRIBE THE CHARACTERISTICS OF PSYCHOMETRIC MEASURES	FL		◆
- IDENTIFY THE FACTORS THAT DETERMINE THE EFFECTIVENESS OF RISK TOLERANCE INSTRUMENTS	FL		◆
- UNDERSTAND THE RELATIONSHIP BETWEEN RISK PROFILE WITH INVESTMENT PORTFOLIO	FL		◆
<b>9 (b) LIFE CYCLE ANALYSIS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- APPLY LIFE CYCLE ANALYSIS	FL		◆◆
- RECOGNIZE THE LIMITATIONS OF LIFE CYCLE ANALYSIS	FL		◆◆
<b>9 (c) PERSONAL PROFILING</b>			
CANDIDATES SHOULD BE ABLE TO:			
- APPLY PERSONAL PROFILING	FL		◆◆
- DESCRIBE THE WAYS AND DETERMINANTS IN ASSESSING CLIENT'S FINANCIAL SOPHISTICATION	FL		◆◆
<b>9 (d) BEHAVIORAL FINANCE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE GENERAL PRINCIPLES OF BEHAVIORAL FINANCE	FL		◆
<b>10 FINANCIAL PLANNING FOR SPECIAL NEEDS</b>			
<b>10 (a) DIVORCE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ANALYZE THE IMPACT OF DIVORCE ON A CLIENT'S FINANCIAL PLAN	FL		◆◆
<b>10 (b) DISABILITIES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ANALYZE THE IMPACT OF DISABILITIES ON A CLIENT'S FINANCIAL PLAN	FL		◆◆
<b>10 (c) TERMINAL ILLNESS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ANALYZE THE IMPACT OF TERMINAL ILLNESS ON A CLIENT'S FINANCIAL PLAN	FL		◆◆
<b>10 (d) HOUSEHOLD COMPOSITION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ANALYZE HOW A CLIENT'S HOUSEHOLD COMPOSITION MAY IMPACT THE FINANCIAL PLAN	FL		◆◆
<b>10 (e) JOB CHANGES AND JOB LOSS, INCLUDING SEVERANCE PACKAGES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ANALYZE HOW CLIENT'S JOB CHANGES AND JOB LOSS MAY IMPACT THE FINANCIAL PLAN	FL		◆◆
<b>10 (f) DEPENDANT(S) WITH SPECIAL NEEDS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ANALYZE HOW A CLIENT'S SPECIAL NEEDS MAY IMPACT THE FINANCIAL PLAN	FL		◆◆
<b>11 ECONOMIC ENVIRONMENT AND INDICATORS</b>			
<b>11 (a) SUPPLY AND DEMAND</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE CONCEPT OF OPPORTUNITY COST	FL		◆◆
- ANALYZE HOW SUPPLY AND DEMAND AFFECT PRICES AND QUANTITY	FL		◆◆
<b>11 (b) INFLATION/DEFLATION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN INFLATION/DEFLATION	FL		◆
- ILLUSTRATE THE IMPACT OF INFLATION/DEFLATION ON A FINANCIAL PLAN	FL		◆◆
<b>11 (c) INTEREST RATES/YIELD CURVES</b>			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN INTEREST RATES	FL		♦
- ILLUSTRATE THE IMPACT OF INTEREST RATES ON A FINANCIAL PLAN	FL		♦♦
- COMPARE EFFECTIVE ANNUAL RATE AND ANNUAL PERCENTAGE RATE	FL		♦♦
11 (d) MONETARY AND FISCAL POLICIES			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN MONETARY AND FISCAL POLICIES	FL		♦
- ILLUSTRATE THE IMPACT OF MONETARY AND FISCAL POLICIES ON A FINANCIAL PLAN	FL		♦♦
11 (e) BUSINESS CYCLES			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN BUSINESS CYCLES	FL		♦
- ILLUSTRATE THE IMPACT OF BUSINESS CYCLES ON A FINANCIAL PLAN	FL		♦♦
11 (f) LEADING, LAGGING AND COINCIDENT INDICATORS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE COMMON LEADING, LAGGING AND COINCIDENT INDICATORS	FL		♦
- ILLUSTRATE THE IMPACT OF LEADING, LAGGING AND COINCIDENT INDICATORS ON A FINANCIAL PLAN	FL		♦♦
11 (g) STOCK AND BOND MARKET INDEXES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE COMMON STOCK AND BOND MARKET INDEXES	FL		♦
- ILLUSTRATE THE IMPACT OF MARKET INDEXES ON A FINANCIAL PLAN	FL		♦♦
11 (h) OPERATION OF FINANCIAL MARKETS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE OPERATION OF FINANCIAL MARKETS	FL		♦
- LIST MAJOR EXCHANGES AND STOCK MARKET INDICES	FL		♦
11 (i) OTHER MACROECONOMIC FACTORS			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN OTHER ECONOMIC FACTORS INCLUDING GDP, UNEMPLOYMENT RATE, POPULATION DEMOGRAPHICS, PRICE LEVEL	FL		♦♦
- ILLUSTRATE THE IMPACT OF THESE MACROECONOMIC FACTORS ON A FINANCIAL PLAN	FL		♦♦
<b>12 CALCULATE AND INTERPRET THE TIME VALUE OF MONEY</b>			
12 (a) PRESENT VALUES			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE THE PRESENT VALUE OF A FUTURE PAYMENT	FL		♦♦
12 (b) FUTURE VALUES AND COMPOUND INTEREST			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE THE FUTURE VALUE OF MONEY INVESTED AT A GIVEN INTEREST RATE	FL		♦♦
12 (c) PERPETUITIES, ANNUITIES AND MULTIPLE CASH FLOWS			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE THE PRESENT AND FUTURE VALUES OF STREAMS OF CASH PAYMENTS	FL		♦♦
- DIFFERENTIATE BETWEEN AN ANNUITY AND A PERPETUITY	FL		♦♦
- COMPUTE THE INTEREST RATE IMPLIED BY A PRESENT/FUTURE VALUE	FL		♦♦
12 (d) INFLATION AND TIME VALUE OF MONEY			
CANDIDATES SHOULD BE ABLE TO:			
- DIFFERENTIATE BETWEEN REAL AND NOMINAL CASH FLOWS	FL		♦♦
- DIFFERENTIATE BETWEEN REAL AND NOMINAL INTEREST RATE	FL		♦♦
12 (e) EFFECTIVE INTEREST RATE			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE EFFECTIVE INTEREST RATE	FL		♦♦
12 (f) TIMELINE CONSTRUCTION			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE CLIENT'S FINANCIAL SITUATION THROUGH TIMELINE CONSTRUCTION	FL		♦♦
12 (g) LOAN AMORTIZATION			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE UNDERSTANDING OF THE TIME VALUE OF MONEY THROUGH LOAN AMORTIZATION CALCULATIONS	FL		♦♦
12 (h) DISCOUNTED CASH FLOW			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND BASIC DISCOUNTED CASH FLOWS CONCEPTS INCLUDING NET PRESENT VALUE, INTERNAL RATE OF RETURN, MODIFIED RATE OF RETURN AND PAYBACK PERIOD	FL		♦

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- APPLY DISCOUNTED CASH FLOW ANALYSIS IN INVESTMENT DECISION PROCESS FOR STANDALONE PROJECTS	FL		♦♦
- APPLY DISCOUNTED CASH FLOW ANALYSIS IN INVESTMENT DECISION PROCESS FOR MUTUALLY EXCLUSIVE PROJECTS WITH DIFFERENCES IN TIMING OF CASHFLOWS, SCALES AND/OR LIVES	FL		♦♦
- APPLY BREAKEVEN ANALYSIS FOR INVESTMENT AND FINANCING DECISIONS	FL		♦♦
<b>13 ASSET VALUATION FOR FINANCIAL PLANNING FUNCTIONS</b>			
13 (a) OVERVIEW OF ASSET VALUATION FOR FINANCIAL PLANNING FUNCTIONS			
CANDIDATES SHOULD BE ABLE TO:			
- ANALYZE THE MAIN FINANCIAL STATEMENTS OF A CORPORATION INCLUDING BALANCE SHEET, PROFIT AND LOSS STATEMENT AND CASH FLOW STATEMENT	FL		♦
13 (b) RATIO ANALYSIS			
CANDIDATES SHOULD BE ABLE TO:			
- PREPARE VARIOUS CORPORATE FINANCIAL RATIOS ANALYSIS BASED ON INFORMATION PROVIDED IN FINANCIAL STATEMENTS	FL		♦♦
13 (c) VALUATION PRINCIPLE			
CANDIDATES SHOULD BE ABLE TO:			
- APPLY COST AND BENEFIT ANALYSIS	FL		♦♦
- EXPLAIN COMPETITIVE MARKET AND MARKET PRICE	FL		♦
- EXPLAIN OPPORTUNITY COST	FL		♦
- EXPLAIN THE CONCEPT OF ARBITRAGE AND THE LAW OF ONE PRICE	FL		♦
13 (d) FINANCING ASSET ACQUISITIONS			
CANDIDATES SHOULD BE ABLE TO:			
- DETERMINE A CLIENT'S HOME AFFORDABILITY	FL		♦♦
- COMPARE DIFFERENT TYPES OF MORTGAGES	FL		♦♦
- EXPLAIN MORTGAGE SELECTION PROCESS	FL		♦
- COMPUTE REFINANCING COST	FL		♦♦
- COMPARE COST IN HOME PURCHASE AND HOME RENTAL	FL		♦♦
<b>14 FORMS OF BUSINESS OWNERSHIP IN HONG KONG</b>			
14 (a) SOLE PROPRIETORSHIP			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE SOLE PROPRIETORSHIP	FL	√	♦
14 (b) OVERVIEW OF THE LAW OF PARTNERSHIPS AND RELATED LEGISLATION			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE NATURE AND FORMATION OF PARTNERSHIP	FL	√	♦
- DESCRIBE THE NATURE OF POWERS AND LIABILITY OF PARTNERS	FL	√	♦
- DESCRIBE BRIEFLY HOW PARTNERSHIPS MAY BE TERMINATED	FL	√	♦
- DEFINE LIMITED PARTNERSHIPS	FL	√	♦
- DESCRIBE THE APPLICATION OF GENERAL PARTNERSHIP LAW TO LIMITED PARTNERSHIPS	FL	√	♦
14 (c) OVERVIEW OF THE LAW ON COMPANIES AND RELATED LEGISLATION			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE NATURE AND FORMATION OF A COMPANY	FL	√	♦
- DESCRIBE THE NATURE OF POWERS AND LIABILITY OF A COMPANY	FL	√	♦
- DESCRIBE THE OFFICERS OF A COMPANY	FL	√	♦
- DESCRIBE THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF A COMPANY	FL	√	♦
- DESCRIBE BRIEFLY THE MAIN DISTINCTIONS BETWEEN PRIVATE AND PUBLIC COMPANIES	FL	√	♦
- DESCRIBE BRIEFLY HOW COMPANIES MAY BE DISSOLVED	FL	√	♦
<b>15 WAYS OF TAKING TITLE TO PROPERTY (EMBEDDED IN 85)</b>			
<b>16 LEGAL ASPECTS OF FINANCIAL PLANNING</b>			
16 (a) OVERVIEW OF THE LAW ON THE PROTECTION OF PERSONAL DATA AND RELATED LEGISLATION			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE "PERSONAL DATA", "DATA USER" AND "DATA SUBJECT"	FL	√	♦
- DESCRIBE THE SCOPE OF THE LEGISLATION AND THE BROAD CATEGORIES OF EXEMPTIONS	FL	√	♦
- DESCRIBE THE DETAILS OF THE DATA PROTECTION PRINCIPLES	FL	√	♦
- DESCRIBE THE RULES ON THE USE OF PERSONAL DATA IN DIRECT MARKETING	FL	√	♦
- DESCRIBE THE GENERAL OFFENCES AND COMPENSATION	FL	√	♦
16 (b) OVERVIEW OF GUIDELINES THAT GOVERN MONEY LAUNDERING AND RELATED LEGISLATION			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE PURPOSES OF THE TWO MAIN ANTI-MONEY LAUNDERING ORDINANCES IN HONG KONG : (DRUG TRAFFICKING (RECOVERY OF PROCEEDS) ORDINANCE (CAP.405 OF THE LAWS OF HONG KONG); ORGANIZED AND SERIOUS CRIMES ORDINANCE (CAP.455 OF THE LAWS OF HONG KONG)	FL	√	◆
- DESCRIBE BRIEFLY THE MAIN PROVISIONS OF ANTI-MONEY LAUNDERING GUIDELINES APPLICABLE TO THE FINANCIAL SERVICES INDUSTRY	FL	√	◆
16 (c) OVERVIEW OF THE LAW ON PREVENTION OF BRIBERY AND RELATED LEGISLATION			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE "BRIBERY" AND "CORRUPTION"	FL	√	◆
- DESCRIBE THE MAIN CORRUPTION OFFENCES	FL	√	◆
<b>17 BUDGETING</b>			
17 (a) DISCRETIONARY INCOME VERSUS NON-DISCRETIONARY INCOME			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE DISCRETIONARY INCOME AND NON-DISCRETIONARY INCOME	FL		◆◆
17 (b) FINANCING AND SAVING STRATEGIES			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE HOW A BUDGET IS A NECESSARY ELEMENT OF SOUND FINANCIAL PLANNING	FL		◆◆
- PREPARE AND IMPLEMENT A BUDGET	FL		◆◆
- COMPUTE SAVINGS NEEDED TO ACHIEVE FINANCIAL GOALS	FL		◆◆
17 (c) EMERGENCY FUND			
CANDIDATES SHOULD BE ABLE TO:			
- ANALYZE THE AMOUNT OF EMERGENCY FUND NEEDED BY A CLIENT	FL		◆◆
17 (d) FINANCIAL MANAGEMENT CONCEPTS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE WAYS TO MANAGE SHORT TERM CASH NEEDS	FL		◆
- DESCRIBE LONG TERM INVESTMENT DECISION MAKING	FL		◆
- DESCRIBE LONG TERM FINANCING DECISION MAKING	FL		◆
- DESCRIBE CASH BUDGETING AND ANALYZE A CORPORATE FINANCIAL HEALTH BASED ON ITS CASH BUDGET	FL		◆◆
- DESCRIBE LIQUIDITY MANAGEMENT AND ANALYZE A CORPORATE FINANCIAL HEALTH BASED ON ITS LIQUIDITY	FL		◆◆
<b>18 PERSONAL USE-ASSET MANAGEMENT</b>			
18 (a) BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)			
CANDIDATES SHOULD BE ABLE TO:			
- DISTINGUISH PERSONAL BALANCE SHEETS FROM CORPORATE BALANCE SHEETS	FL		◆◆
- DEVELOP A PERSONAL BALANCE SHEET	FL		◆◆◆
- COMPUTE FINANCIAL RATIOS INCLUDING DEBT RATIO, DEBT TO TOTAL ASSETS RATIO, DEBT TO INCOME RATIO, SOLVENCY RATIO, INVESTMENT ASSETS TO NET WORTH RATIO, CURRENT RATIO, LIQUIDITY RATIO, DEBT-PAYMENT RATIO AND SAVINGS RATIO	FL		◆◆
- EVALUATE A PERSON'S FINANCIAL POSITION BASED ON THE BALANCE SHEET	FL		◆◆◆
18 (b) CASH FLOW STATEMENT			
CANDIDATES SHOULD BE ABLE TO:			
- DISTINGUISH PERSONAL CASH FLOW STATEMENTS FROM CORPORATE CASH FLOW STATEMENTS	FL		◆◆
- DEVELOP A PERSONAL CASH FLOW STATEMENT	FL		◆◆◆
- EVALUATE A PERSON'S FINANCIAL POSITION BASED ON THE CASH FLOW STATEMENT	FL		◆◆◆
- APPLY CONSUMPTION SMOOTHING TO DETERMINE THE OPTIMAL LEVEL OF CONSUMPTION	FL		◆◆
18 (c) INCOME STATEMENT			
CANDIDATES SHOULD BE ABLE TO:			
- DISTINGUISH PERSONAL INCOME STATEMENTS FROM CORPORATE INCOME STATEMENTS	FL		◆◆
- DISTINGUISH ACCOUNTING AND ECONOMIC EARNINGS; FREE CASH FLOW VERSUS ACCRUAL-BASED INCOME	FL		◆◆
- DEFINE THE 'FLOW' AND 'STOCK' CONCEPTS	FL		◆
- DESCRIBE THE ESTIMATION OF STATUS QUO PROJECTIONS	FL		◆
- DEVELOP AN INCOME STATEMENT	FL		◆◆◆



		EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>19</b>	<b>PRINCIPLES OF INSURANCE</b>			
19 (a)	RISK HANDLING METHODS			
	CANDIDATES SHOULD BE ABLE TO:			
	- UNDERSTAND THE TERM "RISK MANAGEMENT"	FL		♦
	- EXPLAIN THE FOUR BROAD RISK HANDLING TECHNIQUES: AVOIDANCE, REDUCTION, RETENTION AND TRANSFER	FL		♦
	- MATCH APPROPRIATE RISK MANAGEMENT TECHNIQUES WITH BROAD CATEGORIES OF RISK ACCORDING TO ITS SEVERITY AND FREQUENCY	FL		♦
	- DESCRIBE THE PROCESS IN DETERMINING RISK MANAGEMENT AND INSURANCE PLANNING OBJECTIVES	FL		♦
	- DESCRIBE THE STEPS IN PERSONAL RISK MANAGEMENT	FL		♦
	- EXPLAIN INSURANCE AS RISK MANAGEMENT TOOLS / INSURANCE MECHANISM	FL		♦♦
	- UNDERSTAND THE DEFINITION AND TYPES OF INSURANCE	FL		♦
	- RECOMMEND APPROPRIATE RISK MANAGEMENT TECHNIQUES AS PART OF RISK MANAGEMENT	L1		♦♦
19 (b)	DEFINITION OF RISK			
	CANDIDATES SHOULD BE ABLE TO:			
	- EXPLAIN THE MEANING OF THE TERM "RISKS"	FL		♦
19 (c)	TYPES OF RISK			
	CANDIDATES SHOULD BE ABLE TO:			
	- LIST THE TYPES OF PURE RISKS	FL		♦
	- DEFINE AND CLASSIFY RISKS: FINANCIAL VERSUS NON-FINANCIAL; DYNAMIC VERSUS STATIC; FUNDAMENTAL VERSUS PARTICULAR; SPECULATIVE VERSUS PURE	FL		♦
19 (d)	MORAL HAZARD/MORALE HAZARD/PHYSICAL HAZARD/ADVERSE SELECTION			
	CANDIDATES SHOULD BE ABLE TO:			
	- DISTINGUISH AMONG THE TERMS RISK, PERIL AND HAZARD	FL		♦♦
	- DISTINGUISH BETWEEN THE DIFFERENT CLASSES OF HAZARDS INCLUDING MORAL HAZARD, MORALE HAZARD, PHYSICAL HAZARD AND LEGAL HAZARD	FL		♦♦
	- EXPLAIN INSURABLE RISK	FL		♦
	- EXPLAIN ADVERSE SELECTION	FL		♦
	- OUTLINE THE CONCEPT OF RISK ASSESSMENT AS THEY APPLY SPECIFICALLY TO GENERAL INSURANCE POLICIES	L1		♦♦
19 (e)	INSURANCE COMPANY OPERATION			
	CANDIDATES SHOULD BE ABLE TO:			
	- COMPARE AND CONTRAST MAJOR TYPES OF INSURANCE BUSINESS	FL		♦♦
	- IDENTIFY THE CORE FUNCTIONS OF INSURANCE COMPANIES SUCH AS RATEMAKING, UNDERWRITING AND REINSURANCE	FL		♦
	- LIST THE COMMON CLASSIFICATIONS OF PRIVATE INSURERS ACCORDING TO THE TYPE OF INSURANCE THEY SELL	FL		♦
	- LIST COMMON CLASSIFICATIONS OF PRIVATE INSURERS ACCORDING TO THEIR LEGAL FORM OF OWNERSHIP	FL		♦
	- LIST COMMON CLASSIFICATIONS OF PRIVATE INSURERS ACCORDING TO THEIR MARKETING SYSTEM	FL		♦
<b>20</b>	<b>IDENTIFICATION OF LIFE, HEALTH, HOMEOWNERS, AUTO AND OTHER PROPERTY AND LIABILITY RISK EXPOSURES</b>			
20 (a)	PERSONAL RISK EXPOSURE			
	CANDIDATES SHOULD BE ABLE TO:			
	- UNDERSTAND THE TERM "PERSONAL RISK"	FL		♦
	- DESCRIBE THE PERILS THAT GIVE RISE TO PERSONAL RISK INCLUDING DEATH, SUPERANNUATION, SICKNESS/DISABILITY AND UNEMPLOYMENT	FL		♦
	- DESCRIBE PERSONAL RISK ARISING FROM DIFFERENT PERILS INCLUDING PREMATURE DEATH , SUPERANNUATION, SICKNESS/DISABILITY AND UNEMPLOYMENT	FL		♦
	- EXPLAIN THE HUMAN LIFE VALUE CONCEPT	FL		♦
	- DESCRIBE THE PROCESS OF NEEDS ANALYSIS IN THE CONTEXT OF INSURANCE	FL		♦
	- IDENTIFY FAMILY CASH AND INCOME NEEDS ACCOMPANIED BY PREMATURE DEATH , SUPERANNUATION, SICKNESS/DISABILITY AND UNEMPLOYMENT	FL		♦
	- DESCRIBE HOW VARIOUS LIFE STYLES AFFECT THE RISK OF LOSS FROM PREMATURE DEATH	FL		♦
	- IDENTIFY THE FACTORS THAT CREATE THE RISKS RELATED TO RETIREMENT	FL		♦
	- IDENTIFY THE TWO FINANCIAL RISKS THAT ARISE IN CONNECTION WITH RETIREMENT RISK	FL		♦
	- IDENTIFY RESOURCES AVAILABLE TO MEET VARIOUS PERSONAL RISKS	FL		♦

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- ANALYZE EXPOSURE TO PERSONAL RISK	FL		♦♦
- OUTLINE THE VARIOUS APPROACHES IN ESTIMATING THE APPROPRIATE LEVEL OF LIFE INSURANCE	FL		♦♦
- COMPUTE HUMAN LIFE VALUE	FL		♦♦
- COMPUTE INCOME NEEDS	FL		♦♦
- ANALYZE AND ASSESS A CLIENT'S PERSONAL RISK PROTECTION AGAINST EXPOSURE	L1		♦♦
20 (b) PROPERTY RISK EXPOSURE			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE PROPERTY RISK	L1		♦♦
- IDENTIFY THE COMMON PERILS ASSOCIATED WITH PROPERTY RISK	L1		♦♦
- DISTINGUISH DIRECT LOSS FROM INDIRECT LOSS	L1		♦♦
- ANALYZE AND ASSESS A CLIENT'S PROPERTY RISK PROTECTION AGAINST EXPOSURE	L1		♦♦
20 (c) LIABILITY RISK EXPOSURE			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE LIABILITY RISK	L1		♦♦
- IDENTIFY COMMON PERILS ASSOCIATED WITH LIABILITY RISK	L1		♦♦
- ANALYZE AND ASSESS A CLIENT'S LIABILITY RISK PROTECTION AGAINST EXPOSURE	L1		♦♦
20 (d) BUSINESS-RELATED RISK EXPOSURE			
CANDIDATES SHOULD BE ABLE TO:			
- IDENTIFY COMMON BUSINESS-RELATED RISK	L1		♦
- IDENTIFY COMMON PERILS ASSOCIATED WITH BUSINESS-RELATED RISK	L1		♦
<b>21 LEGAL ASPECTS OF INSURANCE</b>			
21 (a) BASIC PARTS OF AN INSURANCE CONTRACT			
CANDIDATES SHOULD BE ABLE TO:			
- LIST THE BASIC ELEMENTS OF AN ENFORCEABLE CONTRACT INCLUDING OFFER & ACCEPTANCE, CONSIDERATION, LEGAL OBJECT, COMPETENT PARTIES AND LEGAL FORM	FL	√	♦
- IDENTIFY THE BASIC PARTS OF AN INSURANCE CONTRACTS	FL	√	♦
- DESCRIBE THE ELEMENTS OF AN ENFORCEABLE INSURANCE CONTRACT	L1	√	♦
- DISTINGUISH BETWEEN VOID AND VOIDABLE INSURANCE CONTRACT	L1	√	♦♦
- DESCRIBE THE ROLE OF INSURANCE AGENT IN THE CREATION OF AN INSURANCE CONTRACT	L1	√	♦♦
- ILLUSTRATE EXPRESS AUTHORITY, IMPLIED AUTHORITY AND APPARENT AUTHORITY GRANTED TO AN INSURANCE AGENT IN THE CREATION OF AN INSURANCE CONTRACT	L1	√	♦♦
21 (b) DEFINITION OF THE "INSURED"			
CANDIDATES SHOULD BE ABLE TO:			
- IDENTIFY THE "INSURED" IN DIFFERENT INSURANCE CONTRACTS	FL	√	♦
- DISTINGUISH BETWEEN THE PERSON INSURED AND THE POLICY HOLDER	FL	√	♦♦
21 (c) PRINCIPLES OF INSURANCE CONTRACT			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE SPECIAL LEGAL CHARACTERISTICS OF INSURANCE CONTRACTS, INCLUDING: PRINCIPLE OF INDEMNITY, PERSONAL CONTRACT, UNILATERAL CONTRACT, CONDITIONAL CONTRACT, CONTRACT OF ADHESION, ALEATORY CONTRACT, CONTRACT OF UTMOST GOOD FAITH	FL	√	♦
- EXPLAIN THE IMPORTANCE OF THE PRINCIPLE OF INDEMNITY	L1	√	♦♦
- ILLUSTRATE ENFORCEMENT OF THE PRINCIPLE OF INDEMNITY IN INSURANCE CONTRACTS THROUGH THE DOCTRINE OF INSURABLE INTEREST, THE CONCEPT OF ACTUAL CASH VALUE, OTHER INSURANCE AND SUBROGATION	L1	√	♦♦
- ILLUSTRATE THE LEGAL DOCTRINES OF UTMOST GOOD FAITH, MISREPRESENTATION, WARRANTY AND CONCEALMENT	L1	√	♦♦
- ILLUSTRATE THE LEGAL DOCTRINES WAIVER AND ESTOPPEL	L1	√	♦♦
<b>22 INSURANCE INDUSTRY REGULATION</b>			
22 (a) REGULATORY FRAMEWORK OF THE INSURANCE INDUSTRY			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE FRAMEWORK OF THE HONG KONG INSURANCE INDUSTRY: THE OFFICE OF THE COMMISSIONER OF INSURANCE, INSURANCE AUTHORITY, HONG KONG FEDERATION OF INSURERS	FL	√	♦
22 (b) LEGISLATION, CODES AND STANDARDS RELEVANT TO THE LOCAL INSURANCE INDUSTRY			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE INSURANCE COMPANIES ORDINANCE (CHAPTER 41 OF THE LAWS OF HONG KONG)	FL	√	♦
- DESCRIBE THE MAIN FUNCTIONS OF THE INSURANCE AUTHORITY	FL	√	♦

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- DESCRIBE THE BROAD REQUIREMENTS FOR THE AUTHORIZATION OF INSURERS	FL	√	◆
- DESCRIBE BRIEFLY THE POWERS OF INTERVENTION OF THE INSURANCE AUTHORITY	FL	√	◆
- DESCRIBE THE CODES APPLICABLE TO INSURANCE PRACTITIONERS: THE CODE OF CONDUCT FOR INSURERS AND THE CODE OF PRACTICE FOR THE ADMINISTRATION OF INSURANCE AGENTS	FL	√	◆
22 (c) INSURANCE CLAIMS			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE CLAIMS PROCESS REGARDING GENERAL INSURANCE POLICIES	FL	√	◆
- DESCRIBE ROLE AND FUNCTIONS OF INSURANCE CLAIMS COMPLAINTS BUREAU	FL	√	◆
22 (d) OTHER ISSUES RELEVANT TO THE INSURANCE INDUSTRY			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE ISSUES REGARDING EQUAL OPPORTUNITIES, INSURANCE FRAUD, MONEY LAUNDERING, TERRORIST FINANCING AND CORRUPTION	FL	√	◆
22 (e) LICENSING OF INSURANCE INTERMEDIARIES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE AND DISTINGUISH ROLES AND RESPONSIBILITIES OF INSURANCES AGENTS AND BROKERS	FL	√	◆
- DESCRIBE "MINIMUM REQUIREMENTS" SPECIFIED FOR INSURANCE BROKERS	FL	√	◆
<b>23 PROPERTY AND LIABILITY POLICY ANALYSIS</b>			
23 (a) COMBINED COMPREHENSIVE OR PACKAGE POLICIES			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE CONCEPT OF PACKAGE POLICY INSURANCE AND HOUSEHOLD INSURANCE	L1		◆
- EXPLAIN HOMEOWNER INSURANCE AND ITS CONTRACT FEATURES	L1		◆
- EXPLAIN DOMESTIC HELPER INSURANCE AND ITS CONTRACT FEATURES	L1		◆
23 (b) PROPERTY INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CONCEPT AND COMMON TYPES OF PROPERTY INSURANCE OFFERED IN HONG KONG	L1		◆
- ILLUSTRATE THE CONCEPT OF PRO RATA CONDITION OF AVERAGE	L1		◆◆
- COMPUTE PROPERTY AND LIABILITY NEEDS	L1		◆◆
23 (c) LIABILITY INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE NEGLIGENCE, GIVING THE REQUIREMENTS TO SUPPORT A CLAIM OF NEGLIGENCE	L1		◆
- EXPLAIN WHAT IS MEANT BY VICARIOUS LIABILITY	L1		◆
- IDENTIFY AND DESCRIBE THE TYPES OF DAMAGES THAT MAY BE AWARDED TO AN INJURED PART AND EXPLAIN HOW EACH IS DETERMINED	L1		◆
- EXPLAIN THE DEFENSES TO NEGLIGENCE	L1		◆
- APPLY THE LAW OF NEGLIGENCE TO SPECIFIC FACT SITUATIONS	L1		◆
- DESCRIBE THE CONCEPT OF LIABILITY INSURANCE	L1		◆
- EXPLAIN THE VARIOUS TYPE OF COMMERCIAL LIABILITY INSURANCE AVAILABLE IN HONG KONG INCLUDING EMPLOYERS' LIABILITY INSURANCE, PRODUCTS LIABILITY INSURANCE, PROFESSIONAL INDEMNITY INSURANCE, PUBLIC LIABILITY INSURANCE AND COMMERCIAL COMBINED POLICIES	L1		◆
- EXPLAIN THE CONCEPT OF MOTOR INSURANCE AND THE PROVISIONS COMMON TO THESE POLICIES, INCLUDING PRIVATE VEHICLE INSURANCE, MOTOR CYCLE INSURANCE AND COMMERCIAL VEHICLE INSURANCE IN HONG KONG	L1		◆
- LIST RISK FACTORS UNDER MOTOR INSURANCE AND DEFINE RISK CLASSIFICATIONS	L1		◆
- DESCRIBE CLAIMS MANAGEMENT OF MOTOR INSURANCE	L1		◆
23 (d) PECUNIARY INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DISTINGUISH BETWEEN PECUNIARY INSURANCE AND PROPERTY INSURANCE	L1		◆◆
- ILLUSTRATE VARIOUS TYPES OF PECUNIARY INSURANCE INCLUDING FIRE BUSINESS INTERRUPTION INSURANCE, FIDELITY GUARANTEE INSURANCE AND BONDS	L1		◆◆
23 (e) COMMON POLICY EXCEPTIONS AND CONDITIONS			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE COMMON POLICY EXCEPTIONS AND CONDITIONS IN PROPERTY AND LIABILITY INSURANCE POLICIES	L1		◆◆
23 (f) GENERAL, SPECIFIC AND MARKET EXCLUSIONS			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE GENERAL, SPECIFIC AND MARKET EXCLUSIONS IN PROPERTY AND LIABILITY INSURANCE POLICIES	L1		◆◆
23 (g) USE OF EXCESSES, DEDUCTIBLES AND FRANCHISES			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE USE OF EXCESSES, DEDUCTIBLES AND FRANCHISES IN PROPERTY AND LIABILITY INSURANCE POLICIES	L1		♦♦
23 (h) SUBROGATION			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE CONCEPT OF SUBROGATION IN THE CONTEXT OF PROPERTY AND LIABILITY INSURANCE POLICIES	L1		♦♦
<b>24 POLICY ANALYSIS</b>			
24 (a) POLICY WORDINGS, POLICY TERMS AND CONDITIONS, PREMIUM			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE GENERAL WORDINGS AND TERMS USED IN INSURANCE POLICIES IN HONG KONG	L1		♦
24 (b) OTHERS: TRAVEL INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE TRAVEL INSURANCE AND THE COMMON TYPES OF INSURANCE COMBINED IN THE PACKAGE	FL		♦
- DESCRIBE THE CHARACTERISTICS OF TRAVEL INSURANCE	FL		♦
24 (c) UNDERWRITING PROCESS IN GENERAL INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE PROCESS OF UNDERWRITING AS IT APPLIES SPECIFICALLY TO GENERAL INSURANCE POLICIES	L1		♦
24 (d) RENEWAL AND CANCELLATION OF INSURANCE CONTRACT			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE RENEWALS AND CANCELLATIONS AS TO GENERAL INSURANCE POLICIES	L1		♦
<b>25 LIFE INSURANCE POLICY ANALYSIS</b>			
25 (a) TYPES OF LIFE INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CHARACTERISTICS OF DIFFERENT TYPES OF INSURANCE POLICES INCLUDING TERM LIFE, WHOLE LIFE, UNIVERSAL LIFE, ADJUSTABLE LIFE, VARIABLE LIFE/INVESTMENT LINKED POLICIES	FL		♦
- DESCRIBE TYPES OF INVESTMENT-LINKED POLICY, THEIR CHARACTERISTICS AND CONTRACTUAL FEATURES	L1		♦
- DESCRIBE TYPES OF INVESTMENT-LINKED FUNDS	L1		♦
- ANALYZE IN GENERAL THE CIRCUMSTANCES IN WHICH EACH OF THE DIFFERENT FORMS OF INSURANCE POLICIES SHALL BE APPLIED	L1		♦♦
- OUTLINE HOW CASH VALUE ARISES IN SOME LIFE INSURANCE CONTRACTS	L1		♦♦
- OUTLINE VARIOUS SPECIAL LIFE INSURANCE FORMS	L1		♦♦
- JUDGE THE CIRCUMSTANCES IN WHICH EACH OF THE SPECIALIZED FORMS MAY BE USED	L1		♦♦
25 (b) AMOUNT OF PROTECTION NEEDED (SEE 20(A))			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE RISK MANAGEMENT DECISION IN DETERMINING THE AMOUNT OF PROTECTION NEEDED	L1		♦♦
25 (c) LIFE INSURANCE CONTRACTUAL PROVISIONS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE GENERAL PROVISIONS OF LIFE INSURANCE CONTRACTS INCLUDING ENTIRE CONTRACT CLAUSE, OWNERSHIP CLAUSE, BENEFICIARY CLAUSE, COLLATERAL ASSIGNMENT, INCONTESTABLE CLAUSE, MISSTATEMENT OF AGE CLAUSE, GRACE PERIOD, REINSTATEMENT, SUICIDE CLAUSE, AVIATION EXCLUSIONS AND WAR CLAUSE	FL		♦
- DESCRIBE DIFFERENT TYPES OF SETTLEMENT OPTION INCLUDING INTEREST OPTION, INSTALLMENTS OPTION (FIXED PERIOD AND FIXED AMOUNT), LIFE INCOME OPTIONS, STRAIGHT LIFE INCOME, LIFE INCOME WITH PERIOD CERTAIN, LIFE INCOME WITH REFUND AND JOINT AND SURVIVOR INCOME	FL		♦
- DESCRIBE DIFFERENT TYPES OF ON-FORFEITURE OPTION INCLUDING CASH OPTIONS, PAID UP REDUCED AMOUNT, EXTENDED TERM INSURANCE, POLICY LOAN PROVISIONS AND AUTOMATIC PREMIUM LOAD	FL		♦
- EXPLAIN DIVIDEND OPTION	FL		♦
- EXPLAIN COMMON DISASTER CLAUSE AND THE SPENDTHRIFT CLAUSE	FL		♦
- EVALUATE THE VARIOUS CONTRACTUAL PROVISIONS IN DIFFERENT CIRCUMSTANCES	L1		♦♦♦
25 (d) POLICY RIDERS			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN DISABILITY BENEFIT RIDERS INCLUDING WAIVER OF PREMIUM AND DISABILITY INCOME BENEFIT	FL		♦
- EXPLAIN ACCIDENT BENEFIT RIDERS INCLUDING ACCIDENTAL DEATH AND	FL		♦

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>DISMEMBERMENT RIDER AND OTHER ACCIDENT BENEFITS</b>			
- EXPLAIN ACCELERATED DEATH BENEFIT RIDERS INCLUDING CRITICAL ILLNESS BENEFIT, DREAD DISEASE BENEFIT AND LONG-TERM CARE BENEFIT	FL		◆
- EXPLAIN MEDICAL BENEFIT RIDERS INCLUDING BASIC PLAN, OPTIONAL MEDICAL PLAN AND MAJOR EXCLUSIONS	FL		◆
- EXPLAIN INSURABILITY BENEFIT RIDERS	FL		◆
- EXPLAIN INFLATIONARY ADJUSTMENT BENEFIT RIDERS	FL		◆
- EVALUATE THE VARIOUS POLICY RIDERS IN DIFFERENT CIRCUMSTANCES	L1		◆◆◆
<b>25 (e) BENEFICIARY DESIGNATION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE THE TERM "BENEFICIARY" AND DESCRIBE THE TYPES OF BENEFICIARIES IN AN INSURANCE CONTEXT	FL		◆
<b>25 (f) ACTUARIAL BASIS OF LIFE INSURANCE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE DIFFERENT TYPES OF PREMIUMS	FL		◆
- OUTLINE THE MAJOR FACTORS THAT ARE USED IN COMPUTING LIFE INSURANCE RATES AND HOW EACH ENTERS INTO THE COMPUTATION	L1		◆◆
- DISTINGUISH BETWEEN NET PREMIUMS AND GROSS PREMIUMS IN LIFE INSURANCE	L1		◆◆
- COMPUTE NET PREMIUMS AND GROSS PREMIUMS IN VARIOUS TYPE OF LIFE INSURANCE POLICIES	L1		◆◆
- OUTLINE THE NET SINGLE PREMIUM AND ILLUSTRATE THE WAY IT IS COMPUTED	L1		◆◆
- OUTLINE THE NET LEVEL PREMIUM AND ILLUSTRATE THE WAY IT IS COMPUTED	L1		◆◆
- OUTLINE THE POLICY RESERVE ON LIFE INSURANCE POLICIES	L1		◆◆
- DISTINGUISH BETWEEN BENEFIT-CERTAIN LIFE INSURANCE CONTRACTS AND BENEFIT-UNCERTAIN CONTRACTS	L1		◆◆
<b>25 (g) SUITABILITY OF POLICY</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE DETERMINANTS IN LIFE INSURANCE POLICIES COMPARISON	L1		◆◆
- ANALYZE THE SUITABILITY OF LIFE INSURANCE POLICIES IN DIFFERENT SITUATIONS	L1		◆◆
<b>26 ANNUITY POLICY ANALYSIS</b>			
<b>26 (a) TYPES OF ANNUITIES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN GENERAL NATURE OF ANNUITIES	FL		◆
- DEFINE GENERAL CLASSES OF ANNUITIES INCLUDING INDIVIDUAL, GROUP, FIXED-DOLLAR, VARIABLE, IMMEDIATE, DEFERRED, SINGLE-PREMIUM, INSTALLMENT, SINGLE LIFE, JOINT LIFE, PURE LIFE AND PERIOD CERTAIN ANNUITIES	FL		◆
- OUTLINE THE VARIOUS CLASSES OF SPECIALIZED ANNUITIES INCLUDING SINGLE PREMIUM DEFERRED, MARKET-VALUE-ADJUSTED, TWO-TIER, EQUITY-INDEXED, REVERSIONARY (SURVIVORSHIP) AND VARIABLE ANNUITIES	L1		◆◆
- DISTINGUISH THE CHARACTERISTICS BETWEEN VARIOUS CLASSES OF ANNUITIES	L1		◆◆
<b>26 (b) PREMIUM CALCULATION FOR ANNUITY</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE HOW THE NET PREMIUM FOR AN ANNUITY IS COMPUTED	L1		◆◆
<b>26 (c) MANAGING RETIREMENT RISK WITH ANNUITIES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE MANNER IN WHICH ANNUITIES CAN HELP DEAL WITH RETIREMENT RISK	FL		◆
- DISTINGUISH BETWEEN VARIOUS DISTRIBUTION OPTIONS INCLUDING CAPITAL RETENTION, CAPITAL LIQUIDATION, VARIABLE ANNUITY, VARIABLE DISTRIBUTION UNDER NON VARIABLE ANNUITIES AND SINGLE OR JOINT LIFE ANNUITY	L1		◆◆
<b>27 HEALTH INSURANCE POLICY ANALYSIS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DISTINGUISH BETWEEN HEALTH INSURANCE AS GENERAL INSURANCE AND LONG-TERM INSURANCE HEALTH BENEFIT RIDERS	FL		◆
- EXPLAIN THE CONCEPT OF HEALTH INSURANCE AS GENERAL INSURANCE	FL		◆
- COMPUTE NEEDS FOR MEDICAL INSURANCE	FL		◆◆
- COMPUTE NEEDS FOR DISABILITY PROTECTION	FL		◆◆
<b>27 (a) MEDICAL INSURANCE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE MEDICAL INSURANCE AND LIST THE COMMON TYPES OF MEDICAL INSURANCE INCLUDING HOSPITALIZATION, SURGICAL, PHYSICIAN'S EXPENSES AND MAJOR MEDICAL POLICIES	FL		◆

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
27 (b) PERSONAL ACCIDENT AND SICKNESS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE PERSONAL ACCIDENT INSURANCE	FL		◆
27 (c) DISABILITY INCOME INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE DISABILITY INCOME INSURANCE	FL		◆
27 (d) LONG TERM CARE INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE LONG TERM CARE INSURANCE	FL		◆
<b>28 TAXATION OF INSURANCE PRODUCTS (DELETED)</b>			
<b>29 SELECTING INSURANCE COMPANIES AND AGENCIES</b>			
29 (a) FINANCIAL STRENGTH			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE WAYS IN WHICH A CONSUMER CAN DETERMINE THE FINANCIAL STRENGTH OF A LIFE INSURER	FL		◆
29 (b) RATINGS			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN AND COMPARE THE AVAILABLE RATINGS	FL		◆
29 (c) TYPES OF POLICIES AVAILABLE			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE SIGNIFICANCE OF THE TYPES OF POLICIES AVAILABLE AS A DETERMINING FACTOR FOR INSURANCE COMPANY SELECTION	FL		◆
29 (d) COST COMPARISON			
CANDIDATES SHOULD BE ABLE TO:			
- IDENTIFY THE DIFFERENT COST COMPARISON METHODS	FL		◆
<b>30 CLIENT ASSESSMENT (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>31 MARKETABILITY/LIQUIDITY (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>32 TYPES OF INVESTMENT RISKS</b>			
32 (a) INFLATION/PURCHASING POWER RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE INFLATION/PURCHASING POWER RISK FACED BY CLIENTS	FL		◆
32 (b) INTEREST RATE RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE INTEREST RATE RISK	FL		◆
- DESCRIBE THE DETERMINANTS OF INTEREST RATE RISK AND EXPLAIN HOW EACH DETERMINANT AFFECT INTEREST RATE RISK	FL		◆
- <b>OUTLINE INTEREST RATE SWAP AS A MEANS OF MANAGING INTEREST RATE RISK</b>	L1		◆◆
32 (c) MARKET/SYSTEMATIC/NON-DIVERSIFIABLE RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE MARKET RISK (SYSTEMATIC RISK/NON-DIVERSIFIABLE RISK)	FL		◆
32 (d) BUSINESS RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE BUSINESS RISK	FL		◆
32 (e) LIQUIDITY AND MARKETABILITY RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE LIQUIDITY AND MARKETABILITY RISK	FL		◆
32 (f) REINVESTMENT RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE REINVESTMENT RISK	FL		◆
32 (g) POLITICAL RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE POLITICAL RISK	FL		◆
32 (h) EXCHANGE RATE RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE EXCHANGE RATE RISK	FL		◆
32 (i) SPECIFIC/NON-SYSTEMATIC/DIVERSIFIABLE RISK			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE FIRM-SPECIFIC RISK (NONSYSTEMATIC RISK/DIVERSIFIABLE RISK)	FL		◆
<b>33 MEASUREMENT OF RISK</b>			
33 (a) DIFFERENT WAYS OF RISK MEASUREMENT			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE VARIANCE AND STANDARD DEVIATION AS A MEASUREMENT OF RISK	FL		◆
<b>33 (b) RISK CALCULATIONS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE VARIANCE AND STANDARD DEVIATION	L1		◆◆
- DEFINE AND COMPUTE DEGREE OF RISK AVERSION	L1		◆
- COMPUTE PORTFOLIO VARIANCE	L1		◆◆
<b>34 INFLUENCE OF TIME ON INVESTMENT RISK</b>			
<b>34 (a) BOND DURATION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE DURATION AND EXPLAIN HOW DURATION HELP MEASURING INTEREST RATE SENSITIVITY	FL		◆
- IDENTIFY THE DETERMINANTS OF DURATION AND DESCRIBE HOW EACH DETERMINANTS AFFECT DURATION	FL		◆
- DISTINGUISH DURATION AND MODIFIED DURATION	FL		◆◆
- COMPUTE THE DURATION AND MODIFIED DURATION OF BONDS	L1		◆◆
- OUTLINE THE FEATURES OF A BOND THAT AFFECT THE SENSITIVITY OF ITS PRICE TO INTEREST RATE	L1		◆◆
<b>34 (b) CONVEXITY</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE CONVEXITY AS A MEASUREMENT OF INTEREST RATE SENSITIVITY	L1		◆◆
- COMPARE CONVEXITY WITH DURATION	L1		◆◆
<b>35 GOVERNMENT REGULATION OF SECURITIES AND MARKETS</b>			
<b>35 (a) THE REGULATORY FRAMEWORK OF THE SECURITIES MARKET</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE MAJOR FUNCTIONS AND OBJECTIVES OF HONG KONG EXCHANGE AND CLEARING LIMITED (AND ITS SUBSIDIARIES) AND ITS FORMATION	FL	√	◆
- DESCRIBE THE ROLE PLAYED BY THE HONG KONG MORTGAGE CORPORATION	FL	√	◆
<b>35 (b) OVERVIEW OF THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG)</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE MAIN FUNCTIONS AND REGULATORY OBJECTIVES OF HONG KONG SECURITIES AND FUTURES COMMISSION	FL	√	◆
- DESCRIBE THE MAIN PROVISIONS ON THE DISCLOSURE OF INTERESTS IN SECURITIES UNDER PART XV OF THE ORDINANCE	FL	√	◆
- DESCRIBE THE MAIN TYPES OF MARKET MISCONDUCT BY SECURITIES INTERMEDIARIES IN HONG KONG	FL	√	◆
- DESCRIBE THE MAIN RULES ON THE PROTECTION OF CLIENT ASSETS FROM MISHANDLING BY SECURITIES INTERMEDIARIES AND THE RULES ON KEEPING OF CLIENTS' RECORDS	FL	√	◆
- DESCRIBE BRIEFLY THE REGIME ON INVESTOR PROTECTION AND COMPENSATION	FL	√	◆
<b>35 (c) THE REGULATORY FRAMEWORK OF THE BANKING INDUSTRY</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE BANKING SYSTEM IN HONG KONG	FL	√	◆
- DESCRIBE THE FUNCTIONS OF HONG KONG MONETARY AUTHORITY	FL	√	◆
<b>35 (d) LICENSING OF SECURITIES INTERMEDIARIES BY THE SFC AND THE RELEVANT CODE OF CONDUCT</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE TYPES OF REGULATED ACTIVITIES UNDER THE SFO	FL	√	◆
- DESCRIBE BRIEFLY THE LICENSING REGIME FOR SECURITIES INTERMEDIARIES	FL	√	◆
- DESCRIBE THE GENERAL PRINCIPLES OF THE CODE OF CONDUCT FOR PERSONS LICENSED BY OR REGISTERED WITH THE SECURITIES AND FUTURES COMMISSION	FL	√	◆
<b>35 (e) LICENSING OF MANDATORY PROVIDENT FUND (MPF) INTERMEDIARIES AND THE RELEVANT CODE OF CONDUCT</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE BRIEFLY THE LICENSING REGIME FOR MPF INTERMEDIARIES	FL	√	◆
- DESCRIBE THE GENERAL PRINCIPLES OF THE CODE OF CONDUCT FOR MPF INTERMEDIARIES	FL	√	◆
<b>36 INVESTMENT VEHICLES</b>			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>36 (a) ASSET CLASSES AND THEIR CHARACTERISTICS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE DIFFERENCES BETWEEN MAJOR ASSETS	FL		◆
- COMPARE THE RISKS AND RETURNS OF VARIOUS ASSETS CLASSES	FL		◆◆
<b>36 (b) MARKETS CLASSIFICATIONS AND TYPES OF ORDERS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- IDENTIFY THE VARIOUS SECURITY MARKETS	FL		◆
- IDENTIFY DIFFERENT TYPES OF ORDERS	FL		◆
- EXPLAIN THE DIFFERENCES BETWEEN MAJOR MARKET CLASSIFICATIONS AND TYPES OF ORDERS	FL		◆
<b>36 (c) MUTUAL FUNDS AND OTHER INVESTMENT COMPANIES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE AND DESCRIBE MUTUAL FUNDS	FL		◆
- DEFINE AND DESCRIBE EXCHANGE TRADED FUNDS	FL		◆
- DEFINE NET ASSET VALUE	L1		◆
- DESCRIBE MUTUAL FUNDS ACCORDING TO INVESTMENT STYLE	L1		◆
- DEFINE AND DESCRIBE CLOSED-END FUNDS, UNIT INVESTMENT TRUSTS AND REAL ESTATE INVESTMENT TRUSTS	L1		◆
- DESCRIBE ADVANTAGES AND DISADVANTAGES OF INVESTING WITH AN INVESTMENT COMPANY RATHER THAN BUYING SECURITIES DIRECTLY	L1		◆
- COMPUTE THE RATE OF RETURN ON A MUTUAL FUND	L1		◆◆
- EXPLAIN THE IMPACT OF EXPENSES AND TURNOVER ON MUTUAL FUND INVESTMENT PERFORMANCE	L1		◆
- OUTLINE THE PROCESS IN MUTUAL FUND SELECTION	L1		◆◆
- DESCRIBE THE COMMON THIRD-PARTY EVALUATION ON MUTUAL FUNDS	L1		◆
<b>36 (d) EQUITY MARKET PRODUCTS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE AND DESCRIBE EQUITY MARKET INSTRUMENTS	FL		◆
<b>36 (e) FIXED-INCOME CAPITAL MARKET PRODUCTS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE FIXED-INCOME CAPITAL MARKET INSTRUMENTS INCLUDING BONDS, T NOTES, T BONDS AND CORPORATE BONDS	FL		◆
<b>36 (f) MONEY MARKET PRODUCTS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE DIFFERENCE BETWEEN THE MONEY MARKET AND THE CAPITAL MARKET	FL		◆
- DEFINE AND DESCRIBE MAJOR MONEY MARKET INSTRUMENTS INCLUDING T-BILLS, BANKER'S ACCEPTANCE, NCD, COMMERCIAL PAPER AND REPO	FL		◆
<b>36 (g) CONVERTIBLE SECURITIES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE AND DESCRIBE CONVERTIBLE SECURITIES	FL		◆
<b>36 (h) REAL ASSETS AND REAL ESTATE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE REAL ASSETS AND REAL ESTATE	L1		◆
- EXPLAIN THE RISK INVOLVED IN REAL ESTATE INVESTMENT	L1		◆
- OUTLINE THE DIFFERENCES AND SIMILARITIES IN RISKS BETWEEN INVESTING IN REAL ESTATE AND INVESTING IN A FINANCIAL ASSET	L1		◆◆
<b>36 (i) INDEXES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CONSTRUCTION OF STOCK MARKET INDEXES	FL		◆
- EXPLAIN THE COMPOSITION OF HANG SENG INDEX	FL		◆
<b>36 (j) OTHER ALTERNATIVE INVESTMENTS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE COMMON TYPES OF ALTERNATIVE INVESTMENTS	FL		◆
<b>36 (k) HUMAN CAPITAL</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE HUMAN CAPITAL IN THE CONTEXT OF FINANCIAL PLANNING	FL		◆
- EXPLAIN EDUCATION AS A MEDIUM TERM INVESTMENT	FL		◆
- COMPARE AND CONTRAST DIFFERENT FORMS OF INVESTMENT/FUNDING INSTRUMENTS IN EDUCATION PLANNING	FL		◆◆
- COMPUTE EDUCATION FUNDING NEEDS	FL		◆◆
<b>37 TYPES AND MEASURES OF INVESTMENT RETURNS</b>			
<b>37 (a) HORIZON ANALYSIS</b>			
CANDIDATES SHOULD BE ABLE TO:			



	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- DEFINE RETURN	FL		♦
37 (b) PRICE-EARNINGS RATIOS (P/E)			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE P/E	FL		♦
- EXPLAIN HOW P/E VARIES WITH GROWTH PROSPECT	FL		♦
37 (c) BOND: THE EXPECTATIONS THEORY AND YIELD CURVE			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE YIELD CURVE AND THE TERM STRUCTURE OF INTEREST RATE	FL		♦
- OUTLINE THE EXPECTATIONS HYPOTHESIS AND ITS IMPLICATION ON THE YIELD CURVE	L1		♦♦
- COMPUTE THE FORWARD RATE UNDER THE EXPECTATIONS THEORY	L1		♦♦
37 (d) BOND: THE LIQUIDITY PREFERENCE THEORY AND THE YIELD CURVE			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE LIQUIDITY PREFERENCE THEORY AND ITS IMPLICATION ON YIELD CURVE	L1		♦♦
- COMPUTE THE FORWARD RATE UNDER THE LIQUIDITY PREFERENCE THEORY	L1		♦♦
- OUTLINE THE EXPECTATIONS THEORY AND THE LIQUIDITY PREFERENCE THEORY AND THEIR MERGED IMPLICATIONS ON THE YIELD CURVE	L1		♦♦
37 (e) BOND: YIELD TO CALL (YTC)			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN YIELD TO CALL	FL		♦
- OUTLINE THE YIELD TO CALL AND EXPLAIN ITS RELATIONSHIP WITH INTEREST RATE	L1		♦♦
37 (f) BOND: YIELD TO MATURITY (YTM)			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE YIELD TO MATURITY	FL		♦♦
- COMPUTE CURRENT YIELD	FL		♦♦
37 (g) HOLDING-PERIOD RETURN (HPR)			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE HOLDING PERIOD RETURN	FL		♦
- COMPUTE HOLDING PERIOD RETURN	FL		♦♦
37 (h) RISK-ADJUSTED RETURN			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN EXPECTED RETURN, RISK FREE RATE, RISK PREMIUM AND EXCESS RETURN	FL		♦
- COMPUTE EXPECTED RETURN, RISK FREE RATE, RISK PREMIUM AND EXCESS RETURN	L1		♦♦
37 (i) INVESTMENT RETURNS OVER MULTIPLE PERIODS			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN ARITHMETIC AVERAGE, GEOMETRIC AVERAGE (TIME-WEIGHTED) AND DOLLAR-WEIGHT AVERAGE RETURN	FL		♦
- COMPUTE ANNUAL PERCENTAGE RATES (APR) AND EFFECTIVE ANNUAL RATE (EAR)	FL		♦♦
- OUTLINE THE ADVANTAGES/DISADVANTAGES OF USING ARITHMETIC AVERAGE, GEOMETRIC AVERAGE AND DOLLAR-WEIGHT AVERAGE RETURN AS A MEASUREMENT OF RETURNS	L1		♦♦
37 (j) EXPECTED VS REQUIRED RETURN, NOMINAL VS REAL, REALIZED RETURN, AFTER TAX RETURN			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN NOMINAL INTEREST RATE, REAL INTEREST RATE AND THEIR RELATIONSHIP WITH INFLATION (THE FISHER EQUATION)	FL		♦
- COMPUTE NOMINAL INTEREST RATE AND REAL INTEREST RATE	FL		♦♦
<b>38 BOND AND STOCK VALUATION METHODS</b>			
38 (a) BOND VALUATION			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE CONCEPT OF BONDS AND THE RELATED TERMS INCLUDING FACE VALUE, COUPON RATE, ZERO COUPON BOND, CALLABLE BONDS, CONVERTIBLE BONDS, PUTTABLE BONDS, FLOATING RATE BONDS	FL		♦
- COMPUTE A BOND'S PRICE GIVEN ITS YIELD TO MATURITY, COUPON AND PAR VALUE	FL		♦♦
- OUTLINE THE RELATIONSHIP BETWEEN A BOND'S PRICE, YIELD TO MATURITY, COUPON AND PAR VALUE	FL		♦♦
- DESCRIBE REVERSE FLOATERS, ASSET-BACKED BONDS, PAY-IN-KIND BONDS, CATASTROPHE BONDS AND INDEXED BONDS	FL		♦

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- COMPUTE HOW BOND PRICE WILL CHANGE OVER TIME FOR A GIVEN INTEREST RATE PROJECTION	FL		♦♦
- IDENTIFY THE FACTORS THAT ARE LIKELY TO AFFECT THE SHAPE OF THE YIELD CURVE AT ANY TIME	FL		♦
<b>38 (b) DEFAULT RISK, BOND RATING AND BOND PRICING</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE INVESTMENT GRADE BOND AND SPECULATIVE GRADE (JUNK) BOND	FL		♦
- IDENTIFY THE DETERMINANTS OF BOND SAFETY AND RATINGS	FL		♦
- EXPLAIN HOW CALL, CONVERTIBILITY, AND SINKING FUND PROVISIONS WILL AFFECT A BOND'S EQUILIBRIUM YIELD TO MATURITY	FL		♦
- EXPLAIN THE RELATIONSHIP BETWEEN DEFAULT RISK AND YIELD TO MATURITY	FL		♦
<b>38 (c) STOCK VALUATION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE DIFFERENT MODELS IN STOCK VALUATION	FL		♦
- DEFINE AND COMPUTE INTRINSIC VALUE OF A SHARE OF STOCK	FL		♦
- COMPUTE THE PRICE OF A SHARE OF PREFERRED STOCK	FL		♦♦
- COMPUTE STOCK PRICES BASED ON DIFFERENT PRICING MODELS	L1		♦♦
- APPLY P/E ANALYSIS IN STOCK VALUATION	L1		♦♦
<b>39 PORTFOLIO PERFORMANCE MEASUREMENT</b>			
<b>39 (a) CHOOSING THE RIGHT MEASURE OF RISK</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DETERMINE THE APPROPRIATE MEASURE OF RISK AND PERFORMANCE VALUATION	L1		♦♦
<b>39 (b) COMPARISON GROUPS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE PERFORMANCE EVALUATION UNDER COMPARISON GROUPS	L1		♦♦
<b>39 (c) JENSEN MEASURE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE JENSEN MEASURE AS A PERFORMANCE EVALUATION TOOL	L1		♦♦
- COMPUTE THE JENSEN MEASURE OF A PORTFOLIO	L1		♦♦
- EVALUATE PERFORMANCE OF A PORTFOLIO BASED ON JENSEN MEASURE	L1		♦♦♦
<b>39 (d) SHARPE MEASURE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE SHARPE MEASURE AS A PERFORMANCE EVALUATION TOOL	L1		♦♦
- COMPUTE THE SHARPE MEASURE OF A PORTFOLIO	L1		♦♦
- EVALUATE PERFORMANCE OF A PORTFOLIO BASED ON SHARPE MEASURE	L1		♦♦♦
<b>39 (e) TREYNOR MEASURE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE TREYNOR MEASURE AS A PERFORMANCE EVALUATION TOOL	L1		♦♦
- COMPUTE THE TREYNOR MEASURE OF A PORTFOLIO	L1		♦♦
- EVALUATE PERFORMANCE OF A PORTFOLIO BASED ON TREYNOR MEASURE	L1		♦♦♦
<b>39 (f) <math>M^2</math> AND <math>T^2</math> MEASURE</b>			
- DESCRIBE $M^2$ AND $T^2$ MEASURE AS A PERFORMANCE EVALUATION TOOL	L1		♦♦
- COMPUTE $M^2$ AND $T^2$ MEASURE OF A PORTFOLIO	L1		♦♦
- EVALUATE PERFORMANCE OF A PORTFOLIO BASED ON $M^2$ AND $T^2$ MEASURE	L1		♦♦♦
<b>39 (g) PERFORMANCE ATTRIBUTION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DECOMPOSE EXCESS RETURNS INTO COMPONENTS ATTRIBUTABLE TO THE ASSET ALLOCATION CHOICES VERSUS SECURITY SELECTION CHOICES	L1		♦♦
<b>40 FORMULA INVESTING</b>			
<b>40 (a) DOLLAR-COST AVERAGING</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN DOLLAR-COST AVERAGING	L1		♦♦
<b>40 (b) DIVIDEND REINVESTMENT</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN DIVIDEND REINVESTMENT	L1		♦♦
<b>40 (c) TECHNICAL ANALYSIS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE MAJOR TECHNICAL INDICATORS	FL		♦
- EXPLAIN CHARTING	FL		♦♦
<b>41 "ACTIVE" AND "PASSIVE" STRATEGIES</b>			
CANDIDATES SHOULD BE ABLE TO:			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- EXPLAIN BRIEFLY MAJOR INVESTMENT PLANNING STRATEGIES INCLUDING ACTIVE INVESTMENT STRATEGY, PASSIVE INVESTMENT STRATEGY, MARKET TIMING, SECURITY SELECTION, STRATEGIC ASSET ALLOCATION AND TACTICAL ASSET ALLOCATION	FL		◆
41 (a) MARKET TIMING			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CONCEPT OF MARKET TIMING	L1		◆
41 (b) GENERAL CONCEPT OF ACTIVE MANAGEMENT			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN OBJECTIVES OF ACTIVE PORTFOLIO MANAGEMENT	L1		◆
- DEFINE ACTIVE BOND MANAGEMENT	L1		◆
- DESCRIBE THE CHOICES TO BE MADE IN AN ACTIVELY MANAGED BOND PORTFOLIO	L1		◆
- DESCRIBE THE FOUR TYPES OF BOND SWAPS	L1		◆
41 (c) GENERAL CONCEPT OF PASSIVE MANAGEMENT			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE PASSIVE BOND MANAGEMENT	L1		◆
- DEFINE IMMUNIZATION	L1		◆
- DESCRIBE FIXED-INCOME IMMUNIZATION STRATEGIES FOR VARIOUS INVESTMENT HORIZON	L1		◆
- ILLUSTRATE REBALANCING, CASH FLOW MATCHING AND DEDICATION IN IMMUNIZATION	L1		◆◆
- EXPLAIN CONTINGENT IMMUNIZATION	L1		◆
<b>42 LEVERAGE AND USE OF BORROWED FUNDS FOR INVESTING</b>			
42 (a) MARGIN TRADING			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE MECHANICS AND INVESTMENT IMPLICATIONS OF BUYING ON MARGIN	FL		◆
42 (b) SHORT SELLING			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE MECHANICS AND INVESTMENT IMPLICATIONS OF SHORT SELLING	FL		◆
<b>43 HEDGING AND OPTIONS STRATEGIES</b>			
43 (a) HEDGE RATIOS AND THE BLACK-SCHOLES FORMULA			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE BLACK-SCHOLES VALUATION OF AN OPTION	FL		◆
- DESCRIBE THE HEDGE RATIO OF AN OPTION	FL		◆
43 (b) ARBITRAGE AND HEDGE USING OPTIONS			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE THE PROFIT OR LOSS ON INVESTMENT IN OPTIONS AND FUTURE CONTRACTS	FL		◆◆
43 (c) TYPES AND CHARACTERISTICS OF OPTION CONTRACT			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE OPTIONS	FL		◆
- DESCRIBE DIFFERENT TYPES OF OPTION CONTRACTS	FL		◆
- DESCRIBE OPTIONLIKE SECURITIES, INCLUDING CALLABLE BOND, CONVERTIBLE SECURITIES, WARRANTS, COLLATERALIZED LOANS, LEVERED EQUITY AND DEBTS	FL		◆
43 (d) OPTION STRATEGIES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE COMMON OPTION STRATEGIES	FL		◆
43 (e) OTHER HEDGING STRATEGIES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE OTHER COMMON HEDGING STRATEGIES	FL		◆
43 (f) OPTIONS VALUATION			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE FEATURES OF AN OPTION THAT AFFECT ITS MARKET VALUE	L1		◆◆
- EXPLAIN THE POSSIBLE OUTCOMES OF EARLY EXERCISE OF AN OPTION	L1		◆
- COMPUTE AN OPTION VALUE IN A TWO-SCENARIO MODEL OF THE ECONOMY	L1		◆◆
- COMPUTE THE PROPER RELATIONSHIP BETWEEN CALL AND PUT PRICES (PUT-CALL PARITY)	L1		◆◆
43 (g) FUTURES			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE CONCEPT OF FUTURES CONTRACT	L1		◆

	EXAMINATION*	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- DESCRIBE THE MECHANICS OF TRADING IN THE FUTURES MARKETS	L1		♦
- EXPLAIN FUTURES HEDGING	L1		♦
- OUTLINE SPOT-FUTURE PARITY AND COMPUTE FUTURE PRICES	L1		♦♦
<b>44 ASSET ALLOCATION: ACTIVE AND PASSIVE</b>			
44 (a) ASSET ALLOCATION AND SECURITY SELECTION			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE CORRELATION BETWEEN THE RETURNS OF THE ASSETS IN PORTFOLIO	L1		♦♦
- COMPUTE COVARIANCE	L1		♦♦
- COMPUTE CORRELATION COEFFICIENT	L1		♦♦
- OUTLINE INVESTMENT OPPORTUNITY SET	L1		♦♦
- OUTLINE THE RELATIONSHIP BETWEEN CORRELATION COEFFICIENT AND THE SHAPE OF INVESTMENT OPPORTUNITY SET	L1		♦♦
- DISTINGUISH BETWEEN ACTIVE AND PASSIVE POLICIES	L1		♦♦
44 (b) RISK TOLERANCE AND ASSET ALLOCATION			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE RELATIONSHIP BETWEEN RISK TOLERANCE OF AN INVESTOR AND ITS PORTFOLIO CHOICE ON THE CAL	L1		♦♦
44 (c) THE CAPITAL ALLOCATION LINE (CAL)			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE CONCEPT OF RISK-FREE ASSETS	L1		♦♦
- OUTLINE THE CONCEPT OF CAPITAL ALLOCATION LINE	L1		♦♦
- DESCRIBE THE ASSUMPTIONS OF CAL	L1		♦
- COMPUTE THE SLOPE OF CAL AND EXPLAIN ITS IMPLICATION	L1		♦♦
- OUTLINE THE OPPORTUNITY SET WITH DIFFERENT BORROWING AND LENDING RATE	L1		♦♦
- EXPLAIN EFFICIENT FRONTIER	L1		♦
- DETERMINE THE OPTIMAL RISKY PORTFOLIO AND THE DETERMINATION OF CAL	L1		♦♦
- OUTLINE THE SEPARATION PROPERTY OF PORTFOLIO CHOICE	L1		♦♦
- DEFINE MUTUAL FUND THEOREM	L1		♦
44 (d) THE CAPITAL MARKET LINE (CML)			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE CAPITAL MARKET LINE AND ITS RELATIONSHIP WITH CAL	L1		♦♦
- OUTLINE INDEXING AS A PASSIVE STRATEGY	L1		♦♦
- OUTLINE THE CHALLENGES RELATED TO ASSET ALLOCATION STRATEGIES AND PERFORMANCE	L1		♦♦
44 (e) THE FALLACY OF TIME DIVERSIFICATION			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE FALLACY OF TIME DIVERSIFICATION	L1		♦
44 (f) THE MEAN-VARIANCE CRITERION			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE MEAN-VARIANCE CRITERION	L1		♦♦
<b>45 PRICING MODELS</b>			
45 (a) CAPITAL ASSET PRICING MODEL (CAPM)			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE ASSUMPTION UNDERLYING BASIC CAPM MODEL	L1		♦♦
- OUTLINE THE IMPLICATIONS UNDER BASIC CAPM MODEL	L1		♦♦
- OUTLINE THE INDEX MODEL	L1		♦♦
45 (b) MULTI-FACTOR ASSET PRICING MODEL (APM)			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE FACTOR MODEL AND THE INDEX MODEL	L1		♦
45 (c) SECURITY CHARACTERISTIC LINE (SCL)			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE SCL	L1		♦
45 (d) SECURITY MARKET LINE (SML)			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE USE OF THE SECURITY MARKET LINE	L1		♦
- EXPLAIN THE DIFFERENCES BETWEEN THE SML FROM THE CML	L1		♦
45 (e) DIVIDEND DISCOUNT MODELS (DDM)			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE DDM	L1		♦
45 (f) LIFE CYCLES AND MULTI-STAGE GROWTH MODELS			
CANDIDATES SHOULD BE ABLE TO:			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- DESCRIBE THE MULTI-STAGE GROWTH MODEL	L1		◆
45 (g) THE CONSTANT GROWTH DIVIDEND DISCOUNT MODEL			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CONSTANT GROWTH DDM	L1		◆
- DESCRIBE THE RELATIONSHIP BETWEEN PLOWBACK RATIO, DIVIDEND PAYOUT RATIO, GROWTH RATE AND THE INTRINSIC VALUE OF A SHARE OF STOCK	L1		◆
<b>46 EFFICIENT MARKET HYPOTHESIS (EMH)</b>			
46 (a) EVIDENCE AND IMPLICATIONS OF SEMI-STRONG FORM EMH			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE SEMI-STRONG FORM EFFICIENT MARKET HYPOTHESES	L1		◆◆
- OUTLINE THE TESTS ON SEMI-STRONG FORM MARKET EFFICIENCY	L1		◆◆
46 (b) EVIDENCE AND IMPLICATIONS OF STRONG FORM EMH			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE STRONG FORM EFFICIENT MARKET HYPOTHESES	L1		◆
- DESCRIBE THE EFFICIENT MARKET HYPOTHESES	L1		◆
- IDENTIFY AND EXPLAIN THE TESTS ON STRONG FORM MARKET EFFICIENCY	L1		◆
46 (c) EVIDENCE AND IMPLICATIONS OF WEAK FORM EMH			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE WEAK FORM EFFICIENT MARKET HYPOTHESES	L1		◆
- IDENTIFY AND EXPLAIN THE TESTS ON WEAK FORM MARKET EFFICIENCY	L1		◆
46 (d) PORTFOLIO MANAGEMENT IN AN EFFICIENT MARKET			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE IMPLICATIONS OF EMH ON VARIOUS FORMS OF PORTFOLIO MANAGEMENT	L1		◆
46 (e) RANDOM WALKS AND THE EMH			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE RANDOM WALK	L1		◆
<b>47 INVESTMENT VEHICLES MATCH TO CLIENT</b>			
47 (a) INVESTMENT DECISIONS			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE IMPORTANCE OF INVESTMENT PLANNING	FL		◆
47 (b) INVESTMENT PLANNING STRATEGIES			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE COMMON MISCONCEPTIONS ABOUT INVESTMENT STRATEGIES	FL		◆◆
- DEVELOP INVESTMENT PLANNING STRATEGIES TO MEET CLIENT'S NEEDS	L1		◆◆◆
47 (c) INVESTMENT POLICIES			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE CONCEPT OF INVESTMENT POLICIES	FL		◆◆
47 (d) INVESTMENT PROCESS			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATES STEPS IN THE INVESTMENT PROCESS	FL		◆◆
- DEVELOP AND RECOMMEND PORTFOLIO TO MATCH CLIENTS' GOAL AND RISK TOLERANCE	L1		◆◆◆
47 (e) INVESTOR CONSTRAINTS			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE COMMON INVESTOR CONSTRAINTS	FL		◆◆
47 (f) INVESTORS AND OBJECTIVES			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE COMMON OBJECTIVES IN PERSONAL FINANCIAL PLANNING	FL		◆◆
- IDENTIFY GOALS AND OBJECTIVES OF CLIENTS	L1		◆
47 (g) MONITORING AND REVISING INVESTMENT PORTFOLIOS			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE ROLE OF INVESTMENT PLANNING IN PERSONAL FINANCIAL PLANNING	FL		◆◆
47 (h) INVESTMENT POLICY STATEMENTS			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE REASONS FOR INVESTMENT POLICY STATEMENT	FL		◆
- DESCRIBE THE MAJOR PARTS OF AN INVESTMENT POLICY STATEMENT	FL		◆
- COMPILE AN INVESTMENT POLICY STATEMENT	L1		◆◆◆
<b>48 TAX IMPACT ON TIME VALUE ANALYSIS OF INVESTMENT (DELETED)</b>			
<b>49 INTERNATIONAL FINANCE AND FOREIGN EXCHANGE</b>			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>49 (a) FUNCTIONS OF THE FOREIGN EXCHANGE MARKET</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE FUNCTIONING OF THE FOREIGN EXCHANGE MARKET	FL		◆
<b>49 (b) PARTICIPANTS OF THE FOREIGN EXCHANGE MARKET</b>			
CANDIDATES SHOULD BE ABLE TO:			
- IDENTIFY THE MAIN PARTICIPANTS OF THE FOREIGN EXCHANGE MARKET	FL		◆
<b>49 (c) EQUILIBRIUM CONDITIONS FOR PRICES, INTEREST RATES, AND EXCHANGE RATES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE EQUILIBRIUM CONDITIONS FOR PRICES, INTEREST RATES, AND EXCHANGE RATES	FL		◆
<b>49 (d) FORWARD-SPOT RELATIONSHIP</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE RELATIONSHIP BETWEEN FORWARD AND SPOT RATE	FL		◆
- COMPUTE FORWARD/SPOT RATE	FL		◆◆
<b>49 (e) INTEREST RATE PARITY CONDITION (IRP)</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE INTEREST PARITY CONDITION	FL		◆
- COMPUTE PREDICTED SPOT RATES	FL		◆◆
<b>49 (f) INTERNATIONAL FISHER EFFECT</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE INTERNATIONAL FISHER EFFECT	FL		◆
- COMPUTE CURRENCIES PRICES, INTEREST RATE AND EXCHANGE RATE	FL		◆◆
<b>49 (g) PURCHASING POWER PARITY CONDITION (PPP)</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE PURCHASING POWER PARITY CONDITION	FL		◆
- COMPUTE CURRENCIES PRICES, INFLATION RATE AND EXCHANGE RATE	FL		◆◆
<b>49 (h) FOREIGN EXCHANGE RATES AND QUOTATIONS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE AND DESCRIBE FOREIGN EXCHANGE RATES	FL		◆
- DESCRIBE THE DIFFERENT TYPES OF EXCHANGE RATES QUOTES	FL		◆
<b>49 (i) INTERNATIONAL DIVERSIFICATION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN INTERNATIONAL DIVERSIFICATION	FL		◆
<b>50 ETHICAL CONSIDERATIONS IN TAX PLANNING</b>			
<b>50 (a) GENERAL CONCEPT OF TAX AVOIDANCE AND TAX EVASION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE GENERAL ANTI-AVOIDANCE PROVISION IN HONG KONG	L1		◆
<b>51 INCOME TAX FUNDAMENTALS</b>			
<b>51 (a) SALARIES TAX: NET ASSESSABLE INCOME; DEDUCTIONS AND ALLOWANCES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE CONCEPTS OF "NET ASSESSABLE INCOME", "ALLOWABLE DEDUCTIONS", AND "ALLOWANCES" UNDER SALARIES TAX	L1	√	◆◆
- ILLUSTRATE ALLOWABLE DEDUCTIONS AND ALLOWANCES UNDER SALARIES TAX	L1	√	◆◆
<b>51 (b) SALARIES TAX: EXEMPTIONS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE SPECIFIC EXCLUSIONS FROM SALARIES TAX	L1	√	◆◆
- OUTLINE HOW A PAYMENT OF OVERSEAS INCOME TAX AFFECTS THE CHARGEABILITY OF AN INCOME UNDER SALARIES TAX	L1	√	◆◆
- ILLUSTRATE THE 60-DAY RULE OF VISIT	L1	√	◆◆
<b>51 (c) SALARIES TAX: INCLUSION OF ASSESSABLE INCOME/SCOPE AND SOURCE OF INCOME/LOCALITY OF INCOME</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE DETERMINATION OF THE SOURCES OF INCOME UNDER SALARIES TAX	L1	√	◆◆
- OUTLINE HOW NON-HONG KONG SOURCE EMPLOYMENT INCOME IS TAXED	L1	√	◆◆
- OUTLINE HOW INCOME FROM OFFICE IS TAXED	L1	√	◆◆
- OUTLINE HOW INCOME FROM PENSION IS TAXED	L1	√	◆◆
- OUTLINE HOW THE INCOME OF SHIP AND AIRCRAFT CREW IS ASSESSABLE	L1	√	◆◆
- OUTLINE THE SCOPE OF INCOME CHARGEABLE TO SALARIES TAX	L1	√	◆◆
<b>51 (d) SALARIES TAX: BENEFITS-IN-KIND</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE HOW EMPLOYEE BENEFITS ARE ASSESSABLE UNDER SALARIES TAX	L1	√	◆◆
<b>52 TAX COMPLIANCE MATTERS</b>			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>52 (a) ASSESSMENT AND PAYMENT OF TAX</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE IN GENERAL TAX ADMINISTRATION ISSUES IN RELATION TO RETURNS AND ASSESSMENTS (TYPES, FILING STATUS AND COMPLIANCE)	L1	√	◆
<b>52 (b) TAXPAYERS' RIGHTS AND OBLIGATIONS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN BRIEFLY THE RIGHTS AND OBLIGATIONS OF A TAXPAYER IN RELATION TAX ADMINISTRATION ISSUES	L1	√	◆
- DESCRIBE THE TAX ADMINISTRATION OF LODGING OBJECTIONS AND APPEALS AGAINST ASSESSMENT	L1	√	◆
<b>52 (c) POWERS OF INLAND REVENUE DEPARTMENT TO OBTAIN RETURNS AND INFORMATION</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE POWERS OF INLAND REVENUE DEPARTMENT TO OBTAIN RETURNS AND INFORMATION	L1	√	◆
<b>52 (d) PENALTIES FOR NON-COMPLIANCE</b>			
- EXPLAIN BRIEFLY THE CONCEPT OF TAX INVESTIGATION	L1	√	◆
- EXPLAIN BRIEFLY THE TYPES OF OFFENCES AND PENALTIES	L1	√	◆
<b>53 TAXATION TERMINOLOGY</b>			
<b>53 (a) OVERVIEW OF THE HONG KONG TAXATION REGULATORY REGIME INCLUDING COMMON TAXATION TERMINOLOGY AND THE CHARGING PROVISIONS OF THE INLAND REVENUE ORDINANCE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE HONG KONG TAXATION REGULATORY REGIME, COMMON TAXATION TERMINOLOGY AND THE CHARGING PROVISIONS OF THE INLAND REVENUE ORDINANCE	L1	√	◆
<b>53 (b) FEATURES OF HONG KONG TAX SYSTEM</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CHARACTERISTICS OF HONG KONG TAX SYSTEM	L1	√	◆
- IDENTIFY THE SOURCES OF LAW AND PRACTICES AFFECTING THE LEVY OF TAX IN HONG KONG	L1	√	◆
<b>54 INTERNATIONAL TAX PLANNING</b>			
<b>54 (a) TAX HAVENS – IDENTIFICATION, SELECTION AND USERS OF TAX HAVENS; TAX AVOIDANCE</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CONCEPT OF TAX HAVENS AND THE GENERAL ANTI-AVOIDANCE LEGISLATION IN HONG KONG	L1	√	◆
<b>54 (b) FUNDAMENTALS OF DOUBLE TAXATION (INCLUDING ARRANGEMENTS BETWEEN THE MAINLAND OF CHINA AND HONG KONG) AND DOUBLE TAXATION RELIEF</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE DOUBLE TAXATION RELIEF WITH THE MAINLAND	L1	√	◆◆
<b>54 (c) ELEMENTS OF INTERNATIONAL TAX PLANNING</b>			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE INTERNATIONAL DIMENSION OF TAX PLANNING	L1	√	◆
<b>55 TAX CALCULATIONS AND SPECIAL RULES</b>			
<b>55 (a) TAX CALCULATIONS FOR SALARIES TAX IN HONG KONG</b>			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE SALARIES TAX PAYABLE	L1	√	◆◆
<b>55 (b) PROPERTY TAX</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE TERM "OWNER" UNDER PROPERTY TAX	L1	√	◆◆
- OUTLINE HOW INCOME DERIVED FROM IMMOVABLE PROPERTY IS TAXED ON INDIVIDUALS AND CORPORATIONS	L1	√	◆◆
- OUTLINE THE TYPES OF INCOME THAT ARE TAXED/EXEMPTED UNDER PROPERTY TAX	L1	√	◆◆
- OUTLINE THE TREATMENT FOR IRRECOVERABLE RENT UNDER PROPERTY TAX	L1	√	◆◆
- COMPUTE PROPERTY TAX	L1	√	◆◆
- DISTINGUISH BETWEEN THE TREATMENT OF PROPERTY INCOME UNDER PROPERTY TAX AND OTHER TYPES OF TAX	L1	√	◆◆
- COMPUTE PROPERTY TAX PAYABLE	L1	√	◆◆
<b>55 (c) PROVISIONAL TAX</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE CONCEPT OF PROVISIONAL TAX	L1	√	◆◆
- COMPUTE PROVISIONAL TAX	L1	√	◆◆

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>55 (d) OTHER TAXES AND DUTIES IN HONG KONG</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OVERVIEW OF THE STAMP DUTY ORDINANCE (CHAPTER 117 OF THE LAWS OF HONG KONG)	L1	√	♦♦
- DESCRIBE BRIEFLY THE SCOPE OF CHARGE	L1	√	♦
- DESCRIBE THE MAIN EXEMPTIONS AND RELIEFS	L1	√	♦
- UNDERSTAND THAT THERE ARE OTHER TAXES AND DUTIES IN HONG KONG SUCH AS RATES, DUTIABLE COMMODITIES, BETTING DUTY	L1	√	♦
<b>56 TAX ACCOUNTING</b>			
<b>56 (a) ACCOUNTING PERIODS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE BASIC CONCEPT OF ACCOUNTING PERIODS IN RELATION TO THE CHARGE OF TAX	L1	√	♦
<b>57 TAX CHARACTERISTICS OF BUSINESS FORMS</b>			
<b>57 (a) DETERMINATION OF SOURCE OF PROFITS/ASSESSABLE PROFITS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE SCOPE OF CHARGE OF PROFITS TAX	L1	√	♦♦
- OUTLINE PROFITS ARISING IN OR DERIVED FROM HONG KONG	L1	√	♦♦
- OUTLINE HOW PROFITS ARE TAXABLE IN HONG KONG	L1	√	♦♦
<b>57 (b) ALLOWABLE DEDUCTIONS AND LOSSES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE TYPES OF ALLOWABLE DEDUCTION AND LOSSES	L1	√	♦♦
<b>57 (c) DEPRECIATION ALLOWANCES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- COMPUTE DEPRECIATION ALLOWANCES APPLICABLE TO MOTOR VEHICLES	L1	√	♦♦
<b>57 (d) HONG KONG AGENTS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN BRIEFLY THE TAX ISSUES WITH RESPECT TO WITHHOLDING TAX BY HONG KONG AGENTS OF NON-RESIDENTS	L1	√	♦
<b>57 (e) SPECIAL FORM OF COMPANIES: E.G. SERVICE COMPANIES</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN TAX TREATMENTS OF PAYMENTS TO SERVICE COMPANIES	L1	√	♦
<b>58 TAX-RELATED WRITE-OFF CONCEPTS (DELETED)</b>			
<b>59 TAX MANAGEMENT AND PLANNING TECHNIQUES</b>			
<b>59 (a) PERSONAL ASSESSMENT</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE CONCEPT OF PERSONAL ASSESSMENT	L1	√	♦
<b>59 (b) JOINT ASSESSMENT</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE CONCEPT OF JOINT ASSESSMENT	L1	√	♦
<b>59 (c) DEFERRAL OF INCOME</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE CONCEPT OF DEFERRAL OF INCOME	L1	√	♦
<b>59 (d) ADVANCE RULINGS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE CONCEPT OF ADVANCE RULINGS	L1	√	♦
<b>59 (e) TAX PLANNING BASICS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE IMPORTANCE OF TAX PLANNING	L1	√	♦
- OUTLINE BASIC TAX PLANNING PRINCIPLES APPLICABLE IN HK	L1	√	♦♦
- OUTLINE BASIC TAX PLANNING STRATEGIES APPLICABLE IN HK	L1	√	♦♦
- IDENTIFY POSSIBLE TAX PLANNING OPPORTUNITIES AND ISSUES TO A CLIENT	L1	√	♦
<b>60 NON-TAXABLE TRANSACTIONS</b>			
<b>60 (a) RELIEF</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE BRIEFLY THE GENERAL TAX RELIEFS	L1	√	♦
<b>60 (b) NON-TAXABLE TRANSACTIONS</b>			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE BRIEFLY THE NON-TAXATION TRANSACTIONS	L1	√	♦
<b>60 (c) EXEMPTED ORGANIZATIONS</b>			



	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE BRIEFLY THE ORGANIZATIONS EXEMPTED FROM TAX	L1	√	◆
<b>61 INTEREST AND PENALTY TAXES AND OTHER CHARGES (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>62 TAX PITFALLS (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>63 SOCIAL BENEFITS</b>			
63 (a) BASIC PRINCIPLES AND CHARACTERISTICS OF SOCIAL INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DISTINGUISH THE CONCEPT OF SOCIAL INSURANCE FROM THE CONCEPT OF PRIVATE INSURANCE	L1		◆◆
63 (b) DIFFERENT SOCIAL WELFARE SCHEMES IN HONG KONG			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE SOCIAL SECURITY SYSTEM IN HONG KONG INCLUDING THE COMPREHENSIVE SOCIAL SECURITY ASSISTANCE SCHEME, THE PORTABLE COMPREHENSIVE SOCIAL SECURITY ASSISTANCE SCHEME, THE SOCIAL SECURITY ALLOWANCE SCHEME, THE CRIMINAL AND LAW ENFORCEMENT INJURIES COMPENSATION SCHEME, THE TRAFFIC ACCIDENT VICTIMS ASSISTANCE SCHEME AND THE EMERGENCY RELIEF	L1		◆◆
<b>64 ETHICAL CONSIDERATIONS IN RETIREMENT PLANNING AND EMPLOYEE BENEFITS (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>65 TYPES OF RETIREMENT PLANS</b>			
65 (a) OVERVIEW OF DIFFERENT TYPES OF RETIREMENT PLANS			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE DEFINED-BENEFIT PLANS	FL		◆◆
- ILLUSTRATE DEFINED-CONTRIBUTION PLANS	FL		◆◆
- DESCRIBE OTHER TYPES OF RETIREMENT PLANS SUCH AS TARGET BENEFIT PLANS, PROFIT SHARING PLANS AND EMPLOYEE STOCK OWNERSHIP PLANS	FL		◆
<b>66 QUALIFIED PLAN CHARACTERISTICS</b>			
66 (a) GOVERNMENT PENSION FOR CIVIL SERVANTS IN HONG KONG			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE KEY FEATURES OF VARIOUS GOVERNMENT PENSION SYSTEM FOR CIVIL SERVANTS IN HONG KONG INCLUDING OLD PENSION SCHEME, NEW PENSION SCHEME, MPF MASTER TRUST SCHEMES AND CIVIL SERVICE PROVIDENT FUND	FL	√	◆
66 (b) RELEVANT PROVISIONS IN THE OCCUPATIONAL RETIREMENT SCHEMES ORDINANCE (ORSO) (CHAPTER 426 OF THE LAWS OF HONG KONG)			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE KEY FEATURES OF ORSO SYSTEM	FL	√	◆
- DESCRIBE THE DIFFERENT TYPES OF ORSO SCHEMES	FL	√	◆
- DESCRIBE THE INTERFACE ARRANGEMENTS BETWEEN ORSO SCHEME AND THE MPF SYSTEM ( MPF EXEMPTED ORSO SCHEMES)	FL	√	◆
66 (c) RELEVANT PROVISIONS IN THE MANDATORY PROVIDENT FUND (MPF) SCHEMES ORDINANCE (CHAPTER 485 OF THE LAWS OF HONG KONG)			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE ROLES AND FUNCTIONS OF THE MANDATORY PROVIDENT FUND SCHEMES AUTHORITY	FL	√	◆
- OUTLINE THE KEY FEATURES OF MPF SYSTEM	FL	√	◆◆
- DESCRIBE THE DIFFERENT TYPES OF MPF SCHEMES	FL	√	◆
- DESCRIBE THE FEATURES OF MPF CONSTITUENT FUNDS	FL	√	◆
- DESCRIBE THE REGULATORY FRAMEWORK OF THE MPF INDUSTRY AND THE KEY FEATURES OF MPF CODES, GUIDELINES AND STANDARDS	FL	√	◆
66 (d) OTHER QUALIFIED SCHEMES IN HONG KONG			
CANDIDATES SHOULD BE ABLE TO:			
- IDENTIFY KEY FEATURES OF OTHER QUALIFIED SCHEMES IN HONG KONG INCLUDING GRANT/SUBSIDIZED SCHOOLS PROVIDENT FUND	FL	√	◆
<b>67 DISTRIBUTIONS AND DISTRIBUTIONS OPTIONS (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>68 RETIREMENT NEEDS ANALYSIS</b>			
68 (a) PLANNING RETIREMENT INCOME			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE THREE BROAD STEPS IN RETIREMENT PLANNING PROCESS	FL		◆
- IDENTIFY THE SOURCES OF RETIREMENT FUNDING	FL		◆

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- COMPUTE THE ACCUMULATION OF FUND TO FINANCE UNMET RETIREMENT NEEDS	FL		♦♦
68 (b) RETIREMENT LIVING EXPENSES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE TWO APPROACHES IN ESTIMATING THE AGGREGATE RETIREMENT NEED	FL		♦
- COMPUTE THE UNMET NEED	FL		♦♦
68 (c) RETIREMENT ISSUES AFFECTING DIFFERENT RETIREES			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE IMPORTANCE OF RETIREMENT PLANNING	FL		♦♦
- ILLUSTRATE THE PROBLEMS IN RETIREMENT PLANNING	FL		♦♦
<b>69 RECOMMENDATION OF THE MOST APPROPRIATE TYPE OF RETIREMENT PLAN</b>			
69 (a) ADVANTAGES AND DISADVANTAGES OF DIFFERENT PLANS (EMBEDDED IN TN66)			
69 (b) MEETING THE CLIENT'S RETIREMENT NEEDS			
CANDIDATES SHOULD BE ABLE TO:			
- MATCH APPROPRIATE RETIREMENT RECOMMENDATION FOR VARIOUS TYPES OF CLIENTS	FL		♦♦
69 (c) CHALLENGES AND RISK IN RETIREMENT PLANNING			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE CHALLENGES AND RISK IN RETIREMENT PLANNING INCLUDING: LONGEVITY, HEALTH COST, INFLATION RISK, WITHDRAWAL RISK AND INVESTMENT RISK	FL		♦
<b>70 SUITABILITY OF AN INVESTMENT PORTFOLIO FOR A QUALIFIED PLAN SITUATION (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>71 LIFE, MEDICAL AND DISABILITY PLANS IN EMPLOYEE BENEFIT PROGRAMS</b>			
71 (a) OVERVIEW OF GROUP INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CONCEPT OF GROUP INSURANCE	L1		♦
- IDENTIFY THE TYPES OF GROUP INSURANCE THAT ARE PROVIDED BY EMPLOYERS	L1		♦
- ANALYZE AND ASSESS A CLIENT'S COORDINATION OF BENEFITS BETWEEN INDIVIDUAL AND GROUP INSURANCE POLICIES	L1		♦♦
- RECOMMEND POLICY SELECTION	L1		♦♦♦
71 (b) GROUP LIFE INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE DISTINGUISHING FEATURES OF GROUP LIFE INSURANCE (AS COMPARED TO INDIVIDUAL LIFE INSURANCE)	L1		♦
- OUTLINE MAJOR CLASSES OF GROUP LIFE INSURANCE AND THEIR CHARACTERISTICS	L1		♦♦
- OUTLINE THE BASIS FOR COST ADVANTAGES IN GROUP LIFE INSURANCE	L1		♦♦
71 (c) GROUP HEALTH INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE CHARACTERISTICS AND CONTRACT PROVISIONS OF GROUP HEALTH INSURANCE	L1		♦♦
71 (d) GROUP DENTAL INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE CHARACTERISTICS AND CONTRACT PROVISIONS OF GROUP DENTAL INSURANCE	L1		♦♦
71 (e) GROUP DISABILITY INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- ILLUSTRATE THE CHARACTERISTICS AND CONTRACT PROVISIONS OF GROUP DISABILITY INSURANCE	L1		♦♦
71 (f) OTHER GROUP INSURANCE BENEFITS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CHARACTERISTICS AND CONTRACT PROVISIONS OF OTHER GROUP INSURANCE INCLUDING GROUP LONG-TERM INSURANCE, DIRECTORS' AND OFFICERS' LIABILITY INSURANCE	L1		♦
<b>72 STATUTORY EMPLOYEE BENEFITS</b>			
72 (a) STATUTORY EMPLOYEE BENEFITS IN HONG KONG			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE STATUTORY EMPLOYEE BENEFITS IN HONG KONG	L1	√	♦
72 (b) NON-STATUTORY EMPLOYEE BENEFITS IN HONG KONG			
CANDIDATES SHOULD BE ABLE TO:			
- OUTLINE THE DISCRETIONARY EMPLOYEE BENEFITS IN HONG KONG	L1	√	♦♦

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
- IDENTIFY THE COMMON DISCRETIONARY BENEFITS IN HONG KONG	L1	√	◆
<b>73 BUSINESS APPLICATIONS OF INDIVIDUAL LIFE AND DISABILITY INSURANCE</b>			
73 (a) KEY-MAN INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE USE OF KEY-MAN INSURANCE IN A BUSINESS CONTEXT	L1		◆
73 (b) BUSINESS CONTINUATION INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE USE OF BUSINESS CONTINUATION INSURANCE IN A BUSINESS CONTEXT	L1		◆
<b>74 ESTATE PLANNING OVERVIEW</b>			
74 (a) THE ESTATE PLANNING PROCESS: IDENTIFYING ESTATE PLANNING NEEDS AND STRATEGIES			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE ESTATE PLANNING	L1	√	◆
- EXPLAIN THE NEED FOR ESTATE PLANNING AND ITS GOALS	L1	√	◆
- IDENTIFY THE OBJECTIVES OF ESTATE PLANNING	L1	√	◆
- DESCRIBE THE BASIC ESTATE PLANNING TECHNIQUES	L1	√	◆
- DESCRIBE THE "ESTATE" AND THE CONCEPT OF THE NET VALUE OF AN ESTATE	L1	√	◆
- DESCRIBE REAL PROPERTY, TANGIBLE PERSONAL PROPERTY AND INTANGIBLE PERSONAL PROPERTY	L1	√	◆
- IDENTIFY THE GENERAL TYPES OF PROPERTY INTEREST	L1	√	◆
- DESCRIBE THE STEPS FOR ESTATE PLANNING	L1	√	◆
- EXPLAIN THE ROLES OF AN EXECUTOR AND THE RIGHTS OF THE BENEFICIARIES	L1	√	◆
74 (b) ESTATE PLANNING VERSUS WILL MAKING			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE DIFFERENCE BETWEEN ESTATE PLANNING AND WILL MAKING	L1	√	◆
74 (c) VALUING THE ESTATE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE HOW TO TAKE STOCK OF AN ESTATE'S ASSETS AND LIABILITIES	L1	√	◆
- IDENTIFY THE VALUE OF REAL AND PERSONAL PROPERTY	L1	√	◆
- EXPLAIN HOW TO TAKE INTO ACCOUNT CHANGES TO AN ESTATE'S VALUE	L1	√	◆
74 (d) THE FINANCIAL PLANNER'S ROLE IN THE ESTATE PLANNING PROCESS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE ROLE OF FINANCIAL PLANNER AND OTHER PROFESSIONALS IN ESTATE PLANNING	L1	√	◆
74 (e) ESTATE PLANNING PITFALLS AND WEAKNESSES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE PITFALLS OF ESTATE PLANNING AND ITS WEAKNESSES	L1	√	◆
74 (f) BENEFICIARY CONSIDERATION			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE MAJOR CONSIDERATIONS IN HANDLING VULNERABLE BENEFICIARIES OR BENEFICIARIES WITH SPECIAL NEEDS	L1	√	◆
- EXPLAIN IN GENERAL HOW TIMING OF INHERITANCES MAY AFFECT AN ESTATE PLAN	L1	√	◆
<b>75 ESTATE PLANNING PITFALLS AND WEAKNESSES (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>76 WILLS AS A METHODS FOR PROPERTY TRANSFER AT DEATH</b>			
76 (a) OVERVIEW OF THE WILLS ORDINANCE			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE "WILL" AND DESCRIBE HOW A VALID WILL CAN BE MADE	L1	√	◆
- DESCRIBE BRIEFLY THE CONTENTS OF A VALID WILL AND THE DIFFERENT TYPES OF WILLS	L1	√	◆
- DESCRIBE THE USUAL PARTIES TO A WILL	L1	√	◆
- DESCRIBE HOW THE BEQUESTS IN A WILL MAY BE AFFECTED	L1	√	◆
- DESCRIBE THE SITUATIONS IN WHICH A WILL MAY BE REVOKED	L1	√	◆
76 (b) REVIEWING, CHANGING OR PROBLEMS IN ENFORCING A WILL			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE CIRCUMSTANCES THAT MAY TRIGGER A REVIEW OF A WILL	L1	√	◆
- DESCRIBE THE WAYS TO CHANGE A WILL	L1	√	◆
- DEFINE "ABATEMENT", "ADEMPTION", "ANTILAPSE", AND DESCRIBE THE SITUATION OF "SIMULTANEOUS DEATH"	L1	√	◆
- DESCRIBE BRIEFLY THE CIRCUMSTANCES IN WHICH A WILL MAY BE CHALLENGED	L1	√	◆
<b>77 ESTATE PLANNING DOCUMENTS (EMBEDDED UNDER OTHER TOPICS)</b>			

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>78 PROBATE</b>			
78 (a) THE PROBATE PROCESS: OVERVIEW OF THE PROBATE AND ADMINISTRATION ORDINANCE (CHAPTER 10 OF THE LAWS OF HONG KONG)			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE THE TERM "PROBATE"	L1	√	◆
- DESCRIBE THE PROBATE PROCESS	L1	√	◆
- DESCRIBE THE PERSONAL REPRESENTATIVE'S ROLE IN THE ESTATE ADMINISTRATION PROCESS	L1	√	◆
- DESCRIBE BRIEFLY THE PROCESS FOR APPLICATION OF A GRANT OF REPRESENTATION OR SUMMARY EXECUTION	L1	√	◆
78 (b) TESTATE SUCCESSION			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE BRIEFLY THE ADMINISTRATION OF AN ESTATE	L1	√	◆
78 (c) INTESTATE SUCCESSION: OVERVIEW OF INTESTATES' ESTATES ORDINANCE (CHAPTER 73 OF THE LAWS OF HONG KONG)			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE THE TERMS "TESTACY", "INTESTACY" AND "PARTIAL INTESTACY"	L1	√	◆
- DESCRIBE THE MAIN PROVISIONS IN RELATION TO THE SUCCESSION OF THE INTESTATES' ESTATE	L1	√	◆
78 (d) ASSETS SUBJECT TO PROBATE			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE DIFFERENCES BETWEEN A PROBATE ESTATE AND A NON-PROBATE ESTATE	L1	√	◆
78 (e) ADVANTAGES AND DISADVANTAGES OF PROBATE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE PROS AND CONS OF PROBATE	L1	√	◆
<b>79 LIQUIDITY PLANNING (EMBEDDED UNDER OTHER TOPICS)</b>			
<b>80 POWERS OF APPOINTMENT IN ESTATE PLANNING</b>			
80 (a) USE AND PURPOSE OF A POWER OF ATTORNEY: OVERVIEW OF THE POWERS OF ATTORNEY ORDINANCE (CHAPTER 31 OF THE LAWS OF HONG KONG)			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE THE TERM "POWER OF ATTORNEY", "DONOR", "ATTORNEY"	L1	√	◆
- DESCRIBE BRIEFLY THE EXECUTION OF A VALID POWER OF ATTORNEY	L1	√	◆
- DESCRIBE THE POWERS THAT THE ATTORNEY HAS UNDER A POWER OF ATTORNEY	L1	√	◆
80 (b) USE AND PURPOSE OF AN ENDURING POWER OF ATTORNEY: OVERVIEW OF THE ENDURING POWERS OF ATTORNEY ORDINANCE (CHAPTER 501 OF THE LAWS OF HONG KONG)			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE THE TERM "ENDURING POWER OF ATTORNEY", "DONOR", "ATTORNEY"	L1	√	◆
- DESCRIBE BRIEFLY HOW AN ENDURING POWER OF ATTORNEY WILL TAKE EFFECT	L1	√	◆
- DESCRIBE THE POWERS THAT THE ATTORNEY HAS UNDER AN ENDURING POWER OF ATTORNEY	L1	√	◆
<b>81 FEATURES OF TRUSTS</b>			
81 (a) CLASSIFICATION AND DIFFERENT FEATURES OF DIFFERENT TRUSTS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE BASIC ELEMENTS OF A TRUST	L1	√	◆
- DESCRIBE BRIEFLY THE BACKGROUND FOR EQUITY AND TRUSTS	L1	√	◆
- LIST THE "THREE CERTAINTIES" REQUIRED FOR A TRUST	L1	√	◆
- DESCRIBE BRIEFLY THE GENERAL TYPES OF TRUST IN HONG KONG	L1	√	◆
- DESCRIBE HOW A LIVING TRUST WORKS AS AN ASSET TRANSFER METHOD	L1	√	◆
81 (b) PARTIES TO A TRUST			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE VARIOUS PARTIES TO A TRUST	L1	√	◆
81 (c) RULE AGAINST PERPETUITIES			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE RULE AGAINST PERPETUITIES	L1	√	◆
81 (d) TRUSTS VERSUS WILLS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE HOW TRUSTS CAN ENHANCE ESTATE PLANNING	L1	√	◆
- EXPLAIN THE DIFFERENCES BETWEEN TRUST PLANNING FROM ESTATE PLANNING	L1	√	◆

	EXAMINATION	CROSS BORDER EXAMINATION	COGNITIVE REQUIREMENT
<b>82 TAXATION OF TRUSTS AND ESTATES (DELETED)</b>			
<b>83 LIFE INSURANCE FOR ESTATE PLANNING</b>			
83 (a) USE OF DIFFERENT TYPES OF LIFE INSURANCE IN ESTATE PLANNING AND THEIR ADVANTAGES AND DISADVANTAGES			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND HOW INSURANCE CAN PROTECT AN ESTATE	L1	√	◆
- DESCRIBE THE ADVANTAGES OF USING LIFE INSURANCE AS AN ESTATE PLANNING TOOL	L1	√	◆
<b>84 GIFTS AND CHARITABLE CONTRIBUTIONS</b>			
84 (a) DEFINITION OF GIFTS AND CHARITABLE CONTRIBUTIONS			
CANDIDATES SHOULD BE ABLE TO:			
- DEFINE THE TERM "GIFT"	L1	√	◆
- DESCRIBE THE IMPLICATIONS OF MAKING A GIFT IN HONG KONG	L1	√	◆
84 (b) CONSIDERATION FOR TRANSFERS AND CONTRIBUTIONS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE HOW TO DETERMINE THE VALUE OF A GIFT	L1	√	◆
<b>85 INTRA-FAMILY PROPERTY TRANSFERS</b>			
85 (a) ESTATE PLANNING FOR FAMILY BUSINESS			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE IMPLICATIONS OF ESTATE PLANNING FOR FAMILY BUSINESSES	L1	√	◆
85 (b) FORMS OF PROPERTY TRANSFERS: JOINT TENANCY			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE HOW JOINT TENANCY (AS OPPOSED TO TENANCY-IN-COMMON) WORKS AS AN ASSET TRANSFER METHOD	L1	√	◆
<b>86 PLANNING FOR INCAPACITY</b>			
86 (a) DEFINITION OF INCAPACITY/DISABILITY			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE IMPLICATIONS OF INCAPACITY/DISABILITY ON ESTATE PLANNING	L1	√	◆
86 (b) CARE OF DEPENDANTS AND PROPERTY			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE IMPLICATIONS OF CARE OF DEPENDANTS AND PROPERTY ON ESTATE PLANNING	L1	√	◆
86 (c) DISABILITY INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE USE OF DISABILITY INSURANCE IN ESTATE PLANNING	L1	√	◆
86 (d) LONG-TERM CARE INSURANCE			
CANDIDATES SHOULD BE ABLE TO:			
- UNDERSTAND THE USE OF LONG-TERM INSURANCE IN ESTATE PLANNING	L1	√	◆
86 (e) ENDURING POWER OF ATTORNEY (SEE 80(B) ABOVE)			
86 (f) ADVANCE MEDICAL DIRECTIVE			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE THE USE OF ADVANCE MEDICAL DIRECTIVES IN ESTATE PLANNING	L1	√	◆
86 (g) GUARDIANSHIP CONSIDERATION			
CANDIDATES SHOULD BE ABLE TO:			
- EXPLAIN THE CONSIDERATIONS INVOLVED IN GUARDIANSHIP SELECTION	L1	√	◆
<b>87 SPECIAL TOPICS IN ESTATE PLANNING</b>			
87 (a) LINKING RETIREMENT PLANNING WITH ESTATE PLANNING			
CANDIDATES SHOULD BE ABLE TO:			
- DESCRIBE HOW RETIREMENT PLANS RELATE TO THE ESTATE	L1	√	◆
- UNDERSTAND ISSUES RELATING TO BOTH RETIREMENT AND ESTATE PLANNING INCLUDING DIVORCE, UNMARRIED RELATIONSHIPS AND GUARDIANSHIP	L1	√	◆