STUDY NOTES FOR NISM – INVESTMENT ADVISER LEVEL 1 – SERIES XA (10A)

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Prepared By

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

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

Chapter 1 – Introduction to Indian Financial Markets

The financial market comprises of the money markets that deal with the short-term lending and borrowing of funds and the securities or capital markets that enable longer term transfer of funds using debt and equity instruments.
The banking system acts as the intermediary to channel funds to economic enterprises. Banks also provide a secure system for settling financial transactions. RBI is the regulator of the banking sector. It is the bank licensing and note-issuing authority. It also controls the credit and monetary activities in the economy.
The securities market provides the structure for businesses to raise funds through the issue of securities. The primary market, also called the new issue market, is where issuers raise capital by issuing securities to investors. The secondary market, also called the stock exchange, facilitates trade in already-issued securities.
Commodity transactions can be done in the cash market for immediate payment and delivery, or in the forward and futures market for settlement at a future point in time. An exchange traded futures contract standardizes the quality, quantity and terms of settlement of the underlying and reduces counter-party risk in the trade. Investors in the commodity markets include producers and

consumers who want to hedge their exposure, investors who want to take advantage of arbitrage opportunities and speculators who want to benefit from an expected price movement.
The foreign exchange market determines the value of one currency relative to another (called 'currency pairs') to enable settling trades in goods and services. There is a spot market and forward market in currency. The forward market currency deals have to be supported by an exposure to currency from trade that requires hedging. Future trades in currency are done on the exchanges.
Insurance products may provide pure risk cover (term insurance) or may combine insurance and investment on a traditional platform (endowment, whole life) or unit linked platform.
PFRDA regulates the pension market in India. NPS is a defined contribution pension schemes that covers government employees who joined service after a specified dates. It is also available for other citizens.
Stock exchanges provide a regulated platform for trading in securities at current values so that investors have liquidity in the securities held by them.
Depository participants are empanelled members of a depository who enable investors to hold and trade in securities in dematerialized form.
Custodians hold and manage the operational aspects of trading in securities on behalf of institutional investors.
Stock brokers are registered members of a stock exchange who enable investors to put through transactions on a stock exchange for a brokerage.
Investment banks help issuers make decisions on capital structure and assist in fund raising activities.
Commercial banks provide banking services of taking deposits, providing credit and enable payment services.
Insurance companies provide service of insuring life, property and income against unexpected and large loss or expense.
Pension Funds are intermediaries who are authorized to take contributions from eligible individuals and invest these funds to create a retirement corpus.
Asset management companies and portfolio managers are investment specialists who offer their services in selecting and managing a portfolio of securities.
Investment advisers and distributors work with investors to help them make a choice of securities that they can buy, based on an assessment of their needs, time horizon, return expectation and ability to bear risk.
The Ministry of Finance through its departments regulates and overseas the activities of the banking system, insurance and pension sectors, the capital markets and its participants.
The Registrar of Companies (RoC) is the authority appointed under the Companies Act to register companies and to ensure that they comply with the provisions of the law.
The Reserve Bank of India regulates the money market segment of securities market and acts as the manager of the government's borrowing program. RBI is also the regulator of the Indian banking system and conducts the monetary, forex and credit policies.
The Securities and Exchange Board of India (SEBI) is the chief regulator of securities markets in India. It facilitates the growth and development of the capital markets and ensures that the interests of investors are protected.
IRDA is the licensing authority for insurance companies. It ensures the adherence of insurance products to the rules laid down and regulates the distribution of insurance products.

The PFRDA has been assigned the responsibility of designing the structure of funds and constituents in the National Pension System (NPS).
The Forward Markets Commission is the regulatory body that oversees the futures and forward trading in commodities in India.

Chapter 2 : Securities Markets Segments

Primary market is the market where securities are first issued by a company, government, banks and financial institutions, mutual fund and others. A primary issue of securities may be a public issue, where securities are issued to public investors, or a private placement where securities are issued to a select group of individual and institutional investors.
A private placement by a listed company is called a preferential allotment. A preferential allotment to qualified institutional buyers is called a qualified institutional placement. A primary market enables wider participation in the capital of the issuer, diversifies ownership and thus improves liquidity, enables better pricing of securities issued, provides a platform for information of the issue & the issuer to be disseminated & evaluated and a means for early investors to exit.
The primary market issuances are regulated in terms of who can make an issue, who can invest, quantum of issue, disclosures and procedures to be followed and timelines to be adhered to and usage of funds.
The first public offer of shares made by a company is called an Initial Public Offer (IPO). An IPO may be through a fresh issue of shares or an offer for sale. In an offer for sale, existing shareholders such as promoters or financial institutions offer a part of their holding to the public investors. The share capital of the company does not change since the company is not making a new issue of shares.
A follow-on public offer is made by an issuer that has already made an IPO in the past and now makes a further issue of securities to the public.
In a fixed price issue of shares to the public, the company in consultation with the lead manager would decide on the price at which the shares will be issued.
In a book building process, the issue price is determined based on the offers received for subscription at prices within a specified band or floor price. The cut-off price is the price at which the issue is subscribed from the bids received.
Retail investors can subscribe to a book built offer by bidding at the cut-off. They will be allotted shares at the cut-off price once it is discovered. Bidding at the cut-off ensures that the investor's application is always accepted.
A public issue will be open for a minimum of three working days and a maximum of 10 working days in the case of fixed price issues. For book built issues, the offer will be open for a period between 3 to 7 days extendable by 3 days in case of a revision in price band. Companies making a public offer of shares are required to get the IPO graded by a SEBI registered credit rating agency.
Investors can apply for an issue when it is open based on the information provided in the prospectus. Applications can be made physically or through the online bidding facility provided by stock exchanges. In a book built offer investors must place bids for the minimum bid lot specified by the issuer so that the minimum application value adheres to the SEBI prescribed range of Rs. 10,000 to Rs. 15,000. Investors who bid a price can revise their bid at any time before the issue closing date. Payment for applications made in a public issue must be made through a local

cheque, demand draft or using the ASBA. In an over-subscribed issue, the shares will be allotted to an investor on a proportionate basis.
A company can make a public issue of debt securities, such as, debentures by making an offer through a prospectus. Debt instruments issued to the public has to be mandatorily credit rated, security has to be created and it must be in dematerialized form. An Institution Placement Program is an issue of shares to qualified institutional buyers to meet the requirement of minimum public shareholding specified by the listing requirements of stock exchanges.
Companies with share capital not exceeding Rs.25 crores can make a public issue of shares and list them on the SME Exchange. Secondary market is the market to trade in securities already issued. Trades happen between investors and there is no impact on the capital of the company.
Secondary markets provide liquidity for investors; enable price discovery, information signalling and a barometer of economic growth. Secondary markets are regulated under the provisions of the Securities Contract Regulations Act, 1956 and SCR (Rules), 1957. SEBI is authorised by law to implement the provisions of this act and its rules.
The stock exchange provides the trading platform for trading by investors through member of the stock exchange. The trades are settled through the clearing and settlement agency of the stock exchange. Issuers get their securities admitted to the depositories, where they are held as electronic entries against investor names. Market capitalisation (or market cap) of a company is the number of shares outstanding multiplied by the market price per share.
Large cap stocks represent established companies with stable earnings and prices. Mid and small cap stocks represent companies with high potential for growth but also greater risks to performance and prices.
Market turnover of a stock indicates how much trading activity took place in it on a given business day. A market index tracks the market movement by using the prices of a small number of shares chosen as a representative sample.
The risks in secondary markets are managed by prescribing capital adequacy norms for members, margins, circuit breakers and penalties. The clearing house is the counterparty to all trades in the stock exchange. A company announces a record date or book closure period and investors whose names appear on the records on this date are eligible to benefit from the corporate action.
The rights shares are offered to the existing investors in a proportion as approved by the board of a company. Investors can also choose to decline the offer or sell their entitlement to another.
A bonus issue of shares is made to the existing shareholders of a company without any consideration from them. Dividends are the share of the profits of the company received by its shareholders. A company may declare interim dividends during the financial year and final dividend at the end of the year.
A stock split is a corporate action where the face value of the existing shares is reduced in a defined ratio. A company may buy back its shares listed on a stock exchange from the investors out of the reserves and surplus available with the company. Delisting of shares refers to the permanent removal of the shares of a company from being listed on a stock exchange.
Delisting of shares refers to the permanent removal of the shares of a company from being listed on a stock exchange. Delisting may be compulsory or voluntary.

Chapter 3 : Mutual Funds

Open-Ended Schemes - These do not have a fixed maturity. You deal with the Mutual Fund for your investments and Redemptions. The key feature is liquidity. You can conveniently buy and sell your units at Net Asset Value (NAV) related prices, at any point of time.
Close-Ended Schemes - Schemes that have a stipulated maturity period (ranging from 2 to 15 years) are called close ended schemes. You can invest in the scheme at the time of NFO and thereafter you can buy or sell the units of the scheme on the stock exchanges where they are listed.

Equity Schemes – Invests minimum 65% of Corpus in Indian Equity. Ideal for aggressive investors who seeks long term capital appreciation.

Debt or Income Schemes - Aim to provide regular and steady income to investors. These schemes generally invest in fixed income securities such as bonds and corporate debentures. Capital appreciation in such schemes may be limited. Ideal for: Retired people and others with a need for capital stability and regular income. Ideal for Investors who need some income to supplement their earnings.

Balanced Schemes - Aim to provide both growth and income by periodically distributing a part of the income and capital gains they earn. They invest in both shares and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace or fall equally when the market falls. Ideal for Investors looking for a combination of income and moderate growth.

Money Market / Liquid Schemes - Aim to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer, short term instruments such as treasury bills, certificates of deposit, commercial paper and interbank call money. Ideal for: Corporates and individual investors as a means to park their surplus funds for short periods.

Equity Linked Saving Scheme - ELSS offer tax incentives to the investors under tax laws as prescribed from time to time and promote long term investments in equities through Mutual Funds. Ideal for: Investors seeking tax incentives. These schemes come with a lock in period of 3 years.
Sectoral fund schemes are ideal for investors who have decided to invest in a particular sector.

Index fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index. These schemes attempt to replicate the performance of a particular index such as the BSE Sensex, the NSE 50 (NIFTY).

There are also schemes which invest exclusively in certain segments of the capital market, such as Large Caps, Mid Caps, Small Caps, Micro Caps, 'A' group shares, shares issued through IPO.

Fixed Maturity Plans are close ended with a fixed maturity period ranging from one month to three/five years. FMP are predominantly debt-oriented. Objective of such schemes are to generate steady returns over a fixed-maturity period & protect investors against market fluctuations.

Gold Exchange Traded Funds offer investors an innovative, cost-efficient and secure way to access the gold market. They offer investors a means of participating in the gold bullion market by

buying and selling units on the Stock Exchanges, without taking physical delivery of gold. GOLD ETF invests in 99.99% pure GOLD. NAV of GOLD ETF depends on Real Prices of GOLD .
Fund of Funds (FOFs) - Fund of Funds are schemes that invest in other mutual fund schemes.

WHY SHOULD YOU INVEST IN MUTUAL FUNDS?

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

Chapter 4 : INVESTMENT VEHICLES

National Small Savings Fund (NSSF) - the rate of interest on small savings will be dynamic and reflect the interest rates prevailing in the market. Hence, rates of interest will be notified on a quarterly basis. The rate of interest on the Sukanya Samridhi Yojana, the Senior Citizens Savings Scheme and the Monthly Income Scheme will be aligned with G-sec rates of similar maturity with a spread ranging from 25 basis points (bps) to 100 bps. The PPF, 5 year NSC and 5 year term deposit will enjoy spread over G-secs of comparable maturity. The 1, 2 and 3 year term deposits, KVP and 5 year Recurring deposits will have their interest rates aligned to similar instruments in the banking sector. Also, the rate of interest on an investment made in all schemes, except PPF, on a particular date remains unchanged for the entire duration of the investment till maturity, irrespective of the revision in subsequent years. In other words, the balances lying to the credit of the PPF account or the fresh contributions made to this account will bear interest as per the rates notified by the Government from time to time.

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

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

Account matures after expiry of 15 years from the end of financial year in which the account was opened. Minimum Investment amount is Rs.500/- and maximum amount in a financial year is Rs.100, 000/. Subscription should be in multiples of Rs.5/- and can be paid in one lump sum or in installments not exceeding 12 in a financial year.

Eligible for SEC 80C deduction. Interest is tax exempt. Interest is paid on the lowest balance between the close of the fifth day & the end of the month and shall be credited to the account at the end of each year.
An investor can borrow any time after completion of 5 years. The amount of loan cannot exceed 25% of the balance in account at the end of second year immediately preceding the year in which the loan is applied for. Loan to be repaid with in 36 months at 2% interest. If loan is not repayed within 36 months then the interest chargeable is 6% p.a.

One withdrawal in a financial year is permissible from seventh financial year. Maximum withdrawal can be 50% of balance at the end of the fourth year or the immediate preceding

year, whichever is lower. The account can be continued for a block of 5 years after maturity. The continuation can be with or without contribution. Once an account is continued without contribution for more than a year, the option cannot be changed.

Premature closure of the PPF is allowed in cases such as serious ailment, education of children and such. This shall be permitted with a penalty of a 1% reduction in the interest payable on the whole deposit and only for deposits that have completed 5 years from the date of opening.

A PPF account is not subject to attachment (seizure of the account by Court order) .However income tax authorities can attach PPF accounts to recover tax dues. A person can have only one account in his name. Two accounts even at different places anywhere in India are not permitted.

National Saving Certificates – VII Issue

Maturity period of five years, tax benefits under section 80-C, Minimum investment is Rs.500/- without any maximum limit. It can be bought by an individual or jointly by two adults. Nomination even with joint holders is possible. NRI, HUF, Companies, trusts, societies, or any other institutions are not allowed to purchase the National Saving Certificates.
Premature encashment is allowed only in case of death of the holder, forfeiture by a pledgee, or under orders of court of Law. Certificates are available in denominations of Rs. 100, 500, 1000, 5000, and 10000.

Senior Citizen Savings Scheme

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

Post Office Monthly Income Scheme (POMIS)

Term of 5 years, Minimum amount of investment is Rs.1500/-, maximum amount in case of single account is Rs.4, 50,000/-, and in case of joint account is Rs.9, 00,000/-.
No bonus on maturity. Nomination facility is available.
If the account is closed between 1 and 3 years of opening, 2% of the deposited amount is deducted
If it is closed after 3 years of opening, 1% of the deposited amount is charged as penalty.

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

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

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

Book Value: - (Equity capital + net shareholder's reserve)/ no. of equity shares. Whenever the book value of a company is higher than the market price of the company, it indicates the share of the company is available at a discount.

Derivatives are risk management leveraged instruments, which derive their value form the underlying assets. Futures, Forwards, Options & Leaps etc are examples of Derivative contracts.

1. Hedging is basically protecting your assets from losses; and not for maximizing the profits.
2. Arbitraging is taking advantage of price difference in two different markets for risk-free gains.
3. Speculators often take positions in futures markets based on their expectations regarding the price movements of the underlying assets without having a position in cash markets.
4. Buyer of CALL OPTION has the right but not the obligation to buy the underlying asset at a predefined price on a predefined date.
5. Buyer of PUT OPTION has the right but not the obligation to Sell the underlying asset at a predefined price on a predefined date.
6. American Option: This option can be exercised at any time on or before the expiry day/date.
7. European Option: This option can be exercised only on its expiry.
8. Strike Price/ Exercise Price: It's the price at which an option is exercised.
9. Expiry Day/Date: The day/date on which option expires and the contract ceases to exist.
10. Exercise Day/Date: The day/date on which option is exercised.
11. Spot Price > Strike Price for CALL Option → In The Money Option (ITM)
12. Spot Price < Strike Price for CALL Option → Out of The Money Option (OTM)
13. Strike Price > Spot Price for PUT Option → In The Money Option (ITM)
14. Strike Price < Sport Price for PUT Option → Out of The Money Option (OTM)
15. Strike Price = Spot Price → At The Money Option (ATM) for both CALL and PUT Options
16. Option Premium: is the price which an option buyer pays to the seller to buy this option/right.
17. Premium = Intrinsic Value + Time Value.
18. The intrinsic value of an option is the amount by which option is in the money.
19. Only, ITM options have intrinsic value & all OTM and ATM options have zero intrinsic value.

ATM and OTM options have only time value in its premium. The time value of the option is also called the extrinsic value of the option.

Chapter 5 – MANAGING INVESTMENT RISK

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

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

Total Risk **= Systematic Risk + Unsystematic Risk**

Interest rate Risk is a risk caused by change in Interest rate. This risk is faced by investor when they invest in fixed rate coupon bonds. When interest rate rises for other similar bonds or in the

economy, Bond price falls, Fixed Income Investor suffers Loss. When Interest rate falls, Bond prices rise, Fixed Income Investor makes Gains

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

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

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

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

Inflation Risk also known as purchasing power risk reduces purchasing power of the investors.

Regulatory risk due to regulatory changes in a country which is beyond the control of Investor.

Investment Manager (Alpha) Risk is a measure of Fund Manager Performance

Business risk is a risk involved with continued operation of the company.

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

$$\sigma_R = \sqrt{\sum_{i=1}^{n} \frac{(R_i - \overline{R})^2}{N}}$$

Standard Deviation = $\sqrt{Variance}$

CO – VARIANCE

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

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CORRELATION COEFFICIENT - Measure of the relationship between two variables.
The value ranges from –1.00 to +1.00
+1 – Both securities move proportionally in the same direction.
-1- Both Securities move proportionally in the opposite direction
0 - No relationship in movement between two securities
To achieve diversification, the Correlation between the securities needs to be negative
As the correlation between the two assets decreases, the benefits of diversification increase. That's because, as the correlation decreases, there is less of a tendency for stock returns to move together

$$r_{ij} = \frac{COV_{ij}}{\sigma_i \sigma_j}$$

BETA Measures Systematic or Market Risk

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

$$\beta = \frac{cov(R_x, R_m)}{Var(R_m)}$$

Where Cov(Rx,Rm) is the Covariance between Market (M) and Security X
Var (Rm) is the variance of the Market

$$\text{Beta } (\beta) = \frac{r(i, m) * \sigma_i}{\sigma_m}$$

r(i,m) is Correlation Coefficient between Market (M) and Security I
Sigma "i" and Sigma "m" are the standard deviation of Security "i" and "m" respectively.
Beta of a portfolio = Σ (Wn * βn) where Wn is the Weight of each Security in the Portfolio, βn is the Beta of each Security in the Portfolio.

Chapter 6 – MEASURING INVESTMENT RETURNS

1. Absolute return = (End Value – Beginning Value)/Beginning Value) x 100

2. Absolute returns are not appropriate for comparing the performance of investments made for different periods of time. That is because the computation of absolute return does not take into account the holding period of investment
3. Annualized return is a standardized measure of return on investments in which the return is computed as percent per annum (% p.a.).
4. To annualize, the absolute rate of return is multiplied by a factor such as:
   - 365/number of days the investment was held
   - 12/number of months the investment was held
   - 1/number of years the investment was held
5. Total return is the return computed by comparing all forms of return earned on the investment with the principal amount. Thus total return is the annualized return calculated after including all benefits from the investment like Dividend, interest income etc. Total return can be positive as well as negative
6. An investment option that provides most of the return in the form of periodic returns is an income-oriented investment.
7. An investment option that provides most of its return from the growth in its value over time is a growth-oriented investment
8. Compound return is earned when the interest earned in one period is added back to the principal amount to generate a new principal on which interest is computed for the next period. As a result, interest is reinvested in the asset so that interest is earned on interest.
9. Future Value of a Single Cash Flow → FV = PV (1+R) ^N
10. FV → is the Future Value; PV → is the Present Value or Investment or Expenses today;
11. R → Rate of Interest and N→ Number of Periods (Months, Year etc)
12. Present Value of a Single Cash Flow → PV = FV / (1+R) ^N
13. FV IN EXCEL → =FV (RATE, NPER, PMT, PV, TYPE)
14. PV In EXCEL → =PV (RATE, NPER, PMT, FV, TYPE)
15. EMI Calculation in EXCEL → =PMT (RATE, NPER, PV, FV, TYPE)
16. SIP AMOUNT CALCULATION IN EXCEL → USE EMI CALCULATION FORMULAE
17. PMT = 0 and TYPE = 0 in case of Single Cash Flow.
18. PMT = Regular Investment Amount or can be EMI amount; Type = 1 for Investments and ZERO for EMI calculations.
19. Loan Value is entered in PV for calculation of EMI
20. In case of Half yearly Compounding, enter RATE as RATE/2 and NPER as NPER*2
21. Similarly for quarterly and monthly compounding use 4 and 12 as Factors.
22. Nominal rate of return: Rate at which money invested grows.
23. Real rate of return: Rate at which the purchasing power of an investment increases.
24. Inflation adjusted return → [(1+NOMINAL RATE) / (1+ INFLATION RATE)] – 1
25. Inflation Adjusted return is also known as Real Rate of Return
26. Tax Adjusted returns → Nominal Rate * (1-Tax Rate)
27. IRR is the discount rate at which the investment's NPV equals zero.
28. At least one negative cash flow and one positive cash flow are necessary for IRR.
29. NPV is an absolute number. IRR is expressed in % terms
30. IRR reflects investment performance as well as cash flows
31. IRR cannot be used if cash flows are not uniformly spread over time.

32. XIRR is used for if Cash flows / Time period is not uniformly spread.
33. NPV and IRR both are discounted cash flow models
34. XIRR & IRR function is particularly useful when CAGR has to be computed for a series of cash flows, rather than with just a beginning and ending value of the investment.
35. If the IRR is greater than or equal to a minimum hurdle rate, the investment is considered to be financially worthwhile. This hurdle rate may be a benchmark, or the investor's cost of funds.
36. If an investment involves only one cash outflow/inflow and a series of future inflows/outflows at periodic regular intervals, IRR can be used (bonds or loans for example)
37. If an investment involves multiple inflows and outflows, coming in at uneven time intervals, CAGR can be used (equity shares, mutual funds)
38. Sharpe Ratio measures Risk Adjusted Returns. Also known as Reward to Variability ratio. It measures Returns per Unit of Risk.

Chapter 7 – CONCEPT OF FINANCIAL PLANNING

1. Establishing and defining client relationship, 2. Gathering client data, including goals, 3. Analyzing and evaluating current situation and needs, 4. Developing and presenting recommendations, 5. Implementing the recommendations 6. Monitoring and reviewing the Financial Plan are the steps involved in Financial Planning.

Need for Financial Advisory Services

Longer life span and lack of social security, Proliferation of numerous products & Plethora of Information, Complexity of products & services, Increasing income and savings levels, Increasing level of borrowings, Higher aspirations and goals, Inflation, Nuclear Families.

Goals described in terms of the money required to meet it at a point of time in future, is called a financial goal. Each financial goal contains two important components: (a) value of the goal and (b) time to goal.

Conservative Investors

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

Moderate Investors

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

Aggressive Investors

Are experienced investors, who have used a range of investment products in the past, and who may take an active approach to managing their investments?
Willing to take on investment risk & understand that this is crucial to generating long-term return.
Willing to take risk with a significant portion of their assets.
Risk preferences of the investor are taken into account while constructing an investment portfolio.

Chapter 8 – ASSET ALLOCATION & INVESTMENT STRATEGIES

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

STRATEGIC ASSET ALLOCATION

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

TACTICAL ASSET ALLOCATION

Tweaking Strategic Asset Allocation based on Market Conditions is known as Tactical Allocation.
An element of prediction of the markets behavior is always involved in Tactical allocation.
It is a better idea as there is a possibility to exploit various opportunities available if one has the ability to identify and exploit those. An active portfolio management strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors.

The major difference between the two is that strategic asset allocation ignores the anomalies in the stock or bond or other markets and focuses only on the investor's needs. Tactical asset allocation believes that the various markets keep offering opportunities that can be exploited to enhance the portfolio returns.

ACTIVE INVESTMENT STRATEGY

Fund manager has the flexibility to choose the investment portfolio
Investors expect actively managed funds to perform better than the market
Responsive to changing expectations of the portfolio manager
Capitalize between the portfolio manager's belief concerning security/ asset class valuation and that of the marketplace.
A portfolio managers' prediction is based on fundamental and technical analysis.
Active investment strategy seeks to maximize the returns, by exploiting the ups and downs in the market and buying stock when they drop and selling them when they are overvalued. The strategy aims at higher level of returns than the stipulated benchmark.

An active investment strategy is adopted with the objective to outperform the benchmark. This requires the portfolio manager to take a decision based on various factors such as the economic growth, the industry outlook, the global markets and their correlation with the domestic markets etc. This call is generally taken by an expert.

Market timing, Sector rotation, Security selection, Investment style (GROWTH and VALUE) are the four factors which affect Active Investment Strategy.

Growth Style

Companies with above average growth rate,High PE, High Price to Book Value, Low Dividend Yield are characteristics of Growth Companies. Investing in Fully / Overvalued Companies. Suitable in a Bull Market. High Risk when compared to Value Style

Value Style

Investing in Companies below their Intrinsic Value or which are currently undervalued. Value Style is Suitable for Long Term Investments. Low PE Ratio, Low Price to Book Value, above average growth rate, High Dividend Yield is features of Value Stocks. Low Risk when compared to Growth Style. Value Stocks are generally stocks which are out of favor in the market. Ex – Contrarian Pick.

PASSIVE INVESTMENT STRATEGY

- Fund Manager role is Limited
- Low running Cost
- Creating a well diversified portfolio and Holding it for a specific period of time.
- Index Funds / ETF are examples of Passive Investment Strategy
- Buy and Hold is an example of Passive Investment Strategy
- A buy and hold strategy is one in which an investor buys a certain asset class or a mix of asset class products, and then holds on to the investments. He does not churn the portfolio with the objective of maximizing returns or minimizing the risk. Time and effort is spent only at the time of portfolio construction.

Index Funds

- Invests in Index Stocks as per the Weightage.
- Fund Manager has no role in deciding on investments.
- Not designed to Outperform the Benchmark Index
- Low Running Cost. Performance is Mirror of Benchmark Index.
- Tracking Error of Index Funds → Index return – Index Fund return
- Low Tracking Error – Good Index Fund
- Index Funds will generally have a beta value close to 1

Why PASSIVE STRATEGY?

- Investors may not have the expertise to time the market
- The investor may not be interested in taking higher risk and beating the benchmark
- With the aim of reducing the transaction costs.

Ways to rebalance a Portfolio

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

An Overview of different asset classes

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

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

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

Chapter 9 – INSURANCE PLANNING

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

Peril and Hazard

- A peril is an immediate, specific event, causing a loss and giving rise to risk.
- An accident or illness is a peril.
- A hazard is a condition that gives rise to a peril. Reckless driving is a Hazard
- Lung Cancer is a Peril whereas Smoking is a Hazard which results in Cancer

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

Methods of Risk Management

- Avoidance of risk – Example :Not Investing in Equity
- Reduction of risk – Example : Diversifying Investments
- Retention of Risk - Keeping or retaining the risk with oneself
- Transfer of risk - Handing over one's risk to someone else. A commercial and the most important form of 'transfer' of risk are through insurance.
- Sharing of risk - Having common pools called 'risk sharing pools' to which every member would contribute his share. It is a private arrangement.

Insurance

- Loss of Few Shared by Many
- Transferring risk from an individual to a group.
- It is a contract between the insurer & the insured
- The insurer agrees to pay the insured for financial losses arising out of any unforeseen events in return for a regular payment known as "**premium**".
- Insurance is called a risk cover. It financially compensates for losses.

Need for Insurance and its advantages

- Sense of security against Risk & uncertainties
- Financial loss to dependants
- Protect against losses for future
- Insurance financially compensates. Indemnity - Insured is restored to his or her approximate financial position prior to the occurrence of the loss.
- Enhancement of Credit - Insurance makes a borrower to command credit risk because it acts as collateral to the lender. The lender knows that in case of any adverse event which causes financial losses or affects the income potential of the borrower the insurer will restore the borrower to his former financial position.

Requirements of an Insurable Risk

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

Disadvantages of Insurance

1. Costs of doing the business is recovered in the Premium amount
2. Fraudulent claims or inflated claims may increase the Premium amount thereby affecting genuine Insurance Policy holders
3. Identifying right Insurer, right amount of coverage & negotiation of premium
4. Lax Attitude may creep in since the policy holders may think that the loss will be compensated by the insurance company.

Free look period: 15 days time given after purchase of an insurance policy to go through the terms of the policy & return/ cancel it in case the policy holder finds that the terms don't suit their needs

Primary Functions are Providing Protection, Collective bearing of risk, Assessment of risk.
Secondary Functions of Insurance are Prevention of Losses, Small capital to cover larger risks, Means of savings and investment, Source of earning foreign exchange, Risk Free trade

Endowment Insurance is a Level Premium Plan. Here Sum assured and Bonus will be given either at the time of death or at maturity. More expensive when compared to whole life plans. Term

ranges from 5 – 30 years. Non-participating Endowment Plan (no profits) is also available with cheaper premium

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

IMPORTANT TERMINOLOGIES IN INSURANCE

Premium – Amount to be paid to an insurance company for transferring the risk.
Term – The tenure for which an insurance policy is taken. This will be the period for which the risk cover will be provided by the policy.
Nomination – The process of selection a person by the insured who has the right to receive the policy money in the event of death of the life assured. The nominee does not have the right on the money received out the insurance claim. Nominee only has the right of valid discharge.
Sum Assured – This is the amount of money that the insurance company guarantees to pay. This is also referred to as cover or coverage and is the total amount the individual is insured for.
Death Benefit – The amount that is payable by the insurance company to the nominee of the policy on death of the insured.
Maturity Benefit – The amount that the insurance company pays to the policy holder at the end of term of the policy or policy maturity.
Survival Benefit – The amount payable at the end of pre-specified periods during the term of the policy. The amount paid is usually a percentage of the sum assured and the percentage is pre-determined as well. Survival benefits typically do not reduce the death benefit in the policy. Example is Money Back Plans.
Bonus – A share of the profits made by the company is passed on to the policy holders in the form of bonuses. Bonuses may be paid every year (reversionary bonus), in between a policy year (interim bonus) and at the end of the term of the policy (terminal bonus).
Lapse – A policy is said to lapse when premiums are not paid when due. A policy lapse means that the contract between the insurer and the insured is terminated. There will be no risk cover for a lapsed policy.
Surrender Value – The amount that is paid to the policy holder when the policy is surrendered or discontinued. The policy ceases to exist once this amount is paid.
Paid Up Value – The value that the policy acquires when premium payment is stopped after 3 full years are paid. No further premiums can be paid into a paid up policy and no further benefits will be payable as well.
Paid Up Value = (Sum Assured * No of Premiums Paid) / No. of Premiums payable
Foreclosure – A policy will be foreclosed if premiums are not being paid and the value of the policy is not sufficient to carry the charges in the same.
Revival – Revival is the process by which the lapsed benefits of a policy are revived by paying the dues within a specified period of time.
Assignment – This is the act of transferring the rights of the property in the policy from one person to another. On assignment, the benefits of the policy becomes payable only to the assignee, the owner of the policy.
Loan – An owner of an insurance policy which has a cash value may be able to borrow against it for quick cash at very low interest.

Riders – Riders are add-on benefits that can be attached to policies in case of eventualities. These options allow for enhancement of risk cover and extra protection against death, illnesses, etc.
Claim is a demand on the insurer to redeem its obligation or promise made in the contract.
Participating Policy – A policy which participates in the 'profits' of the insurance company and earns a part of the profits.
Non-participating Policy neither participates in the 'profits' of the insurance company nor gets any of the profits.
Reinsurance is transferring portions of risk to other insurers by the Insurance Company.

Chapter 10 – RETIREMENT PLANNING

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

DEFINED BENEFIT PLAN

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

DEFINED CONTRIBUTION PLAN

- Also known as Money purchase plan
- Contribution to the pension plan by the employee is fixed
- Equal Contribution matched by the Employer
- The investment risk is borne by the employee in the defined contribution plan. e.g. 12% of salary as contribution.

GRATUITY

- Gratuity is a Defined Benefit Plan
- As per Sec 10 (10) of Income Tax Act 1961, gratuity is paid when an employee completes 5 or more years of full time service with the employer
- The period of 5 years is not necessary if the termination of the employee is because of death or disablement. In the case of death the amount is paid to the legal heirs
- Taxable under the head 'Income from salary'. Taxable under the head 'Income from other sources' in case Gratuity is received by Legal Heirs. Gratuity upto Rs 10 Lakh are non taxable.

Annuities

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

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

Immediate Annuity – ANNUITANT begin to receive payments from the insurer immediately. For example, upon retirement, an individual can purchase an immediate annuity with his accumulated retirement corpus. Payment will start as immediately at end of the month.

Fixed annuity where the pay-out is a fixed sum or fixed amount. Fixed annuities are essentially debt instruments issued by the insurer. High surrender charges and returns not being able to keep pace with inflation are the major drawbacks.
Variable annuity –Pay-out is based on underlying investment which could be stocks or gold etc. The value of annuity depends on the performance of the underlying product.

Period certain annuity - investor is guaranteed a specific payment for a specific period of time say 10 years. In case of death during the term, Beneficiary will receive annuity till the end of the term.

Life certain annuity - investor is guaranteed specific payment for the rest of his life; there is no survivor benefit. At the time of death, all payments stop even if the death occurs before receiving the first payment. It provides protection against outliving one's retirement money. Also called as longevity annuity or advanced life delayed annuity.

Either or survivor annuity – Annuity will be paid to the first holder till his/her demise. Thereafter the survivor will get annuity till he/she dies.

An equity-indexed annuity - It is a combination of fixed and variable annuity. A minimum return is guaranteed. Low transparency, lower return compared to benchmark index (due to guaranteed component), high charges etc. are drawbacks.

National Pension Scheme

PFRDA – Pension Fund Regulatory & Development Authority is the regulator. It is a Defined Contribution Scheme. Investment in NPS is to be maintained until the age of sixty. National Pension Scheme applies to an individual who has joined Central Gov Service on or after Jan 2004.
Who are not covered?
Employees already covered under PF act
An individual who has joined Central Government service before 01 January 2004, or Employees of the Indian Armed Forces

Features of National Pension Scheme

1. Tier I A/c known as Pension A/c is Non Withdrawable
2. Tier II A/c known as Savings A/c is withdrawable
3. Tier I account is a pre-requisite for opening a Tier II account

4. Employee Contribution – 10% of Basic + DA + DP
5. Government Contribution – Same amount as that of employee
6. Withdrawal not possible till 60
7. PPAN – Personal Pension Account Number
8. PRAN – Permanent Retirement Account Number
9. Maturity amount taxed on withdrawal at the time of retirement.
10. Tier-I account is available from 1st May 2009. Tier II account from 1st Dec, 2009.
11. Investors can invest through Points of Presence (POP).
12. Contributions in Tier II A/c will not enjoy any tax advantages.
13. ACTIVE CHOICE – 3 PORTFOLIO OPTIONS
14. Scheme A / Asset Class G: Predominantly in Government Securities
15. Scheme B / Asset Class C: Predominantly in Corporate Bonds
16. Scheme C / Asset Class E: Predominantly in Equity markets.
17. Auto choice also known as Lifecycle Fund is based on the Age of the Investor.
18. Minimum amount per contribution - Rs 500. Minimum contribution per year - Rs 6,000. Minimum number of contributions - 01 per year.
19. If an Investor Exits before age 60 then 80% of the savings must be used purchase the annuity and balance 20% can be withdrawn in lump sum.
20. If an Investor exits at the age of 60 then 60% of amount withdrawn can be taken in lump sum and balance 40% of is to be used for purchase an annuity from Life Insurer.
21. The life insurance company will pay a monthly pension for the rest of the life.
22. 100% Annuity option is also available. Annuity for Family Survivor – Possible
23. Central Recordkeeping Agency (CRA) – NSDL would recover charges for maintenance of your accounts, at the same time PFM(s) would be paid for managing the savings. The fees and charges by the CRA and Portfolio Managers will be regulated by the PFRDA.
24. Fewer Portfolio Options when compared to MF

REVERSE MORTGAGE

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

1. Senior Citizens aged 60 or above are eligible for Reverse Mortgage Scheme.
2. The amount of loan available under RML depends on the age of the borrower, appraised value of the house and the prevalent interest rates of the lending institution.
3. Joint Loan facility is available. In this case at least one should be aged 60.
4. Residual Life of the property should be Minimum 20 years. No minimum period of Ownership is required
5. The residence should be permanent primary residence & not commercial premises.
6. Maximum monthly payment is capped at Rs 50,000. The maximum lump sum payment shall be restricted to 50% of the total eligible amount of loan subject to a cap of Rs.15 lakh, to be used for medical treatment for self, spouse and dependants, if any. The balance loan amount would be eligible for periodic payments.
7. The property should be self-acquired, self-occupied and having clear title in favor of the borrower.
8. All receipts under RML shall be exempt from income tax under Section 10(43) of the

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

Chapter 11 – TAXATION

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

Basic Conditions
1. In India for a period of 182 days or more in the relevant previous year
2. In India during relevant previous year for 60 days or more & presence in India for 365 days or more during 4 years immediately preceding the relevant previous year.
If the individual is an Indian citizen and leaves India in any previous year as a member of the crew of an Indian ship or for the purpose of employment, he will have to stay in India for at least 182 days (and not 60 days as in condition 2) to qualify as a resident.
Additional Conditions
1. Has been resident in India in at least 2 out of 10 PY immediately preceding relevant PY
2. In India for more than 729 days during 7 years immediately preceding the relevant PY.

Ordinarily Resident	Resident but not ordinarily resident	Non Resident
Must Satisfy at least one of the basic conditions and both additional conditions	Must Satisfy at least one of the basic conditions & one or none of the additional conditions	Should not satisfy any of the basic conditions

TAX RATES FOR ASSESSMENT YEAR 2018-19 (F.Y 2017-18)

Total Income Slab	Senior citizens (60 & above)	Rates for others below age 60
Up to Rs. 2,50,000	Nil	Nil
Rs. 2,50,001 to Rs. 3,00,000	Nil	5%
Rs. 3,00,001 to Rs. 5,00,000	10%	5%

Rs. 5,00,001 to Rs. 10,00,000	20%	20%
Above 10 Lakhs	30%	30%

Section 87A provides a rebate to resident individuals whose total income does not exceed Rs.3,50,000. The rebate shall be 100% of income tax or Rs.3500 whichever is lower.

Surcharge: 10% of income tax, where total income exceeds Rs.50 lakhs upto Rs.1 crore.
Surcharge: 15% of income tax, where total income exceeds Rs.1 crore.

Very Senior Citizen - Individual resident who is of the age of 80 years or more –
Tax is NIL till 5 Lakhs income. Remaining SLAB is same.

If the dividend received by an individual or HUF from a company exceeds Rs.10 lakhs in a year then the excess shall be taxed at the rate of 10%.

Education cess at 2% and higher education cess at 1% will apply to all rates

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

Gross Total Income
Total income computed in accordance with the provision of the IT Act before making any deduction under Chapter VI A.
A Residents total income comprises of all his income accruing or receiving or deemed to accrue or be received in or outside India.
A non-residents total income comprises only that income which accrues or is received (or is deemed to accrue or receive) in India.

Chapter VIA Deductions
The aggregate amount of deductions cannot exceed the gross total income.
As per Section 80CCE, the total deduction the assessee can claim u/ss. 80C,80CCC and 80CCD shall be restricted in aggregate to Rs. 1,50,000/-.

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

1. Life Insurance premium (ULIP and Traditional) for self, spouse and any child
2. ELSS Schemes of Mutual Funds.
3. 5 yr time deposit under the **P.O** Time Deposit Rules
4. Investment in Bank Fixed Deposits for 5 years.
5. NSC,PPF, Approved Superannuation funds, Provident Fund
6. Principal paid on Housing Loan.
7. Tuition fees for 2 children in India.
8. Deferred annuity Plans
9. Subscription to any notified bonds of National Bank for Agriculture and Rural Development (NABARD)

10. Account under the Senior Citizen Savings Schemes Rules, 2004.
11. Any sum deposited in a 10 year or 15 year account under the Post Office Savings Bank (CTD) Rules, 1959

SECTION 80CCC – Deduction in respect of contribution to pension funds / schemes.

SEC 80CCD – Deduction in respect of contribution to Pension Scheme of Central Government

Sec 80C+80CCC+80CCD should not exceed Rs 1.5 lakh

Additional Tax benefit of Rs. 50,000 u/s 80 CCD (1B) in NPS. This is above Rs 1.5 Lakh benefit discussed above.

SECTION 80D – Deduction in Respect of Medical Insurance Premium - Individual/ HUF.

- Up to Rs 25,000 /- Medical insurance premia paid by an assessee for Himself, Wife, Children.
- Up to Rs 25,000 /- towards Medical Insurance Premia for his parents.
- Upto Rs 30,000/- for Senior Citizens

Section 80DD allows deduction on expenses of maintenance of disabled persons up to a limit of Rs. 75,000 or Rs. 1,00,000 depending upon the severity of disability.

Section 80DDB allows deduction of the expenditure on medical treatment for specified diseases such as Parkinson, up to a limit of Rs.80,000 for senior citizens and Rs.40,000 for others.

Section 80E allows the entire interest paid on education loan as deduction from the assessment year relevant to the previous year in which the assessee begins paying interest and seven subsequent years.

Section 80G allows all assessee's to claim deduction up to specified limits for contributions made to charitable organisations.

Section 80GG provides deduction to an assessee not receiving HRA for rent paid by him up to specified limits.

Section 80U allows deductions for persons with disabilities of Rs. 75,000 for normal disability and Rs. 1,25,000 for severe disability.

Section 80TTA provides deduction for interest earned from savings bank account up to a limit of Rs. 10000.

Capital Gains

- Capital Gain arises when a property in nature like plot,house,Jewellery etc or shares/MF units/Bonds are sold for a profit**.**
- Capital Asset doesn't include Stock, Raw materials held in Business, Rural Agricultural Land, personal assets like furniture, Car, Agricultural land in a rural area, 6½% Gold Bonds 1977 or 7% Gold Bonds 1980 or National Defence Bonds 1980 issued by the Central Government; Special Bearer Bonds 1991 issued by the Central Government; Gold Deposit Bonds issued under Gold Deposit Scheme 1999. etc.

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

GAINS	EQUITY	NON EQUITY
LTCG	NIL (if STT is paid)	20% after INDEXATION
STCG	15% (if STT is paid)	AS PER THE SLAB (Marginal Tax)

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

Advance Tax - Default in payment of advance tax attracts interest liability.

Due Date	Total Amount Payable
15 September	At least 30% of the total estimated Tax liability for the year
15 December	At least 60% of the total estimated Tax liability for the year
15 March	Entire Tax liability for the year

Return filing procedures

Assessee	***Due date***
Companies	30 September of the assessment year
Non-corporate under audit	30 September of the assessment year
Non-corporate, non-audit	31 July of the assessment year

Belated return can be filed at any time before the expiry of 1 year from the end of the relevant assessment year.
PIO — a person is deemed to be of Indian origin if he or either of his parents or any of the grandparents was born in undivided India.

SET OFF & CARRY FORWARD OF LOSSES

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

Capital Loss	Set Off Against
Short Term	Long Term / Short Term Gain
Long Term (Debt)	Long Term Gain (Debt)
Long Term Equity	Cannot be Set Off

1. Unabsorbed Loss can be Carry Forwarded for a Period of 8 years.
2. Unabsorbed Speculative Loss can be carry forwarded only for 4 years
3. Unabsorbed Loss under the head "Income from other sources" cannot be carried forward.
4. Losses from the activity of owning and maintaining race horses can be set-off only against the income from the same activity & the unabsorbed losses can be carried forwarded for 4 years.
5. Unabsorbed depreciations in Business can be forwarded without any limitation of time.
6. Loss can be Carry Forwarded only if returns has been files with in due date (except Loss from House Property and Depreciation).

Exemption from Long Term Capital Gain Tax under Section 54

SEC 54	**SEC 54EC**
Residential House	Any Capital Asset
Individual & HUF	ALL
3 years to classify as Long Term Asset	1 Year for Financial Asset. 3 Years for Physical Asset
Purchased a house within a period of one year before or two years after the date on which the transfer took place or has constructed within a period of three years after. Person can hold any number of house properties.	Investment in Capital Gain Bonds (NHAI & REC) with in 6 months from the date of transfer subject to a maximum of Rs 50 Lakhs in a FY.
Lower of Capital Gains or the cost of new asset is Tax exempted	Lower of Capital Gains or Investment amount is Tax Exempted

1. New Asset acquired to be held for 3 years or else the Capital Gains exempted earlier will be chargeable to tax in the year of transfer.
2. U/s 54F Capital Gains exempted earlier shall be chargeable to tax — if the assessee purchases within 2 years or constructs within 3 years any residential house other than the one in which reinvestment is made.
3. The amount of the capital gain which is not utilized by the assessee for the purchase of the new asset before the date of furnishing the return shall be deposited in account of specified bank/institution and it should be utilized within specified time limit for purchase/ construction of New Asset.

Income of Minor Child subject to a limit of Rs 1500 per child is tax exempt.

Income from House Property

1. The person should own the property;
2. The property should not be used for the purposes of business by the person;
3. The property should consist of both land and buildings.

Gross Annual Value is Higher of Fair Rent, Municipal Valuation, Actual Rent received.

Net Annual Value = Gross Annual Value – (Municipal Taxes + Un Realized Rent if any)
Income from House Property = Net Annual Value – (30% of Net Annual Value also known as Standard Deduction + Interest paid to acquire the property). This is for Let out Property.
For Self Occupied Property only the interest paid subject to a maximum of Rs 1.5 lakhs is allowed as Deduction from Net Annual Value.

Gift Tax and Clubbing of Income Provisions

Gift (Cash or in kind) received upto Rs 50,000 in a year is Tax Free. If Gift received is in excess of Rs. 50,000 during a given year, the whole of such aggregate sum.

Entire amount received as Gift is tax exempt if it is received from any relative, on the occasion of marriage, under a will or inheritance, in contemplation of death of the payer, Amount received from any local authority, Amount received from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust.
Relative means spouse of the individual, brother or sister of the individual, brother or sister of the spouse of the individual, brother or sister of either of the parents of the individual, any lineal ascendant or descendants of the individual, any lineal ascendants or descendants of the spouse of the individual, and spouse of the persons referred to hereinbefore.

Wills

A will is explained as a legal declaration made in writing by a person who clearly sets out the manner in which he/she would like his or her property (movable or immovable) wherever situated to be distributed after his death
Codicil - A testator can change the contents of the will any number of times, before his death. Such changes to the will are called 'Codicils'. A will can also be revoked by the testator at any time before his death.
Testator is the person who makes the will. Testatrix is used to refer to a female.
Probate is a copy of the will certified under the seal of a component Court.
Beneficiary is a person who inherits the property under a will.
LegateeThe person who is named in a will to receive a portion of the deceased person's estate is known as a legatee.
Executor is the legal representative for all purposes of the deceased person and all property under the will vests in him. The person named in the will to administer the estate of the deceased person
Oral Wills are wills that are not documented and is made orally. Such wills are mostly prevalent in the defense services.
A will has to be written and signed in the presence of two witnesses except oral wills
A registered will cannot ordinarily be tampered with, destroyed, mutilated, lost or stolen. If a will is registered, no person can examine the will and copy the contents without an express permission in writing of the testator.
General POA – Enables the donee to act on all matters for the donor. The general list of matters covered in this category includes management of bank accounts, sale of property, attending dealings in court, etc.
Specific POA – restricts the donee's authority to act only on a specific transaction, e.g. POA granted to a person to deal with the renting out of an apartment only.

Chapter 12: REGULATORY ENVIRONMENT AND ETHICAL ISSUES

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Investment Advisor – Criteria and Obligations

1. Any person who proposes to provide investment advice shall be required to obtain a registration certificate from SEBI in order to continue to do this activity.
2. A 6 month period has been allowed for existing investment advisers to apply for certification.
3. Registration granted by SEBI is valid for a period of 5 years from the date of its issue.
4. An investment adviser needs to apply for renewal of his registration certificate, three months before expiry of the original certificate of registration.
5. Investment advisers which are body corporate, net worth of not less than Rs 25 Lakhs.
6. Investment advisers who are individuals or partnership firms - Rs 1 Lakh net tangible assets.
7. Investment advisers in existence before commencement of the regulations must comply with the capital adequacy requirement within one year from the date of commencement.
8. The investment adviser should not carry out transaction contrary to his advice to clients on his own account unless 15 days have passed from the date of providing the advice.
9. An investment adviser is required to maintain records in physical or electronic format for a minimum period of five years:

Exemptions

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

BFS - Board for Financial Supervision

The Prevention of Money-Laundering Act, 2002 (PMLA)

SCORES (SEBI Complaint Redress System).

Integrated Grievance Management System (IGMS).

Central Grievance Management System (CGMS)

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