

IFP[®] CHALLENGE STATUS Q&A BOOKLET

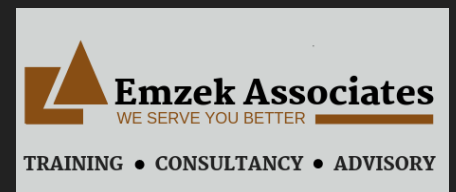
ONLINE WEBINAR SESSIONS

Learning materials in the form of Questions and Answers in assisting candidates to answer the MCQs of Part A in the IFP examinations

Platform



Conducted by



A Professional Qualification owned by



Accredited by



Recognised by



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Risk Management & Takaful

STUDY QUESTIONS

1.0 Introduction to Risk Management	Question 1	Question 2
1.1 Concept and Classification of Risks	<p>What are Risk, Hazard and Peril?</p> <ul style="list-style-type: none"> • Risk is uncertainty, probability or possibility of loss • Hazard is condition that increase the chance of loss • Peril is a cause of loss 	<p>Discuss Pure and Speculative risks</p> <p>Pure risk has no possibility of gain or profit. The outcome is either loss or breakeven.</p> <p>Speculative risk exists when there is the possibility of profit, loss or breakeven will happen.</p>
1.2 Risk Management from Islamic Perspective	<p>Discuss the Islamic views of Risk Management</p> <p>Islam encourages risk management. There are many lessons in the Quran and the Sunnah. Muslims must take action to treat risks before leaving the matter to Allah. The urging of the Prophet on the Bedouin to tie down the camel is an example of risk reduction and clearly demonstrates the Islamic position on risk management.</p>	<p>Discuss Insurable risk</p> <p>Insurable risk is a risk whereby the losses being insured are capable of being measured financially.</p> <p>Once an insurable risk has been identified, individuals or companies may transfer the risks to insurance companies or participate in risk sharing scheme managed by takaful operators. But, transferring risk to an insurance company is non-shariah compliant.</p>
1.3 Basic Risk Management process	<p>Discuss risk management process</p> <p>The basic risk management process consists of:</p> <ol style="list-style-type: none"> 1. establish context and define parameters; 2. assess the risks – by identification, analysis and evaluation; 3. treat the risks – by either: <ol style="list-style-type: none"> i. transfer ii. share iii. reduce iv. avoid v. retain 4. monitor and review (and goes back to the first step). 	<p>Why must risk management process be understood properly to determine the right takaful products for a particular client?</p> <p>Proper understanding of risk management means focusing on wealth protection issues. Protection against risks in relation to assets used in the production of an income and the earnings capacity of a person. Since some takaful products have elements of saving and investment, the right takaful product for a particular client may not need any saving or investment component.</p>

<p>1.4 Communal and Commercial Approach of Risk Sharing</p>	<p>What are two traditional approaches of communal risk sharing?</p> <ol style="list-style-type: none"> 1. The practice of <i>al-Aqilah</i> by ancient Arab tribes to pay blood money to the victim's family 2. The practice of <i>Khairat Kematian</i> by Malay muslim communities to cover burial expenses 	<p>What are the shortcomings of the traditional approaches in communal risk sharing?</p> <ul style="list-style-type: none"> • The fund is not managed by professionals • Record keeping is not properly maintained • The amount collected is minimal, enough for burial expenses • The participants are limited and restricted – cannot achieve economy of scale
---	--	--

STUDY QUESTIONS

2.0 Principles of Takaful & Takaful Business Model	Question 1	Question 2
2.1 Prohibited Elements for Takaful (riba, maisir, gharar)	<p>What are the prohibited elements for Takaful?</p> <p>Riba – Usury. Interest as commonly known today is regarded by a predominant majority of Islamic scholars is equivalent to riba.</p> <p>Maisir – Gambling. Any game of chance whereby one party will lose at the expense of the other.</p> <p>Gharar – Unknown or uncertain factors in the operation of a contract that raises the risk unnecessarily. Also, elements of deception either through ignorance of the parties or through faulty descriptions of the good.</p>	<p>Where does riba occurs in insurance?</p> <p>Riba occurs in the investment operations of the insurance companies. The returns distributed to their policyholders are generated from non-shariah investments. Policyholders having insurance products with saving or investment component are exposed to this risk of accumulating wealth with riba.</p> <p>Also, insurance company imposes interest on advances to policyholders against their cash surrender value of the policy.</p>
2.2 The 7 Principles of Takaful	<p>Discuss the principles of takaful</p> <p>According to the MTA Takaful Handbook, the takaful industry is based on 7 Principles:</p> <ol style="list-style-type: none"> 1. Insurable interest 2. Utmost good faith 3. Indemnity 4. Subrogation 5. Contribution 6. Proximate Cause 7. Tabarru' <p>The first 6 principles are also true for Insurance.</p>	<p>Discuss Tabarru principle and the difference between Risk transfer and Risk sharing</p> <p>Risk transfer is the conventional approach. Basically, the policy owner transfers the risk to the Insurance company. The insurer takes over the risk in consideration of the premium being paid.</p> <p>Risk sharing is the Shariah approach to mitigate losses arising from a common risk faced by participants. A portion of the contributions paid by participants are "donated" into a pool of fund managed by the Takaful operator. This pool of fund based on tabarru' pays the sum assured if the defined peril happens.</p>

<p>2.3 Applicable Contracts in Takaful</p>	<p>Discuss the contracts in takaful</p> <p>The takaful industry consists of 3 main parties: Operator, Participant and Agent. Their relationship are governed as follow:</p> <table border="1" data-bbox="654 478 1006 978"> <thead> <tr> <th>Relationship between:</th> <th>Applicable contract:</th> </tr> </thead> <tbody> <tr> <td>Operator and Participant</td> <td>Wakalah, Mudharabah</td> </tr> <tr> <td>Operator and Agent</td> <td>Wakalah, Ijarah al-a'mal</td> </tr> <tr> <td>Participant and Agent</td> <td>No contract. Mostly moral obligations but some aspects are defined by law.</td> </tr> <tr> <td>Participant and Participant</td> <td>Tabarru'</td> </tr> </tbody> </table>	Relationship between:	Applicable contract:	Operator and Participant	Wakalah, Mudharabah	Operator and Agent	Wakalah, Ijarah al-a'mal	Participant and Agent	No contract. Mostly moral obligations but some aspects are defined by law.	Participant and Participant	Tabarru'	<p>Describe Wakalah, Mudharabah and Ijarah al-a'mal contract</p> <p>Wakalah – an authorization contract whereby a person appoints someone and authorises him to execute certain tasks on his behalf.</p> <p>Mudharabah – a joint venture between the capital provider and the manager. If there is profit then split according to agreed profit-sharing ratio. If loss, capital provider absorbs.</p> <p>Ijarah al-a'mal – Ijarah is a leasing or hiring contract. Ijarah al-a'mal means to employ the services of a person on wages given to him as a consideration for his hired services.</p>
Relationship between:	Applicable contract:											
Operator and Participant	Wakalah, Mudharabah											
Operator and Agent	Wakalah, Ijarah al-a'mal											
Participant and Agent	No contract. Mostly moral obligations but some aspects are defined by law.											
Participant and Participant	Tabarru'											
<p>2.4 Takaful Models in Malaysia</p>	<p>Discuss the Mudharabah and Wakalah business model in the takaful industry</p> <p>Mudharabah and Wakalah models are business arrangements between takaful operator and the participants.</p> <p>In Mudharabah model, the operator earns through pre-agreed profit-sharing ratio (PSR).</p> <p>In Wakalah model, the operator earns by charging fees.</p>	<p>Discuss underwriting surplus and the items that must be accounted for before a surplus is declared</p> <p>Underwriting surplus is the amount arising on yearly basis from the Participant's Risk Fund after deducting these items: -</p> <ul style="list-style-type: none"> • Claims • Re-takaful • Reserves <p>And, adding the investment profits of the Participant's Risk Fund.</p>										

STUDY QUESTIONS

3.0 Introduction to Insurance	Question 1	Question 2
3.1 Definition of Insurance	<p>What are the essential features of Insurance?</p> <ul style="list-style-type: none"> • An economic institution • Based on the principle of mutually • Objective is to accumulate funds to pay claims • Only certain risks are insurable 	<p>Discuss types of risk that can be insured</p> <ul style="list-style-type: none"> • Pecuniary value • Homogeneous exposure • Pure risks • Particular risks • Fortuitous • Insurable interest • Not against public policy • Market agreement
3.2 Functions of Insurance	<p>Discuss the secondary function of Insurance?</p> <ul style="list-style-type: none"> • Stabilization of costs • Stimulation of business enterprise • Provision of security for expansion of business • Reduction of losses • Provision of a means of savings • Provision of sources of capital for investment 	<p>Discuss the impact of Insurance towards economy.</p> <ul style="list-style-type: none"> • Cost stabilization • Stimulate business enterprise • Removes fear & worry • Reduction of losses • Means of savings • Sources of capital for investment • Provides employment for many
3.3 Classes of Insurance	<p>Define what is Life Insurance?</p> <p>Life insurance can be defined as a contract which pays an agreed sum of money on the happening of a contingency (event) or of a variety of contingencies dependant on a human life</p>	<p>Briefly describe what is General Insurance?</p> <p>General insurance business can be taken to be all other forms of insurance business (including the reinsurance of liabilities under a policy in respect thereof) which is not life insurance business as defined in the Insurance Act 1996</p>
3.4 History of Insurance Industry	<p>When did the Insurance Act first introduce in Malaysia?</p> <ul style="list-style-type: none"> • In the early 1960s, when a few life companies were formed • Due to unsound operations and inadequate technical backgrounds, they soon wound up 	<p>What are the major changes of Insurance Act 1996?</p> <ul style="list-style-type: none"> • Creation of an insurance guarantee scheme fund against the insolvency of any insurance company

	<ul style="list-style-type: none"> Insurance Act 1963 was enacted to regulate the industry 	
--	---	--

STUDY QUESTIONS

4.0 Insurance Products	Question 1	Question 2
4.1 Concept of General Insurance	<p>What are the characteristics of General Insurance?</p> <ul style="list-style-type: none"> Generally, they are contracts of indemnity There is a wide dispersion in claim amounts There is usually a large number of small claims and a small number of large claims Generally, the payment of a loss does not terminate the contract The risk does not necessarily increase over time 	<p>What are the six legal principles applicable to General insurance?</p> <ul style="list-style-type: none"> Insurable interest Utmost good faith Proximate cause Indemnity Subrogation Contribution
4.2 Products of General Insurance	<p>What are the differences between the classes in General Insurance?</p> <ul style="list-style-type: none"> Property Liability Percuniary Medical expenses 	<p>What is the coverage under Houseowner Insurance?</p> <ul style="list-style-type: none"> Fire & lightning Explosion Aircraft damage Impact damage Bursting of pipes and overflowing of water tanks Theft following forcible, violent and visible entry and exit Hurricane, cyclone, typhoon and windstorm Earthquake and volcanic eruption Flood
4.3 Concept of Life Insurance	<p>What are the characteristics of Life Insurance?</p> <ul style="list-style-type: none"> Aleatory contract Long term contract with level premiums 	<p>What are the factors that will affect the premium rate?</p> <ul style="list-style-type: none"> Mortality rate Management expenses Rate of investment return

	<ul style="list-style-type: none"> • Once issued, the policy cannot be cancelled • The risk generally will increase over time 	<ul style="list-style-type: none"> • Tax liability
4.4 Products of Life Insurance	<p>What are the broad categories of Life Insurance products?</p> <ul style="list-style-type: none"> • Term life • Whole life • Endowment • Annuities • Permanent health insurance • Investment linked 	<p>What is an Endowment Insurance?</p> <ul style="list-style-type: none"> • Pays the face value upon death or pays the full face amount upon maturity • Consists of a decreasing term with an increasing investment component • Reap the benefits of enforced systematic savings, provision for old age, hedging against untimely death or to accumulate funds for a specific purpose

STUDY QUESTIONS

5.0 Regulatory and Industry Structure of Insurance and Takaful	Question 1	Question 2
5.1 Bank Negara as Regulator	<p>With regards to Takaful, what are the main areas that BNM are concerned with?</p> <p>BNM plays an important role in:</p> <ul style="list-style-type: none"> i) Ensuring that takaful operators run their operations in good manner for the benefit of the participants. ii) Ensuring the operations of the takaful operators are in accordance to Shariah. iii) Instilling public confidence towards Takaful and Islamic finance as a whole. 	<p>As a regulator, BNM is very concerned about the consumers. What are the main areas of concern?</p> <p>Disclosures to consumers – Ensuring that participants have access to accurate, timely and relevant information</p> <p>Competency of Intermediaries – Greater supervisory oversight is required to ensure proper selling practices in view of non-guaranteed nature of benefits</p> <p>Consumer education – Fostering greater awareness and understanding of risks and rights with regard to Insurance and Takaful products</p> <p>Availability of Channels to resolve disputes – Dispute resolution mechanisms that offer speedy resolution of dispute</p>
5.2 Insurance and Takaful Players	<p>How many composite insurance companies are there in Malaysia?</p> <p>There are 9 composite insurance companies operating in Malaysia.</p>	<p>Who are the Takaful players in Malaysia?</p> <p>The Takaful operators are:</p> <ol style="list-style-type: none"> 1. Syarikat Takaful Malaysia 2. Etiqa Takaful 3. Takaful Ikhlas 4. CIMB Aviva Takaful 5. HSBC Amanah Takaful 6. Hong Leong Tokio Marine Takaful 7. Prudential BSN Takaful 8. MAA Takaful

<p>5.3 Overview of Takaful Annual Report</p>	<p>Discuss Market Penetration in relation to takaful industry in Malaysia.</p> <p>Market Penetration is the number of certificates in force divided by total population. In percentage terms, the indicator rose to 5.6% in 2005 from 5.1% previously.</p> <p>Assuming Malaysia population is 27 million with 60% Bumiputera, the potential for Family takaful is big.</p>	<p>What are the distribution channels for Takaful and which channel has performed well in 2005?</p> <p>There are 4 main channels: Bancatakaful, Agency, Brokers and Direct marketing.</p> <p>In 2005, Direct marketing remained as the dominant distribution channel with 44.3% of new business generated, although the distribution share has dropped from 61% in 2004. This reflects the growing preference for other distribution channels.</p>
<p>5.4 Industry Associations</p>	<p>What are the main objectives of Malaysian Takaful Association (MTA)?</p> <ul style="list-style-type: none"> • To promote and represent the interests of the member companies and the takaful industry • To render where possible, to member companies such advice and assistance as may be required • To circulate information likely to be of interest to member companies, and to collect, collate and publish statistics and other information relating to takaful. 	<p>What is the primary role of MTA in relation to Consumer Protection?</p> <p>MTA requires all Takaful agents be registered on annual renewal basis. MTA also conducts the Takaful basic exam for the agent to pass before they can be registered as agents.</p> <p>In addition, MTA has imposed Continuous Professional Development requirements of minimum 30 hours per year for Family takaful agents to maintain.</p> <p>The setting of agent's competency level and ensuring their continuous developments will translate into better services to the consumer. Consumers would be well-informed in their decision making.</p>

STUDY QUESTIONS

6.0 Key Differences between Insurance and Takaful	Question 1	Question 2
6.1 Contractual Differences	<p>An exchange contract is affected when a policy holder pays the premium to be insured by the Insurance company. Explain why this practice is prohibited by Shariah?</p> <p>The effect of an exchange contract is that the ownership of the subject is moved from the seller to the buyer. In insurance no change of ownership of the subject being insured takes place. The asset is not bought or sold in general insurance, nor is the life that is being insured in life insurance. But, the civil laws recognize an Insurance policy / contract as the product being exchanged between the company and the policy holder even though the subject being insured is the asset or the life.</p> <p>Under Shariah rules, the subject in a contract of exchange must meet the following criteria:</p> <ul style="list-style-type: none"> • Must exist at the time of exchange • Must be something of value and useful • Must be legally owned by the seller • Must be capable of being delivered by seller • Must be able to be differentiated by quantity, type and features <p>Since the Insurance contract does not fulfill all of the above criteria of a product, the transaction is deemed as Gharar, i.e. uncertain element in a contract. In Shariah, a transaction with gharar element is prohibited.</p> <p>This is why the Insurance contract as conventionally practiced is prohibited by Shariah.</p>	<p>Discuss underwriting deficit in Insurance and Takaful.</p> <p>In Insurance, the insurance company will make good the deficit from its shareholder's fund.</p> <p>In Takaful, even though the Participants are theoretically liable for the deficit, the Takaful operator is expected to provide an interest-free loan (from the shareholder's fund) to the Participant's Risk Fund to cover the deficit. This loan will be repaid from future profits of the Risk Fund, interest-free.</p>

<p>6.2 Legal Framework</p>	<p>(i) Bank Negara is the regulator of both Insurance and Takaful. What is the primary Acts governing the industries? Insurance Act 1996 and Takaful Act 1984.</p> <p>(ii) What are the main agencies set up by Bank Negara to cater for consumer needs? Financial Mediation Bureau (FMB) and Agensi Kaunseling dan Pengurusan Kredit (AKPK)</p> <p>(iii) What are the roles of FMB and AKPK? FMB – As an alternative to the courts in settling disputes between consumer and financial services providers AKPK – to provide services to individuals in the areas of: Money management i.e. how to manage their finances prudently; Credit counseling; and Financial education and debt restructuring;</p> <p>The services of AKPK and FMB are free of charge.</p>	<p>Discuss Market conduct and Consumer protection in Insurance and Takaful.</p> <p>Disclosures to consumers – Ensuring that participants have access to accurate, timely and relevant information.</p> <p>Competency of Intermediaries – Greater supervisory oversight is required to ensure proper selling practices in view of non-guaranteed nature of benefits.</p> <p>Consumer education – Fostering greater awareness and understanding of risks and rights with regard to Insurance and Takaful products.</p> <p>Availability of Channels to resolve disputes – Dispute resolution mechanisms that offer speedy resolution of dispute.</p>
<p>6.3 Roles of Shariah Advisory Council and Committee</p>	<p>What is the role of Shariah Advisory Council in relation to Takaful? To determine the Shariah rulings on takaful transactions conducted by financial institutions under the purview of Bank Negara Malaysia</p>	<p>Discuss the function of Shariah Committee of a Takaful operator. Takaful operators are required to establish a Shariah Committee as part of its internal governance in order to ensure compliance with the Shariah including how funds are invested. The appointment of the committee members are subject to approval by BNM. It serves as the link between the operator and the SAC of BNM</p>
<p>6.4 Terminology for Takaful</p>	<p>What is amount paid by consumers</p>	<p>What is the basic difference between</p>

	<p>for protection called in Insurance and Takaful?</p> <p>Insurance – premium Takaful – contribution</p>	<p>Premium and Contribution?</p> <p>Premium belongs to the Insurance company. But, Contribution belongs to the Participants collectively.</p>
--	--	---

STUDY QUESTIONS

7.0 Introduction to General Takaful	Question 1	Question 2
7.1 Concepts of General Takaful	<p>What type of contract is used in general takaful?</p> <p>Most general takaful contracts are contracts of indemnity.</p>	<p>What is the aim of general takaful?</p> <p>The aim of general takaful is to place the participant in the same financial position as that occupied before the occurrence of the insured peril, subject to maximum limits of the covered amount.</p>
7.2 Operational Aspect of General Takaful	<p>From which fund will the takaful operator pay compensation to the participants of a general takaful plans should there be a claim?</p> <p>Claims are paid from the General Takaful Fund.</p>	<p>What are the conditions for participants to receive profit sharing payments when they participate in general takaful plans?</p> <p>Payments to participants are made at the conclusion of the scheme provided the participants have not made and received any claims during the period of participation.</p>
7.3 Product Features	<p>How would contributions be paid by participants of general takaful plans?</p> <p>A lump sum contribution is required from the participant at the beginning of the contract.</p>	<p>What benefits would the participant get if he does not make any claim by the expiry of a general takaful contract?</p> <p>For a no-claim status, the participant is entitled to the investment portion in General Takaful Fund based on the agreed profit sharing ratio.</p>
7.4 Operational Workflow & Claims	<p>What should the participant do if he is met with losses by the peril being covered?</p> <p>Whenever a loss occurs, it is a condition of most certificates that the takaful operator be given notice of the loss immediately.</p>	<p>What are the conditions for a valid claim?</p> <p>The conditions are:</p> <ul style="list-style-type: none"> • the certificate must be in force • The loss is caused by an insured peril • the subject matter affected by the loss must be the same as that insured under the contract • notice of loss has been given without undue delay

STUDY QUESTIONS

8.0 General Takaful Products	Question 1	Question 2
8.1 Motor Takaful	<p>How are vehicles grouped under the Motor Tariff?</p> <p>Motor vehicles have been grouped under the Motor Tariff into:</p> <ul style="list-style-type: none"> • Private cars • Commercial vehicles • Motorcycles 	<p>What are the types of cover available for each group of motor vehicles?</p> <p>The types of cover available for each group are:</p> <ul style="list-style-type: none"> • Act only • Third party • Third party, fire and theft • Comprehensive
8.2 Houseowners / Householders Takaful	<p>What is houseowner's takaful?</p> <p>Houseowners' takaful is a scheme specially designed for those who wish to insure their private dwellings (houses, flats or apartments).</p>	<p>What is householder's takaful?</p> <p>Householder's takaful is a scheme designed for those who wish to insure the home contents against loss or damage</p>
8.3 Other Non Motor Takaful Products	<p>What types of coverage can you get under Theft takaful plans?</p> <p>Theft takaful plans include:</p> <ul style="list-style-type: none"> • Burglary • All risks • Goods in transit • Money 	<p>What types of coverage can you get under Liability takaful plans?</p> <p>Liability takaful plans include:</p> <ul style="list-style-type: none"> • Employer's liability • Public liability • Professional indemnity • Products liability
8.4 Miscellaneous classes of Takaful Products	<p>Under Medical and Health takaful, why do operators engaged the services of TPA?</p> <p>TPAs are engaged to provide 24-hour services to participants, especially for issuance of LG to hospitals after office hours.</p>	<p>Under Personal Accident takaful, can a person participate in more than one scheme?</p> <p>Discuss..</p>

STUDY QUESTIONS

9.0 Family Takaful Products	Question 1	Question 2
9.1 Concepts of Family Takaful	<p>What is Family Takaful?</p> <p>A Family takaful plan is a long-term savings and investment program with a fixed maturity period. The plan provides investment profit and mutual financial assistance to its participants.</p> <p>In regards to mutual financial assistance, the plan actually pools efforts to help the participant's family financially in times of need arising from untimely death, injury or disablement to the participant.</p>	<p>What are the main aims of the Family Takaful plan?</p> <p>The main aims are:</p> <ul style="list-style-type: none"> (a) To save regularly; (b) To invest with a view of earning profits which are Syariah compliant; and (c) To obtain protection in the form of payment of takaful benefits to heirs should a participant die before the maturity date of his takaful plan.
9.2 Operational Aspect of Family Takaful	<p>Takaful agents play a vital function in the application process for a would-be participant to join a Family Takaful plan. What are the agent's roles in general?</p> <p>In general, the agent's roles are: (1) to ask questions posed in the application form to the applicant clearly and carefully to get the true and complete answer and (2) to observe the applicant's behavior and to inform the operator of any peculiarities that may affect the underwriting decision.</p>	<p>Discuss the Islamic principle used for Participant's Risk Fund</p> <p>The principle is known as Tabarru'. It is the agreement by a participant to relinquish as tabarru' (donation), a certain proportion of the Takaful contribution that he agrees or undertakes to pay, thus, enabling him to fulfill his obligation of mutual help and joint guarantee should any of his fellow participants suffer a defined loss.</p>
9.3 Operational Workflow	<p>In the event that a participant should die before the maturity of his family takaful plan, what are the benefits that are due to him?</p> <p>(i) The total amount of the takaful sum cover</p>	<p>If a participant survives until the date of maturity of his takaful plan, what are the benefits shall be paid to him?</p> <p>(i) The total amount of takaful instalments paid by the participant during the</p>

	<p>(ii) The outstanding takaful instalments which would have been paid by the deceased participant should he survive. This outstanding amount is calculated from the date of his death to the date of maturity of his takaful plan which shall be paid from the participant's special account as agreed upon by all the participants in accordance with the takaful contract.</p>	<p>period of his participation plus his share of profits from the investment of the takaful instalments credited into his participant's accounts.</p> <p>(ii) The net surplus allocated to his participant's special account as shown in the last valuation of the participant's special accounts.</p>
<p>9.4 Underwriting Surplus or Shortfall</p>	<p>A large portion of the contribution paid is put into the Participant's Account and are pooled by the operator for investments. Discuss this pool of funds.</p> <p>Foremost, monies in the Participant's Account are to meet the savings/investment needs of the participant. The operator manages the pooled amount by investing the fund in Shariah compliant securities and is entitled to a portion of the profits, if any.</p> <p>The operator would declare the participant's portion and credit the participant's account on yearly basis.</p> <p>Upon maturity of the plan or death of the participant, the ending balance (i.e. capital plus profits) is given back to the Participant or to his heirs.</p>	<p>From which fund would Takaful operator pay financial assistance to participants in cases of death, injury or disablement? What if there is a shortfall?</p> <p>Participant's Risk Fund (also known as Participant's Special Account)</p> <p>A benevolent loan (Qardhu Hassan) interest free is provided by the Shareholders.</p>

STUDY QUESTIONS

10.0 Family Takaful Products	Question 1	Question 2
10.1 Types of cover	<p>What are the differences between Basic Family scheme and Investment-linked scheme?</p> <p>In Basic Family scheme, the investments of the Participant's Account funds are not specified and left to the discretion of the Takaful operator. While in Investment-linked scheme, the type of investments is specified.</p>	<p>What is Mortgage Reducing scheme?</p> <p>Mortgage Reducing scheme is a takaful plan that provides financial benefits equal to the outstanding balance of a house financing in the event of death or total permanent disability that may happen to the participant cum house financing customer.</p>
10.2 Benefits under Family Takaful	<p>What are the primary benefits of Family takaful plan?</p> <p>To provide financial assistance to the participant's family in case of death and to accumulate wealth through regular savings and investment returns upon maturity of the takaful plan for the participant.</p>	<p>Discuss the benefits of an Investment-linked takaful scheme</p> <p>In Investment-linked scheme, participants can choose the type of investments that the operator will place his funds into. Participants can choose according to his risk tolerance levels. However, participants would need to do some research to know the available investment types and the operator that offers them.</p>
10.3 Key terms and conditions	<p>What is Surrender Benefit of a Family Takaful plan?</p> <p>Surrender Benefit are benefits paid to the participant in the event that he is compelled to surrender or withdraw from the takaful plan before the maturity of his takaful plan.</p> <p>The participant is entitled to receive the proportion of his takaful instalments that have been credited into the participant's account including his share of</p>	<p>Discuss Cooling-off period in Family takaful</p> <p>Upon being approved by the operator, participants can cancel his takaful contract for a refund of the contribution paid less the medical check-up fee if any. However, the cancellation must be done within a certain period, usually 15 days. This period is called the Cooling-off period.</p>

	investment profits. However, the amount that has been relinquished as tabarru' will not be refunded to him.	
10.4 Salient features of Family Takaful	<p>What is the main difference between Family and General Takaful plans?</p> <p>In Family Takaful plans, the insured peril is the loss of life of the participant. While in General Takaful plans, the insured perils are those not included in Family plans, mostly on assets and liabilities.</p>	<p>What are Riders in Family takaful plans?</p> <p>Riders are additional benefits that participants can choose to have in the protection plan by paying additional contributions. Eg. Total & Permanent Disability, Hospitalisation, Critical Illness, etc.</p>

STUDY QUESTIONS

11.0 Medical & Health Takaful	Question 1	Question 2
11.1 Concept of Medical and Health Takaful	<p>What are the important tips when deciding to purchase a MHT Scheme?</p> <ol style="list-style-type: none"> 1. Ask about the different types available in the market 2. Understand what are the product features, conditions, limitations, exclusions and benefits 3. Ensure the product suits your needs and contribution affordability 4. During application, declare all material facts, otherwise the contract may be void, and claims repudiated. 5. Deal directly with the Operator or thru' its registered agents only. 	<p>What are the benefits normally provided in a MHT Plan?</p> <ol style="list-style-type: none"> 1. Medical Expenses cover to provide for <ul style="list-style-type: none"> • Hospitalization and Surgical Benefits and/or • Major Medical Expenses Benefit 2. Hospitalization Income Benefit 3. Critical Illness Cover 4. Disability Income Benefit
11.2 Types of Cover and Benefits	<p>How do Co-Takaful works in the event of a MHT claim?</p> <p>In the event of a claim, participant pay 10% of the total Medical Expenses incurred upon discharge and the Operator pays the balance directly to the hospital.</p> <p>This requirement is applicable under normal MHT claims situations.</p>	<p>How do Co-Payment works in the event of a MHT claim?</p> <p>Co-Payment is applicable when a participant opted to upgrade his Room & Board entitlement upon admission to the hospital. When this happens, the participant shall bear 20% of the total medical expenses incurred except for Room & Board, where the difference is payable.</p> <p>On the remaining 80%, the participant has to bear 10% Co-Takaful, and the balance paid by the Operator. (This is prescribed by BNM).</p> <p>Total amount paid by the participant by using this method is 28% of total Medical Expenses.</p>

<p>11.3 Types of Cover and Benefits</p>	<p>What are the benefits provided under the Critical Illness Plan?</p> <p>The plan provides for lump-sum payment in the event a participant is diagnosed to suffer from any of the illnesses specified in the certificate.</p> <p>The Plan automatically terminates upon payment of the benefit.</p>	<p>What is a Group Medical and Health Takaful Scheme?</p> <p>This scheme is suitable for corporations and associations where it covers a group of people.</p> <ul style="list-style-type: none"> • Uses one certificate to cover all in the group • All members can be included, regardless of age and physical condition • Contribution is based on the whole group • Either voluntary or non-voluntary basis, and contributory or non-contributory basis • In contributory, the tax is on employer's portion only.
<p>11.4 Exclusion Clauses</p>	<p>Under what situation the Supplementary Contract shall get terminated automatically?</p> <ol style="list-style-type: none"> 1. If contributions are unpaid 2. If the certificate becomes paid-up, matures, expires, lapses, or is cancelled 3. On the day the participant or the covered person dies or become totally and permanently disabled 4. Upon written request from the certificate holder to terminate the rider. 	<p>What are the normal exclusions under Medical and Health Takaful?</p> <ul style="list-style-type: none"> • Pre-existing illness or conditions • Waiting Period • Specific Illness • Claims resulting from illegal or unlawful acts • Pregnancy or childbirth • Sexually transmitted disease, infection or parasites • Cosmetic or plastic surgery

STUDY QUESTIONS

12.0 Practice of Family Takaful - Claims	Question 1	Question 2
12.1 Introduction to Claim	<p>What role can an agent play in the event of claims?</p> <ul style="list-style-type: none"> • Assist the participant in obtaining the various required documents • Explain to participant clearly why the loss is beyond scope of cover (for unclaimable situation) • Agent must be well-verse with the procedures and documents needed for the claim to be settled promptly 	<p>What are the various factors that contribute to delayed claims?</p> <ul style="list-style-type: none"> • Incomplete documentation • Unable to determine the contract status • Delayed response from claimant • Claim is outside scope of cover • Contribution due still outstanding
12.2 Death and Maturity Claim	<p>In the event of death claim, what needs to be done and what are the documents required?</p> <p>The beneficiary of the participant should notify the operator immediately and provide the following documents:</p> <ul style="list-style-type: none"> • Certified copy of Death Certificate • Copy of deceased Identity Card • Original Family Takaful Cert • Proof of claimant's relationship with the deceased • Other documents as requested by the Operator (Burial Permit, Police Report, etc) 	<p>What are the benefits payable in the event participant dies before maturity of the plan?</p> <p>The Operator shall pay to the participant's nominee (wasi) the following benefits:</p> <ul style="list-style-type: none"> • From the Participant's Account (PA): The amount accumulated in the PA plus his share of profits from date of inception of the certificate until due date of contribution payment prior to death. • From the Participant's Special Account (PSA): The sum covered under the risk or the tabarru' portion

<p>12.3 Claims arising under Personal Accident, Sickness and Permanent Health</p>	<p>How does the Supplementary Accidental Rider benefit the participant?</p> <p>The rider benefits becomes payable if:</p> <ul style="list-style-type: none"> • The participant dies as a result of accidental injury • The participant died within 90 days of the accident • Benefits payable is the total sum of basic contract PLUS supplementary contract 	<p>What is Double Indemnity?</p> <p>Where the death benefit under supplementary contract is doubled if the accidental death is caused by any of the following:</p> <ul style="list-style-type: none"> • While riding as a fare paying passenger on a commercial licensed public vehicle such as bus or train • While in a public elevator/cable car/lift, excluding those used in mines and/or construction sites • As a direct result of the burning of any public building, hotel, theatre or cinema
<p>12.4 Claims Register and Third Party Administrator</p>	<p>What is the main function of the Claims Register?</p> <p>This is a legal requirement under Takaful Act 1984:</p> <ul style="list-style-type: none"> • that every Operator shall maintain an up-to-date register of all takaful claims immediately after being notified. • None of these registrations shall be removed from the register as long as the operator is still liable for the claims. • The Claims Register serves as an official record of all claims notified to the Operator. 	<p>What is the role of Third Party Administrator?</p> <p>In respect of MHT Claims, Third Party Administrator usually acts as Solutions Developer and Medical Benefits Administrator for the Operators.</p> <p>They are also known as Registered Managed Care Organization (MCO) approved by both Ministry of Health and Bank Negara Malaysia.</p>

STUDY QUESTIONS

13.0 Takaful Investment Link	Question 1	Question 2
13.1 What is Investment Link Takaful	<p>What is Investment Linked Takaful and the different types available?</p> <p>This is a family takaful plan which combines investment and takaful cover</p> <p>A participant can choose between a single contribution or a regular contribution plan</p>	<p>What are the features of an investment linked Takaful plan?</p> <p>The participant can decide on the allocation of his / her contribution towards protection and investments in a variety of Shariah-approved funds. Each fund is divided equally into units to derive at a unit price. This price is published in the newspapers, so that the participants can track their investments.</p>
13.2 Types of Investment Funds	<p>What does the Syariah Advisory Council look for when an Investment Linked Takaful product is submitted to them?</p> <p>The fund's prospectus, deeds, structure and processes are Syariah compliant and details are all included in the akad.</p>	<p>Name one Nabi and describe the lesson learnt in the Holy Qur'an with regards to investment</p> <p>Nabi Yusuf (AS) the incident when he interpreted the dream of the Ruler of Egypt. Seven lean cows eating up seven fat cows. The lesson for investment is to save first before spending.</p>
13.3 The difference between Family and investment link	<p>What is the main difference between family takaful personal investment account and the investment link investment account?</p> <p>A participant can choose the percentage of investments into the various specified investment accounts, switch funds, buy sell units in an investment link takaful, whereas in a family takaful plan the investments are not specified, grouped and paid out upon death or maturity.</p>	<p>If the price of A,B and C funds is 0.50, 0.70 and 1.00 respectively. The participant have in a single contribution takaful investment linked plan, he has RM5000 to purchase the units. Allocation is 50%, 30% and 20% respectively. Describe the process of working out the units he has.</p> <p>First divide RM5000 in its respective percentage allocation, RM2500 for fund A, RM1500 for fund B and RM1000 for fund C. Then divide the amount in RM with the prices of the respective funds.</p>

13.4 Understanding features of investment linked products	<p>State at least 3 features of a regular contribution investment linked product.</p> <p>Switching of Funds. Additional Top Up Partial Withdrawal.</p>	<p>Describe a structured investment linked plan?</p> <p>Usually single contribution 3 to 5 years closed ended Capital Protected with potentially upside returns</p>
---	--	---

STUDY QUESTIONS

14.0 Introduction to Business Takaful	Question 1	Question 2
14.1 Overview of Business Takaful	<p>In a business takaful plan among 4 owners ABC and D, who is owner of the takaful plan and why?</p> <p>In a business takaful plan among 4 owners, each owner buys on their own life and the contribution is paid by the other 3 owners ie insured life A, owner of the plan are BCD</p>	<p>Do you need a buy sell agreement for keyman takaful, why or why not?</p> <p>There is no need of a buy sell agreement in a keyman takaful plan, this is because the plan is a 3rd party plan owned by the company on the life of the employee (keyman) whose death, disability and or critical illness would cause financial loss to the company.</p>
14.2 Insurable interest and risk management issues	<p>Which one of the following person does not have insurable interest over the other? Which one A B C or D</p> <p>A – Creditor & Debtor.</p> <p>B – Company & Keyman</p> <p>C – Donor & Donee</p> <p>D – Among Partners of Business</p>	<p>How is Risk Management “measured”? Give example.</p> <p>By its frequency and its severity. Example is death, the frequency is once but the severity could be devastating. As opposed to Missing the scheduled flight. The frequency could be many times but the severity is loss of time (being late)</p>
14.3 Risk Treatments	<p>What are the various risk treatments, please name them.</p> <p>Reduce Avoid</p>	<p>In a Business Takaful case, what constitute to avoiding the risk, identify the risk and explain.</p> <p>Not planning for business</p>

	<p>Retain Share / Transfer</p>	<p>succession constitute to avoiding the risk. In this case the risk is death, disability or critical illness of an owner. In this case the opportunity missed out is the funding to buy over the deceased shares. Alternative funding must be sourced.</p>
<p>14.4 Funding the solutions</p>	<p>Apart from Takaful, what are other source of funding ?</p> <p>Create a sinking fund via investments. Sell assets owned to redeem the cash. Borrow</p>	<p>Answer true or false.</p> <p>When a business owner dies, the takaful proceeds are used to benefit the deceased family, hence the takaful operator should pay the proceeds directly to the family as beneficiary.</p> <p>FALSE</p>

STUDY QUESTIONS

15.0 Business Takaful for Sole Proprietor and Partnerships	Question 1	Question 2
15.1 Overview of Succession Planning	<p>Name 4 of the steps for business succession.</p> <p>Commitment Survival Recruitment Development Selection Announcement Implementation</p>	<p>What is the primary purpose of a succession plan?</p> <p>Ensure the value of the shares. Ensure there is an exit strategy when the (TE) trigger events happens. Ie Disability, Death and Dreaded Diseases.</p>
15.2 Buy Sell Agreement	<p>What is a Buy Sell Agreement (BSA)?</p> <p>It is a document that binds the surviving partner to buy over the shares/business, and the heirs to sell, after the death of a partner.</p>	<p>Name the types of BSA suitable in Malaysia?</p> <p>A Cross Purchase and A Trustee Cross Purchase</p>
15.3 Valuation of the business	<p>What are the common valuation methods used in a Business Succession Plan?</p> <p>Book Value and or Capitalization of Income Method.</p>	<p>What type of business should use the capitalization of income method?</p> <p>Professional Firms such as Accountants, Legal firms, Engineering firms.</p>
15.4 Family Takaful as the ideal solution	<p>Why is the Family Takaful plan an ideal solution to business succession planning ?</p> <p>Main aims of Succession Planning – Ensure a fair value of the share, and ensure the funding of the exit strategy via the specified BSA</p> <p>Main aims of Family Takaful – Long Term Savings, and mutual assistance in investment's profits. Meanwhile the Sum Cover is jointly guaranteed by way of Tabarru.</p>	<p>What sets apart Family Takaful from Conventional Whole Life policies?</p> <ol style="list-style-type: none"> 1. The risk is transferred to the insurer in conventional, the risk is shared and jointly guaranteed among participants. 2. The investment pool is owned by the insurer in conventional whereas the investment pool belongs to the participants thru the process of (Taawun) mutual assistance

STUDY QUESTIONS

16.0 Business Takaful for Company	Question 1	Question 2
16.1 Keyman – Think outside the balance sheet	<p>Define a Keyman?</p> <p>A keyman is defined as an employee who holds a position with the employer such that in the event of his demise, disability or terminal illnesses, the business will suffer losses of profits and disruption to the business</p>	<p>Which Act makes provision for the definition of a keyman ?</p> <p>Is it provided for in the Insurance Act 1996 that a company / firm has an insurable interest in the life of an employee whose death would mean a financial loss to the business.</p>
16.2 Valuing your keyman and the HR aspects	<p>What are the two methods to valuing a keyman?</p> <p>Contribution to earnings / profits method and Replacement cost method.</p>	<p>What are the key factors when it comes to valuing a keyman?</p> <p>Valuing a key person is guided by the following factors;</p> <ul style="list-style-type: none"> • The estimated financial loss that the firm would suffer if the key person had died suddenly. • The estimated income generated by the key person for the business. • The replacement cost for the firm to replace the key person. • The cost of educating the replacement to the same level of experience and expertise of the loss key person.
16.3 Tax treatment of keyman takaful	<p>What are the two main issues the ruling from BNM with regards to tax treatment of a keyman?</p> <p>1. This Ruling explains: (i) the deductibility of premium expense paid for a “key-man” insurance policy; and (ii) the taxability of insurance</p>	<p>What year did this ruling come into effect ?</p> <p>2004</p>

	proceeds received on "key-man" insurance.	
16.4 Buy Sell between shareholders	<p>State True or False?</p> <p>When a share holder of a company dies, the company's business comes to a halt.</p> <p>False</p>	<p>Explain the mechanics of a Trustee Cross Purchase assuming all three shareholders are insurable.</p> <ol style="list-style-type: none"> 1. Execute a Buy Sell Agreement. 2. Ascertain the value of the shares of company. 3. Each share holders buys on their own lives. 4. The contribution is paid by the other 2 shareholders. 5. Execute a personal Trust Deed each 6. Write a wasiat each 7. Appoint a Trustee Corporation to execute and administer. 8. Assign (POA) Power of Attorney to this Trustee Corp. 9. Get a good and knowledgeable Financial Planner to put in place the succession plan

STUDY QUESTIONS

17.0 Responsibilities of Takaful Agent	Question 1	Question 2
17.1 Relationship between Agent and Takaful Operator	<p>Highlight the main responsibilities of a takaful agent</p> <ul style="list-style-type: none"> • Provide professional services • Inform clients of their rights under the certificates • Safeguard client's privacy • Safeguard the client's rights and interests when they approach you for takaful products and services • Assist the clients when they submit claims 	<p>What is the duty of the agents in the underwriting process?</p> <p>Takaful agents must disclose relevant information with regard to underwriting and risk selection to the operator as it is the operator that will ultimately decide whether to accept, reject, KIV or charge appropriate loadings.</p>
17.2 Relationship between Agent and Client	<p>What is the legal position of payment by clients made to Takaful agents?</p> <p>Payment made to the agent, within the scope of his or her authority, is deemed as payment to the takaful operator.</p>	<p>What are the responsibilities of the agents when they deliver the Takaful certificates to clients?</p> <p>A takaful agent must provide the clients clear information on the coverage of the certificate and explain the claims settlement process</p>
17.3 Responsibilities of agents under Sections 25, 28 and 66 of Takaful Act 1984	<p>Discuss Section 25 of the Takaful Act 1984</p> <p>This section relates to cash before cover and currently applies to motor vehicle takaful business only. The cash before cover rule means that the takaful agent MUST NOT issue a cover note (nowadays the e-cover note) for a motor risk if the takaful contribution payable is not received either by cash, current-dated cheque, money order, postal order, bank draft or cashier order as the Takaful Regulations require</p>	<p>What are penalties under Section 28 of the Takaful Act 1984?</p> <p>A takaful agent who is guilty shall be liable to a fine not exceeding RM 20,000 or imprisonment for a term not exceeding one year or both.</p>

	<p>that the takaful operator may not assume the risk unless the contribution payable is received. Alternatively, the takaful operator may assume the risk when the operator has received a bank guarantee in the form prescribed.</p>	
17.4 Agent as Promoter of Islamic Finance	<p>Discuss Takaful agent as promoter of Islamic finance</p> <ul style="list-style-type: none"> • Takaful industry is an important part of the Islamic finance • Takaful as a risk sharing mechanism is based on Shariah • Takaful agents enjoin right conduct and forbid indecency as mentioned in the Quran 	<p>What are the general responsibilities of the agent being a promoter of Islamic finance?</p> <p>The Takaful agent's character and conduct must be in conformity with Shariah. Agent must be truthful and trustworthy.</p>

STUDY QUESTIONS

18.0 Analysis of Clients' Takaful Needs	Question 1	Question 2
18.1 Identifying the Clients' Needs	<p>How should one analyse and prioritise takaful needs?</p> <p>Analysis of clients' takaful needs is similar to the conventional insurance except that the needs are prioritized according to basic necessities (daruriyat), essentials (hajiyat) and refinements (tahsiniyat).</p>	<p>What does the Prophet s.a.w. say about a man who spends on his family?</p> <p>The Prophet has always stressed on the importance of providing for the family such that providing for the family takes priority over others.</p>
18.2 Approaches to Quantify General Takaful Coverage	<p>What are personal lines takaful?</p> <p>Basically, personal lines takaful comprises:</p> <ul style="list-style-type: none"> • houseowner/householder takaful • motor vehicle takaful • public liability takaful • personal accident takaful 	<p>How does one determine the amount of cover for houseowner takaful?</p> <p>To determine the amount of cover for houseowner takaful, one needs to determine the cost of reconstruction of the house.</p>
18.3 Approaches to Quantify Family Takaful Coverage	<p>Discuss the Rule of Thumb Method</p> <p>The Rule of Thumb Method usually estimates how much a family would need in the event of the death of the breadwinner.</p> <p>This is usually the current annual income multiply by a constant.</p> <p>Most insurance professionals suggest the insurance coverage should be five to ten years annual income.</p>	<p>Which method is similar to the "Islamic" method of quantifying family takaful coverage?</p> <p>The Needs Fulfillment Method is similar to the "Islamic" method as this method assumes that the purpose of takaful is to meet family needs.</p> <p>The amount of takaful required in satisfying these needs may be more or less than the amount required to replace the breadwinner's income.</p>

18.4 Matching Takaful Products to the Clients' Needs	Which takaful product is used in wealth accumulation strategy? Investment-linked takaful	Which takaful product is used to protect a family's outstanding debt of home financing? Mortgage Reducing Term Takaful (MRTT)
--	--	---

STUDY QUESTIONS

19.0 Marketing and Code of Ethics	Question 1	Question 2
19.1 Approaching the Client	<p>What is the purpose of Project 100 in Takaful industry?</p> <p>Project 100's purpose is to provide an environment for agents to discuss and discover answers to the questions of what, whom and how to market the takaful products.</p>	<p>How can the Sales Planning Project help agents?</p> <p>The Sales Planning Project will help agents to measure their effectiveness whereby it will track their marketing and selling results.</p>
19.2 Presentation of Takaful Solutions	<p>How should takaful agent prepare himself before presenting a Takaful solution?</p> <ul style="list-style-type: none"> • Know the prospect sufficiently • Prepare content systematically • Organise well 	<p>What do we need to avoid in the opening of a presentation?</p> <p>Hackneyed openings – the overuse of commonly known phrases that does not add any new info to the audience</p>

<p>19.3 Clients' Interest Comes First</p>	<p>What is the intention of the Circular on Replacement of Family Takaful Certificates?</p> <p>The Circular on Replacement of Family Takaful Certificates was intended to continuously safeguard the interest of the certificate owner.</p>	<p>What are the areas covered by the Circular on Replacement of Family Takaful Certificates?</p> <ul style="list-style-type: none"> • Definition of Replacement of Certificates • Measures for Detection of Replacement of Certificates • Options to be given to Certificate Owners • Actions to be Taken Against Intermediaries • Exemption on Replacement of Certificates • Monitoring Compliance by Internal Audit Department
<p>19.4 MTA Code of Ethics for Agents</p>	<p>How many principals can a Takaful agent represent?</p> <p>One.</p>	<p>In relation to the application form to participate in a takaful scheme, what are the duties of the agent?</p> <p>Takaful agents must:</p> <ul style="list-style-type: none"> • Avoid influencing the applicant in their answering of questions • Highlight the consequences of non-disclosure and falsifying answers that the contract would be treated as void

STUDY QUESTIONS

20.0 Case Studies in Takaful Planning	Question 1	Question 2
20.1 Asking the right questions	<p>What are the factors to consider in the financial needs of children education?</p> <ul style="list-style-type: none"> • Age of child • Higher education fees • Tenure of study • Location of study • Type of study – Medicine, Business, etc 	<p>Why must planners ask the right questions?</p> <p>To obtain information regarding personal and financial details that will be used for analysis of clients' need.</p>
20.2 Proposing a solution	<p>What are the issues to be addressed when proposing a solution?</p> <ul style="list-style-type: none"> • What are the takaful needs? • What are the financial options available? • What are the takaful options available? • How to determine the best option? 	<p>What are the main factors in proposing a Takaful solution to a client?</p> <ul style="list-style-type: none"> • The needs of the client for takaful • The client's ability to pay • The priority in relation to other financial needs
20.3 Respecting clients' needs and affordability	<p>What steps can a Takaful agent take to ensure that clients' needs and affordability are respected?</p> <p>A Takaful agent should equip himself with knowledge of Islamic financial planning and take the client through the 6-step financial planning process.</p>	<p>Describe instances whereby the agent is deemed as NOT respecting the client's needs and affordability</p>
20.4 Proper Advice Practice (PAP)	<p>Discuss the formulation of the PAP by BNM.</p> <ul style="list-style-type: none"> • Formulated to set minimum standards in the Takaful industry for proper advice and ethical marketing practices • The guidelines set a structured process that will assist a prospective 	<p>What are the objectives of PAP?</p> <ul style="list-style-type: none"> • Protect certificate owners' interests by ensuring that they are in a position to make an informed choice when participating in family takaful products; • Facilitate a consistent

	<p>certificate owner to better understand his financial needs</p> <ul style="list-style-type: none">• It also provides some perspective to the prospective client as to the information that he should receive before making a commitment to participate in any Family takaful products	<p>and orderly market practice/process of family takaful products;</p> <ul style="list-style-type: none">• Ensure that takaful operators and their intermediaries enhance the quality and maintain high standard of professionalism in marketing the family takaful products; and• Minimise the instances of mis-marketing of family takaful certificates and ensure that the family takaful certificates marketed are appropriate to the needs of the certificate owners.
--	---	---

Islamic Investment

STUDY QUESTIONS

1.0 Understanding Risk	Question 1	Question 2
1.1 What is Risk	<p>What is generally described risk and defined risk in finance term?</p> <p>Generally risk is described as a situation which would lead to negative consequences.</p> <p>Risk in finance term can be defined as the uncertainty of achieving the expected returns.</p>	<p>Explain the component of risk.</p> <p>1) Credit Risk the risk of loss due to a debtor's non-payment of a loan or other line of credit</p> <p>2) Market Risk the risk that the value of an investment will decrease due to moves in market factors</p> <p>3) Operational Risk The risk of loss due internal processes, management of the business</p> <p>4) Reputational Risk</p>
1.2 The type of risks in investment - Business, Liquidity, Currency, Country	<p>List all Type of Risks in Investment.</p> <p>1. Business Risk A threat of an event /action that may affect company's ability to achieve its business objectives.</p> <p>2. Liquidity Risk A risk that arise from the difficulty of selling an asset i.e. stocks vs house</p> <p>3. Country Risk A potential default of a foreign government bonds/ stocks due to political/financial events of a given country.</p> <p>4. Currency Risk A risk of an investment value that may be affected by the changes of exchange rates.</p>	<p>Define Country Risk</p> <p>Country Risk - risks affecting all companies operating within a particular country eg: currency controls, regulatory changes, or stability factors such as mass riots, civil war and other potential events contribute to companies' operational risks</p> <p>Refer to country risk rating eg. Euromoney</p>

<p>1.3 Tolerance Level – risk averse vs. risk taker</p>	<p>What is psychological trait and briefly defined it.</p> <p>A psychological trait - relatively enduring way one individual differs from another</p> <ul style="list-style-type: none"> • Risk Tolerance How much risk I choose to take. (a psychological construct) • Risk Capacity How much risk I can afford to take. (a financial construct) 	<p>Compare the Tolerance Level of Risk between Risk Taker and Risk Averse.</p> <p>Risk Taker: An investor who is willing to accept above than average risk in pursuit of above-average returns</p> <p>Risk Averse: An investor who is conservative in its investment strategy. Most investors are naturally risk averse, but with a different degree of risk aversion.</p>																							
<p>1.4 Quantifying Risk</p>	<p>What standard deviation tells on risk?</p> <p>The standard deviation describe the dispersion (spread) of the potential outcomes around the expected value (expected return)</p> <p>Greater dispersion generally means greater uncertainty and therefore higher risk</p>	<p>Sherina is considering a portfolio containing 2 assets, L and M. Asset L represents 40% of the monetary value of the portfolio, and asset M will account for the other 60%. The expected returns over the next 6 years, 2009-2011, for each of these assets are summarized in the following table:</p> <table border="1" data-bbox="756 1024 1433 1308"> <thead> <tr> <th rowspan="2">Year</th> <th colspan="2">Expected Return (%)</th> </tr> <tr> <th>Asset L</th> <th>Asset M</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>14</td> <td>20</td> </tr> <tr> <td>2010</td> <td>14</td> <td>18</td> </tr> <tr> <td>2011</td> <td>16</td> <td>16</td> </tr> <tr> <td>2012</td> <td>17</td> <td>14</td> </tr> <tr> <td>2013</td> <td>17</td> <td>12</td> </tr> <tr> <td>2014</td> <td>19</td> <td>20</td> </tr> </tbody> </table> <p>i. Calculate the expected portfolio return, r_p, for each of the 6 years. ii. Calculate the average expected portfolio return, over the 6-year period. iii. Calculate the standard deviation of expected portfolio returns, s_p, over the 6-year period</p> <p>Answer:</p>	Year	Expected Return (%)		Asset L	Asset M	2009	14	20	2010	14	18	2011	16	16	2012	17	14	2013	17	12	2014	19	20
Year	Expected Return (%)																								
	Asset L	Asset M																							
2009	14	20																							
2010	14	18																							
2011	16	16																							
2012	17	14																							
2013	17	12																							
2014	19	20																							

Year	Asset L ($w_L \times r_L$)	Asset M ($w_M \times r_M$)	Expected Portfolio Return r_p
2009	(14% \square 0.40 \square 5.6%)	(20% \square 0.60 \square 12.0%)	17.6%
2010	(14% \square 0.40 \square 5.6%)	(18% \square 0.60 \square 10.8%)	16.4%
2011	(16% \square 0.40 \square 6.4%)	(16% \square 0.60 \square 9.6%)	16.0%
2012	(17% \square 0.40 \square 6.8%)	(14% \square 0.60 \square 8.4%)	15.2%
2013	(17% \square 0.40 \square 6.8%)	(12% \square 0.60 \square 7.2%)	14.0%
2014	(19% \square 0.40 \square 7.6%)	(10% \square 0.60 \square 6.0%)	13.6%

i) Average portfolio return for each year: $r_p = (w_L r_L + w_M r_M)$

ii) Portfolio Return:

$$r_p = \left(\sum_{j=1}^n w_j \times r_j \right) \div n$$

$$r_p = \frac{17.6 + 16.4 + 16.0 + 15.2 + 14.0 + 13.6}{6} = 15.467$$

iii) Standard Deviation: $s_p = \sqrt{\sum_{i=1}^n (r_p - r)^2 \div (n-1)}$

$$s_p = \sqrt{\frac{[(17.6\% - 15.5\%)^2 + (16.4\% - 15.5\%)^2 + (16.0\% - 15.5\%)^2 + (15.2\% - 15.5\%)^2 + (14.0\% - 15.5\%)^2 + (13.6\% - 15.5\%)^2]}{6-1}}$$

$$s_p = \sqrt{\frac{[(2.1\%)^2 + (0.9\%)^2 + (0.5\%)^2 + (-0.3\%)^2 + (-1.5\%)^2 + (-1.9\%)^2]}{5}}$$

$$s_p = \sqrt{\frac{4.41\% + 0.81\% + 0.25\% + 0.09\% + 2.25\% + 3.61\%}{5}}$$

$$s_p = \frac{\sqrt{11.42}}{5} = \sqrt{2.284} = 1.511$$

STUDY QUESTIONS

2.0 Understanding Return	Question 1	Question 2
2.1 What is Return	<p>Defined the concept of Return.</p> <p>Return is the ratio of money gained or loss on an investment relative to the amount of capital invested. In short, it simply means "Gains expected from a deferred current consumption of income"</p>	<p>List types of return and explain the meanings.</p> <ul style="list-style-type: none"> • Required returns – the minimum returns investors would require from an investment • Expected returns – returns expected to be generated by that investment • Realised returns – actual returns from the investment
2.2 Cost of transaction	<p>Explain Initial Service Charges.</p> <p>This is the "up-front" charge levied by the manager on the investor to cover the costs of distributing or selling the unit trust.</p> <p>The average initial service charge on an open-ended unit trust in Malaysia is usually five sen per unit. In other words, if you invest RM100.00 into a unit trust, RM5.00 is paid to the manager, leaving only RM95.00 to be credited into your account.</p> <p>As a result of this high cost, unit trust is not meant for short-term investment, but for medium to longer-term so its initial cost is spread over a longer-term time frame.</p>	<p>What is the relationship between the cost of transaction and the liquidity of investment avenues?</p> <p>In theory, high cost of transaction hinders the efficiency of the market and reduces the liquidity of the market. This is because investors will consider buying and selling frequently to responds to the market fluctuation in order not loose money due to the transaction costs.</p>

<p>2.3 Basic calculation of return – Capital gain and current income</p>	<p>What is the component of Return?</p> <ul style="list-style-type: none"> • Capital gain – the difference between initial investment and value of investment at exit point (ending value) • Current income – the cash inflow or revenue generated during the period of investment 	<p>Calculate : Return on investment (ROI) for the year 2006 = 15% Consumer Price Index (CPI) = 4.5%</p> <p>Calculate REAL RATE OF RETURN =?</p> <p>Real Rate of Return = $[(1 + \text{Nominal returns}) / (1 + \text{Inflation rate})] - 1$ $= [(1 + 0.15) / (1 + 0.045)] - 1$ $= 10.05\%$</p>
<p>2.4 Risk and Return relationship</p>	<p>What is the relationship between Risk and Return? State the major determinant of the required return on the asset.</p> <p>The greater the amount of risk an investor is willing to take on, the greater the potential of the return.</p> <p>The major determinant of the required return on the asset is its degree of risk.</p>	<p>Is standard deviation of a portfolio the weighted average of the standard deviations of the individual securities?</p> <p>The standard deviation of a portfolio is not a weighted average</p> <ul style="list-style-type: none"> • The riskiness of a portfolio depends on both the riskiness of the securities, and • the way that they move together over time (correlation) <p>This is because the riskiness of one asset may tend to be cancelled by that of another asset</p>

STUDY QUESTIONS

3.0 Understanding Diversification	Question 1	Question 2
3.1 What Is Diversification?	<p>Define diversification.</p> <p>Answer: <i>Spreading investments into different types and options of assets to reduce the risk of the portfolio</i></p>	<p>What are the reasons for diversification?</p> <p>Answer:</p> <ul style="list-style-type: none"> • <i>To maintain a disciplined long-term investment strategy</i> • <i>To maintain an appropriate level of risk exposure</i> • <i>To temper market volatility</i> • <i>To participate on the upside and mitigate loss on the downside</i>
3.2 Ways To Reduce Risks	<p>How can diversification help investors in managing the cyclical of the markets?</p> <p>Answer: <i>By maintaining appropriate exposure to all broad asset classes over the long term, diversification allows investors to manage the cyclical of the markets. This is because it is extremely difficult to predict which asset class will perform best.</i></p>	<p>What is Efficient Frontier?</p> <p>Answer: <i>A line that shows the maximum return an Investor can achieve through a portfolio of investments, given a level of risk.</i></p>
3.3 Intro To Modern Portfolio Theory	<p>What are the four basic steps involved in portfolio construction?</p> <p>Answer:</p> <ul style="list-style-type: none"> • <i>Security valuation</i> • <i>Asset allocation</i> • <i>Portfolio optimization</i> • <i>Performance measurement</i> 	<p>How risk are reduced through a portfolio?</p> <p>Answer:</p> <ul style="list-style-type: none"> • <i>Risk for individual stock returns has two components; Systematic and Unsystematic</i> • <i>By investing in more than one stocks, unsystematic risk can be diversified away</i>

<p>3.4 Systematic Vs Unsystematic Risks</p>	<p>What are the potential problems of excessive diversification?</p> <p>Answer:</p> <ul style="list-style-type: none"> • <u>Lax standards</u> <i>The investor is more likely to loosen his standards and accept greater company or price risk because each represents a smaller capital commitment. Unable to periodically reevaluate each of his holdings, the investor does not notice significant deteriorations in margins or competitive position until his investment has lost substantial value.</i> • <u>Reduced impact of individual investments</u> <i>The investor's capital is spread so thin that even an excellent investment has only a marginal impact on the total value of the portfolio. Consider that in a \$100,000 portfolio with 100 different investments, any stock that doubled would result in an increase of only one percent (1%) - a small return!</i> 	<p>What are the common mistakes in investment?</p> <p>Answer:</p> <ul style="list-style-type: none"> • <i>Spreading investments too thin</i> • <i>Not accounting for time horizon</i> • <i>Fear based decisions</i> • <i>Frequent trading</i> • <i>Overpaying for Investments</i> • <i>Overpaying for Investment Services</i>
---	--	---

STUDY QUESTIONS

4.0 Key Principles Of Islamic Investments	Question 1	Question 2
4.1 Sources Of Islamic Injunctions	<p>What are the methods of Al-Ijtihad?</p> <p><i>Answer:</i></p> <ul style="list-style-type: none"> • <i>Istihsan (Juristic Preference)</i> • <i>Istishab (Presumption of Continuity)</i> • <i>Istislah / Maslahah (Public Interest)</i> • <i>Maqasid al-Shari'ah (The Objectives of Shari'ah)</i> • <i>Sadd al-Dhari'ah (Blocking the Means)</i> • <i>'Urf (Custom)</i> • <i>Qawa'id Fiqhiyyah (Legal Maxims)</i> 	<p>Explain the ruling (hukm) on the exchange of RM with RM of unequal amount based on qiyas.</p> <p><i>Answer:</i></p> <p><i>The ruling is prohibited (haram) because it has the same illah with exchanging gold with gold of unequal weight, i.e. same currency, which is ruled as prohibited.</i></p>
4.2 Importance Of Halal Wealth	<p>What is the Islamic perspective on earning for a living?</p> <p><i>Answer:</i></p> <p><i>In Islam, working to earn a halal living is itself a religious obligation second in importance after the primary religious obligations like prayers, fasting and hajj.</i></p>	<p>Ahmad invested in a gambling stock due to the news on the company being acquired by an MNC. He intended to perform hajj using the gain from the investment. Advise Ahmad.</p> <p><i>Answer:</i></p> <p><i>Ahmad is not supposed to invest in gambling stock for whatever reason because it is prohibited. He can't use the gain to perform hajj because the money is from prohibited source of income.</i></p>

<p>4.3 Riba, Maisir And Gharar</p>	<p>Define the two categories of ribawi items and explain how it is applied to contemporary economy.</p> <p><i>Answer:</i></p> <ul style="list-style-type: none"> • <i>Medium of exchange – this refers to gold and silver which are used to measure value because of their strength to back currency. For example, gold has long been used to back the reserves of a country, as well as the issuance of currency. Therefore, currency is classified as a ribawi product because it acts as a measure of value. Money is commonly used to measure something of value (property); and</i> • <i>Non-perishable staple food – represented by grain, barley, dates and salt, used as staple food in a certain area and can be kept for a long time. In the Malaysian context, rice would be included as a ribawi product.</i> 	<p>How to avoid gharar in investment?</p> <p><i>Answer:</i> <i>Gharar is avoided when the contracting parties clarify the following:</i></p> <ul style="list-style-type: none"> • <i>The amount of counter values they intend to exchange</i> • <i>When the object is known to exist</i> • <i>The object must be obtainable and quantifiable, quality and attributes are identified</i> • <i>The object can duly be delivered.</i>
<p>4.4 Prohibition In Dealing/Investing In Haram Products</p>	<p>Give five examples of non-shariah-compliant products in the local financial market.</p> <p><i>Answer:</i></p> <ul style="list-style-type: none"> • <i>Conventional banking products</i> • <i>Insurance products</i> • <i>Non-shariah-compliant stocks</i> • <i>Cumulative Loan Stocks (CULS)</i> • <i>Non-shariah-compliant unit trust funds</i> 	<p>Explain the basic shariah ruling on derivative products.</p> <p><i>Answer:</i> <i>Derivative products involve the sale and purchase of objects that is not in existence at the time the contract is executed.</i></p>

STUDY QUESTIONS

5.0 Basics of Riba	Question 1	Question 2
<p>5.1 Types of Riba' – al-Nasi'ah and al-Fadl</p>	<p>What is the literal meaning of riba'?</p> <p>Literally, riba' means:</p> <ol style="list-style-type: none"> 1. increase (al-ziyada); 2. growth (al-numuw); 3. to rise and to become lofty (al-irtifa' and al-'uluw) 	<p>Discuss why Islam prohibits riba'</p> <p>Riba' is an act of injustice (zulum) perpetrated by man upon man to gain material benefits. The enrichment or gain from riba' is by false means.</p> <p>Islam regards being just as a supreme virtue. The concept of Justice transcends everything that might divide society and Muslims are commanded to be just to their friends and foes alike, and to be just at all levels.</p> <p>Justice in Islam penetrates all realms of human interaction, be it economic, social, politic, etc. Similarly, in the field of muamalah (business dealings), all values must converge towards justice.</p>
<p>5.2 Understanding Riba' al-Nasi'ah</p>	<p>Discuss the meaning of the term al-nasi'ah</p> <p>Al-nasi'ah means: To postpone, defer or wait</p> <p>It refers to the time that is allowed for the borrower to repay the loan in return for the additional amount being charged by the lender. The additional amount is also referred to as premium.</p>	<p>Discuss the implication of the prohibition of Riba al-nasi'ah</p> <p>To fix in advance a positive return on loan as a reward for waiting is not permitted by Shariah.</p> <p>The prohibition makes no difference whether the return is a fixed or variable percent of the principal; or an absolute amount to be paid in advance or upon maturity; or a gift or service to be received as a condition for the loan.</p>

<p>5.3 Understanding Riba' al-Fadl</p>	<p>Discuss Riba al-Fadl</p> <p>Fadl means surplus.</p> <p>Riba al-Fadl takes place when similar ribawi items are exchanged with each other with different counter value or with surplus.</p> <p>Alternatively, Riba al-Fadl is the excess which is taken in exchange of specific homogenous commodities and encountered in their hand-to-hand purchase & sale</p>	<p>Discuss ribawi goods</p> <p>Basically, ribawi goods are the six specific homogenous goods mentioned by the Prophet (pbuh) in a Hadith.</p> <p>The six are: 1. Gold, 2. Silver, 3. Wheat, 4. Barley, 5. Dates and 6. Salt.</p> <p>The first two i.e. gold and silver represents money and the last four i.e. wheat, barley, dates and salt represents staple food.</p>
<p>5.4 Rules of likeness, equality and spot trade</p>	<p>When are the rules of likeness, equality and spot trade applicable?</p> <p>The rules are applicable when the exchange involves two goods that assume the likeness or characteristics of money and staple food.</p> <p>The characteristics are:</p> <ol style="list-style-type: none"> 1. money – being a currency or medium of exchange 2. staple food – being goods that are measured by weight and fungible (i.e. being of such nature or kind as to be freely exchangeable or replaceable, in whole or in part, for another of like nature or kind) 	<p>Discuss the exchange of:</p> <ol style="list-style-type: none"> i. money with money ii. money with staple food iii. staple food with staple food iv. Money or staple food with non-ribawi goods <p>Money with money – Firstly, the exchange must be on spot basis. Secondly, if the money is of the same kind, for example, dinar for dinar, RM for RM, then the rate of exchange must be equal. If the money differs, eg. dinar for dirham, RM for USD, then the exchange rate can differ.</p> <p>Money with staple food – Even though money and staple food are ribawi items, scholars have agreed that the exchange can be on spot basis or deferred basis. But, if we go strictly by the hadith– “If the commodities differ, then you may sell as you wish, provided the exchange is hand to hand”– then the exchange of gold or silver with wheat, barley, dates or salt must be on spot</p>

		<p>basis and the exchange rate can be as negotiated between the traders.</p> <p>Staple food with staple food – Firstly, the exchange must be on spot basis. Secondly, if the staple food are of different kinds, eg. wheat for salt, the rate of exchange can differ. If they are of the same kind eg. Iranian dates for Arab dates, then the Iranian dates must be sold first for money and then buy the Arab dates.</p> <p>Money or staple food with non-ribawi goods – Firstly, the rules of likeness, equality and spot trade do not apply. Meaning, no possibility of riba' al-fadl. The exchange can be either on spot or deferred basis. If on deferred basis i.e. credit sale, then it should be in writing, as mentioned in Quranic verse 2:282. Eg. buying a house from an Islamic bank and paying it by monthly installment in 15 years time.</p>
--	--	--

STUDY QUESTIONS

6.0 Understanding Riba	Question 1	Question 2
<p>6.1 Prohibition of riba' in the Quran and Sunnah</p>	<p>Give 2 injunctions in the Quran on the prohibition of riba'?</p> <ol style="list-style-type: none"> 1. "O believers! Fear Allah, and give up what is still due to you from the interest (usury), if you are true believers. If you do not do so, then take notice of war from Allah and His Messenger. But, if you repent, you can have your principal. Neither should you commit injustice nor should you be subjected to it." (Al-Baqarah, verse 278-9) 2. "O believers, take not doubled and redoubled interest, and fear God so that you may prosper. Fear the fire which has been prepared for those who reject faith, and obey God and the Prophet so that you may receive mercy." (Surah Al 'Imran, verses 130-2): 	<p>Give one injunction each of the Sunnah on the prohibition of riba' al-nasi'ah and riba' al-fadl?</p> <ol style="list-style-type: none"> 1. On Riba al-Nasi'ah: From Anas ibn Malik: The Prophet pbuh said: when one of you grants a loan and a borrower offers him a dish, he should not accept it, and if the borrower offers a ride on an animal, he should not ride, unless the two of them have been previously accustomed to exchanging such favour mutually. Hadith narrated by al-Baihaqi. 2. On Riba al-Fadl: From Abu Said: Bilal brought to the Prophet pbuh some barni (good quality) dates whereupon the Prophet asked him where these were from. Bilal replied: "I had some inferior dates which I exchanged for these – two sa's for a sa'." The Prophet said: "Oh no, this is exactly riba'. Do not do so, but when you wish to buy, sell the inferior dates against something (cash) and then buy the better dates with the price you receive." Hadith narrated by Muslim.

<p>6.2 Time value of money from Islamic perspectives</p>	<p>Discuss how Islam views money</p> <ol style="list-style-type: none"> 1. Money has no intrinsic value and is not a capital asset 2. Money is only a measure of value or a medium of exchange 3. Money is not capable of fulfilling human needs by itself unless converted into a commodity. Only commodities can fulfill human needs directly. 	<p>Discuss time value of money in relation to: (i) cash vs. credit sale; and (ii) Loan transaction</p> <p>(i) Cash vs. credit sale – as given by Nizam Yaquby: All eight schools of thought agree that the time value of money is accepted in exchange contracts. Time value in sales is recognized, while time value in loans is haram. This is unanimously agreed by the scholars.</p> <p>(ii) Loan transaction – also known as Qard, is when money is lent for money. Eg. Ali lent Muthu RM100 for 2 weeks. Upon maturity, Muthu gives back RM100 to Ali. Or, when conventional bank lent to client RM1m to buy a house from a developer and client pays back the RM1m with interest in monthly installment in 15 years time.</p> <p>In a loan transaction, a lender cannot stipulate additional benefits, be it cash or in kind, unto the debtor on the basis the he is foregoing the present use of the money.</p> <p>The time spent on waiting for the return of his money has no value. Thus, if additional benefits are stipulated to compensate for the lender's waiting time then riba al-nasi'ah has been committed.</p>
--	---	---

<p>6.3 Prohibition of Riba' in other religions</p>	<p>Discuss riba' in Hinduism</p> <ol style="list-style-type: none"> 1. Hindu law recognizes the validity of loans but prohibits usury. 2. Usury, as defined in Hindu law, does not include all interest on a loan but only "excessive" interest. 3. The rate of interest depends on one's caste. 4. In delinquent case, debtor has to settle according to rules of caste as well. 5. Though in principle Hinduism condemns riba/usury (i.e interest charges above the prevailing socially accepted range), it is no longer prohibited or controlled in any significant way. 	<p>Discuss riba' in Judaism</p> <ol style="list-style-type: none"> 1. The Torah rejects the entire notion of a loan as a transaction that brings benefit to the lender. 2. Both lender and borrower are prohibited from charging or offering to pay interest. 3. Interest can also include considerations aside from cash i.e. any arrangement that is understood to be a gesture through which the creditor realizes benefit from the loan he extended. 4. Lending with interest to people who are NOT part of the Jewish community is allowed.
<p>6.4 Riba' and distortion of wealth distribution</p>	<p>Discuss how riba' distorts allocation of resources</p> <ol style="list-style-type: none"> 1. Riba' practices such as loan finance favors the borrowers with large asset based who are not necessarily the parties who has the most productive and profitable projects 2. Capital needed by the debtors to improve their standard of living is used for interest payment on their debts 3. Riba' centralizes wealth in the hands of the few and deprives the majority of this wealth. Since wealth is confined to the rich through false means, the society as a whole suffers. 	<p>Discuss riba on economic stability and growth</p> <ol style="list-style-type: none"> 1. Riba' has a built-in tendency towards inflation, because the creation of money is not related to productive investments 2. Owners of commodities and service providers tend to increase price to compensate high rates of interest imposed by usurers

STUDY QUESTIONS

7.0 Basic commercial contracts in Islam	Question 1	Question 2
7.1 Sale contract - bay', bay' ad-dayn	<p>Define Sale contract</p> <p>A sale contract involves the exchange of one commodity for another, one of which is called the object, and the other the price.</p> <p>The net effect of a sale contract is the transfer of ownership of the goods between the buyer and the seller.</p> <p>A sale contract affects the transfer of ownership of a lawful, specific and known property for a price, which may be money or other known property.</p>	<p>Discuss some conditions of Sale contract</p> <ol style="list-style-type: none"> 1. It should be concluded willingly and with mutual consent 2. Both parties should have the capacity to conduct such a sale, like being sane, of age and discerning. 3. The object of sale should be property or a kind of money which carries a legal benefit and which not needed by the seller. 4. The object of sale should be owned by the seller or he should have permission by the owner to sell it. 5. The object of sale should be capable of being delivered or handed over 6. The object of sale should be made known to the purchaser by sight or by ample description 7. The price should be made known to the two parties
7.2 Lease contract - ijarah	<p>Discuss the types of Ijarah</p> <ol style="list-style-type: none"> 1. Ijarah al-Manfaah Refers to renting of the usufruct. The modern term of tenancy or leasing 2. Ijarah al-'Amal Refers to contract of employment or work 	<p>Discuss some conditions of Ijarah</p> <ol style="list-style-type: none"> 1. The use/manfa'ah should be determined either by the duration of contract or by its subject matter. 2. The rent must be known and be something of value. 3. The use/manfa'ah should be lawful and not a mandatory duty. Eg. renting premises for the use of as a cabaret or hire a mother to feed her own baby is invalid 4. The object must be free from any defects 5. Ijarah is cancelled only by a material defect ('aib) affecting the corporeal object ('ayn) leased or hired and

		<p>also if the purpose of the lease or hire has disappeared</p> <p>6. Ijarah is cancelled if the rented object is destroyed or affected by a material defect.</p>
7.3 Custody contract - wadiah	<p>What is al-Wadiah?</p> <p>Goods or deposits which have been deposited with another person (the custodian), who is not the owner, for safekeeping.</p>	<p>Discuss Wadiah yad amanah and Wadiah yad dhamanah</p> <p>Wadiah yad amanah is a form of trust whereby the custodian is not obliged to guarantee the property. His only obligation is to return the deposited property to the depositor at any time upon request.</p> <p>The concept of trust in al-wadiah changes to a form of guarantee (Wadiah yad dhamanah) when the custodian commits certain acts, such as:</p> <ul style="list-style-type: none"> • To deposit the property with another person without permission of the depositor or any reasonable cause; • To differ from the instruction of the depositor in the method of safekeeping; • To neglect the necessary and reasonable duty of care • To use the property without authorisation of the depositor
7.4 Gratuity contract – hibah, Ibra'	<p>Discuss Hibah and Ibra'</p> <p>Hibah means a gift or a token given voluntarily in return for loan given or benefit obtained. It is a unilateral benevolent contract in which a party transfers the ownership of an asset to a person without any consideration during the lifetime of the giver</p> <p>Ibra' is surrendering one's claims and rights on certain thing. This is other people's obligation to him which needs to be fulfilled. In Islamic banking,</p>	<p>Discuss the applicability of Hibah in Islamic banking industry</p> <ul style="list-style-type: none"> • In Wadiah Savings Account - To reward depositors • In Ijarah Thumma Al-Bay' - To encourage good conduct of payment • In Takaful Industry - Participant could give hibah in the form of assigning takaful benefits to the nominee or hibah recipient. • Hibah In Financing Contract - At the borrower's discretion when paying off the debt. • In Interbank Mudharabah

	<p>the concept resembles the rebate payment.</p>	<p>Investment Contract - As a means to attract investors (in case of banks that can only manage to offer returns lower than the market rate of return)</p>
<p>7.5 Agency contract - wakalah</p>	<p>Discuss Wakalah</p> <p>Definition: A contract of agency in which one person appoints someone else to perform a certain task on his behalf, usually against a certain fee.</p> <p>Wakalah enables a person without ability or expertise to appoint an agent to represent him to perform a certain task.</p> <p>An agent is someone who establishes contractual and commercial relations between a principal and a third party.</p> <p>The principal should have the power and competence to deal and own the property.</p> <p>The agent should also be a competent person.</p> <p>The thing or act should be known. This is to avoid uncertainty or gharar.</p> <p>That the action is a lawful action.</p>	<p>Discuss the applicability Wakalah in Islamic Banking industry</p> <p>Bank acts as an agent on behalf of a company or individual: -</p> <ul style="list-style-type: none"> • Letter of credit <p>Written undertaking by the Bank will be given to the seller at the request and instruction from the buyer, in making payment to the seller on behalf of the buyer at a determinable future date.</p> <ul style="list-style-type: none"> • A collecting agent for bill payment <p>The agency fee can be charged in the following cases:</p> <ol style="list-style-type: none"> 1. Payment / receiving of cash on behalf of the customer 2. Inward bill of collection 3. Outward bill of collection

STUDY QUESTIONS

8.0 Mudharabah and Musyarakah forms of partnership	Question 1	Question 2
8.1 Salient features of Mudharabah and Musyarakah	<p>Discuss mudharabah and its salient features</p> <p>Definition: A contract between a capital provider (Sahibul mal) and an entrepreneur (mudharib) in which the former contributes the capital and the latter contributes the effort in managing the business</p> <p>Business profit (if any) will be shared according to the pre-agreed ratio.</p> <p>In the event of loss, it shall be borne by the capital provider alone, while the entrepreneur would have just wasted his time and effort.</p> <p>The salient features:</p> <ol style="list-style-type: none"> 1. The two contacting parties – rabbul mal and mudharib; 2. The subject matter of the mudharabah i.e. capital, labour and profit; 3. The offer and acceptance 	<p>Discuss musyarakah and its salient features</p> <p>A form of partnership when two or more persons combine their capital or entrepreneurship together to share the profits and enjoy similar rights and liabilities</p> <p>The salient features:</p> <ol style="list-style-type: none"> 1. Partners ('Aqidan) – freedom, sanity and puberty 2. Offer and Acceptance (Ijab wa al-qabul) 3. Subject of Musyarakah (Ma'qud 'alaih) i.e capital, fixed asset, labour. <p>General Conditions:</p> <ol style="list-style-type: none"> 1. Capacity of agency (wakalah) - Partners must be capable of being agents for their colleagues. 2. Profit Sharing Ratio (PSR) - Must be pre determined i.e. agreed between partners before start of business venture 3. Profit Sharing - Must be in ratio i.e. not fixed amount.
8.2 Role and liability of Mudharib and Rabbulmal MUDHARABAH CONTRACT	<p>What are the role and liability of mudharib?</p> <ol style="list-style-type: none"> 1. He is in the nature of trustee / agent of the business 2. He is required to act with prudence and in good faith 3. He is expected to employ and manage the capital in such a manner as to generate optimum profit 	<p>What are the role and liability of rabbulmal?</p> <ol style="list-style-type: none"> 1. To provide capital for the business 2. His liability is limited to the extent of his contribution to the capital whereby in the case of loss, he will bear all the cost.

	<p>for the business</p> <p>4. He is responsible for losses incurred due to his negligence</p>	
8.3 Types of Mudharabah – Mutlaqah vs Muqayadah	<p>What is Mudharabah Mutlaqah?</p> <p>In Mudharabah Mutlaqah contract, the entrepreneur (mudharib) is allowed to trade in any kind of businesses which is deemed profitable according to the normal trade practice</p>	<p>What is Mudharabah Muqayadah?</p> <p>In Mudharabah Muqayadah contract, the capital provider (rabbul mal) makes certain limitations to the activities to be conducted by the mudharib with regards to the capital given</p>
8.4 Sukuk Mudharabah and Musyarakah	<p>Discuss the differences between Sukuk and Bond</p> <p>A bond is a contractual debt obligation whereby the issuer is contractually obliged to pay bondholders on certain specified dates, interest and principal.</p> <p>Sukuk represents ownership of an asset or its usufruct whereas the sukuk holders claim an undivided beneficial ownership in the underlying assets.</p> <p>Sukuk holders are entitled to share in the revenues generated by the sukuk assets as well as being entitled in the proceeds of the realization of the sukuk assets.</p>	<p>Discuss Sukuk Mudharabah and Sukuk Musyarakah</p> <p>Sukuk Mudharabah represents ownership of units of equal value in the mudharabah equity. Each sukuk is registered in the names of holders on the basis of undivided ownership of shares in the mudharabah equity and its returns according to the percentage of ownership of share.</p> <p>Sukuk Musyarakah represents ownership musyarakah equity. It does not differ from the sukuk mudharabah except in the organisation of the relationship between the party issuing such sukuk and holders of these sukuk, whereby the party issuing sukuk forms a committee from the holders of the sukuk who can be referred to in investment decision.</p>

STUDY QUESTIONS

9.0 Financial and Capital Market in Malaysia	Question 1	Question 2
9.1 The Regulators - BNM and SC	<p>What is the Act that provides the legal basis for the establishment of Islamic banks?</p> <p>-Islamic Banking Act 1983</p>	<p>Give two responsibilities of ICMD of SC.</p> <ul style="list-style-type: none"> - Conducting research and developing Islamic capital market products - Analyzing the securities of listed companies
9.2 The Intermediaries	<p>What is the benefit of the single licensing regime introduced under CMSA?</p> <p>- effectively reduces administrative and compliance costs, and ultimately saves time</p>	<p>What are the qualification and experience required for individual applicants for financial planning activities?</p> <ul style="list-style-type: none"> - Must be either CFP, IFP, RFP or ChFC registered with own professional bodies - Must have eight years of experience
9.3 Product approval and Shariah advisory guidelines	<p>What are the three important contents of the Guidelines on the Offering of Islamic Securities?</p> <ul style="list-style-type: none"> - Appointment of Shariah adviser - Disclosure requirements on Islamic securities issued under principles of profit sharing (Mudharabah)/profit and loss sharing (Musyarakah) - Approved shariah principles and concepts for the purpose of structuring, documenting and trading of Islamic securities 	<p>What is the Islamic Legal Maxim used by SAC of BNM in promoting products innovation?</p> <p>"What is not prohibited is allowed" or "all transactions are permissible except those that are specifically forbidden"</p>

<p>9.4 How investments are certified as Shariah compliant</p>	<p>How does SC gather information on the companies' activities in determining the Syariah complaint?</p> <ul style="list-style-type: none">- company annual financial reports- company responses to survey forms- inquiries made to the respective company's management	<p>What are the activities fall under 5% benchmark on tolerable level of mixed contributions set by SAC of SC?</p> <ul style="list-style-type: none">• Activities that are clearly prohibited such as riba' (interest based companies like conventional banks) gambling, liquor and pork
---	---	--

STUDY QUESTIONS

10.0 Investing through Islamic bank & Takaful operator	Question 1	Question 2
10.1 Industry profile and report	<p>What is the rationale of Government in introducing "Skim Perbankan Islam" in 1993?</p> <ul style="list-style-type: none"> - To spread the virtues of Islamic banking by disseminating Islamic banking on a nation-wide basis, with as many players as possible and to be able to reach all Malaysians 	<p>What are the three elements prevail in conventional insurance that does not conform to Shariah?</p> <ul style="list-style-type: none"> - uncertainty (Gharar) in the contract of insurance - gambling (Maisir) as the consequences of the presence of uncertainty - interest (riba) in its investment activities
10.2 The investment products - Specific Inv. Acct and Inv. Linked Takaful	<p>What is the different between General Investment Account and Fixed Deposit?</p> <ul style="list-style-type: none"> - GIA is based on mudarabah concept whereby profit is declared upon maturity whereby Fixed Deposit is a saving instrument whereby interest is guaranteed upfront 	<p>Can a Muslim subscribe to Syariah Investment-Linked Insurance?</p> <ol style="list-style-type: none"> 1. Cannot, because the protection is still based on conventional insurance, which is prohibited by the National Fatwa Council in 1972
10.3 Product analysis – generic vs. structured	<p>What are the requirements for Islamic Structured Products stated under the Guidelines On The Offering Of Structured Products?</p> <ul style="list-style-type: none"> - The appointment of an independent Shariah adviser approved by the SC - Shariah principle and concept adopted must be based on such principles and concepts as approved by the SC's Shariah Advisory Council - In the event of doubt, clarification should be sought from the SC 	<p>What is the purpose of having the commodity murabahah contract in structured products?</p> <p>The Commodity Murabahah allows an investor to invest a sum of funds through the purchase and sale of an underlying commodity in which the commodities and the profit rate are agreed upon upfront thus complying with Shariah guidelines</p>

<p>10.4 Appraising the performance</p>	<p>What is the difference between returns from GIA and Al-Wadiah Deposit?</p> <p>Return from GIA is based on profit sharing agreement (mudharabah) while return from Al-Wadiah Savings is from hibah</p>	<p>What is the benefit of investing money in Capital Guaranteed Structured Products?</p> <p>Capital is guaranteed if held until maturity and the potential higher return when compared to saving products and GIA due to exposure to higher risk investment like derivatives</p>
--	--	--

STUDY QUESTIONS

11.0 Investing through Unit Trust	Question 1	Question 2
11.1 Industry profile and report	<p>Why did the Government call for the setting up of state government sponsored unit trusts?</p> <ul style="list-style-type: none"> - To mobilise domestic household savings 	<p>What is the reason of the increased number of Islamic Unit Trust Fund?</p> <p>The demand from Muslim investors for Syariah-approved investment</p>
11.2 How Unit Trust work - Role of UT manager	<p>What is the main role of UT manager and what is the consequence if they breach the role stated?</p> <ul style="list-style-type: none"> - Manage and administer the fund - Their license can be revoked by SC 	<p>What is the guideline governing the business of marketing and distributing unit trust funds?</p> <p>Guidelines for Registration of Institutional Agents for the Marketing and Distribution of Unit Trusts</p>
11.3 Types of Unit Trusts - Islamic, Equity, Mixed, International	<p>Why does the performance of equity fund dictated by the stock market?</p> <ul style="list-style-type: none"> - major portion of its assets are generally held in equities or securities of listed companies 	<p>What are the objectives of balance fund?</p> <ul style="list-style-type: none"> - Income - moderate capital appreciation - capital preservation

<p>11.4 Appraising the performance</p>	<p>What is NAV and how it is calculated?</p> <p>–NAV is the net asset value of the fund and is determined by deducting the value of all the fund's liabilities from the value of all the fund's assets, at the valuation point</p>	<p>What does it mean when it is reported that a three-year return for Fund B is 83%?</p> <p>This means that the cumulative total return for Fund B for a three-year period is 83%, i.e. total rise in the value of the fund's investments over three-year time, assuming that income and capital gains distributions were reinvested, is 83%</p>
--	--	--

STUDY QUESTIONS

12.0 Investing through Bursa Malaysia	Question 1	Question 2
12.1 Bursa Malaysia as the Exchange	<p>What are the exchanges managed by Bursa Malaysia?</p> <ul style="list-style-type: none"> - Securities Exchange - Derivatives Exchange - Offshore Exchange 	<p>Why companies get listed?</p> <ul style="list-style-type: none"> - Higher Profile - Confidence - Additional Funds - Expansion
12.2 Listed companies and Brokers	<p>What is the new requirement on profit for companies looking for listing on the Main Market of Bursa Malaysia?</p> <ul style="list-style-type: none"> - Aggregate after-tax profit of RM20 million over 3-5 financial year with at least RM6 million after-tax profit for the latest financial year 	<p>What is the different between remisier and paid dealer</p> <ul style="list-style-type: none"> - A remisier is an agent of a stockbroking company and receives a commission for each transaction handled - A paid dealer's representative is an employee of the stockbroking company who is paid a fixed monthly income
12.3 Basic products - Share, Bond (Sukuk), Derivatives, REIT, ETF	<p>What is the difference between bonus and right issues?</p> <ul style="list-style-type: none"> - Bonus is given free, at no cost to the shareholders whereby rights is offered at certain price, lower than the market price 	<p>What is the requirement for an ETF to be Syariah-compliant?</p> <ul style="list-style-type: none"> - The basket of stocks or the index that the ETF track must be Syariah-approved

<p>12.4 Appraising the performance</p>	<p>What is FTSE Bursa Malaysia EMAS Index?</p> <ul style="list-style-type: none">- Comprises the constituents of the FTSE Bursa Malaysia 100 Index and FTSE Bursa Malaysia Small Cap Index	<p>What is FTSE Bursa Malaysia Hijrah Shariah Index?</p> <ul style="list-style-type: none">- Comprises the largest 30 companies of the FTSE Bursa Malaysia EMAS Index by full market capitalisation that are screened by Yasaar and the Securities Commission's Shariah Advisory Council to meet the requirements of international Shariah-compliant investors
--	--	--

STUDY QUESTIONS

13.0 Financial mathematics	Questions
13.1 The concept of time value of money	<p>1. Find the value of \$10,000 saved at a simple interest rate of 5% for</p> <ul style="list-style-type: none"> a) 2 years b) 5 years c) 6.5 years <p>2. For a 5-year hire purchase loan of \$60,000 for a car at 4.5% interest rate, compute the following:</p> <ul style="list-style-type: none"> a) Total Repayment Value b) Monthly Installment c) Effective Interest Rate.
13.2 Compound interest calculations – PV, FV and annuity	<p>3. Find the future value of an investment of \$20,000 for 20 years at the following compounding rates:</p> <ul style="list-style-type: none"> a) 8% b) 8.5% c) 12% <p>4. In order to receive \$1 million dollars in 20 years time, how much must you invest now if you could generate an investment return of 10% p.a.?</p> <p>5. How much must you pay for an annuity of \$48,000 per annum for 15 years if your investments could yield a weighted average return of 10%? The first payment will be made at the end of the first year.</p>
13.3 Using the financial calculators	<p>6. If you could save \$2,400 every year for the next 12 years at an investment rate of 6%, what would you receive at the end of your investment horizon?</p> <p>7. For a 20-year housing loan of \$200,000 at an interest rate of 8% (monthly rest), compute the:</p> <ul style="list-style-type: none"> a) Monthly nominal repayment amount. b) Calculate the total nominal repayment, assuming that the interest rate remains the same throughout the loan duration. c) Recalculate (a) and (b) assuming that the interest rate has changed overnight by 1% per annum.
13.4 Solving financial problems	<p>8. En. Asraf, age 25, wishes to retire at the age of 55. Upon retirement, he wants to receive \$36,000 per annum for 20 years. If the long-term average annualized rate of return is 7%, what would be his annual contribution before retirement?</p> <p>9. To receive a perpetuity payment of \$36,000 at an investment rate of 6%, calculate the required initial outlay.</p> <p>10. Calculate the value of an annuity of \$10,000 for 8 payments in which the first payment is to be made at the beginning of the first year. Interest rate is 6%.</p>

11. If you contribute \$4,000 every year for 10 years at a return of 5% in which the first payment is made now, how much will you receive at the end of the 10 year?

12. You are to receive \$10,000 at the end of the 1st year, \$25,000 at the end of the 2nd year and \$40,000 at the end of the 3rd year, compute the present value of these cash flows at the required rate of return of 8%.

13. You would like to have \$1,000,000 in 15 years time. You could save \$36,000 each year. What would be the required rate of return that you need?

14. Puan Rose's daughter, Liana intends to further her studies in a private college under a 3-year degree programme in 10 years' time. Current tuition fees are \$30,000 per annum. It is expected that the tuition fees increase yearly at a 4% rate. Investment rate is at 7%.

Required:

- a) Calculate the lump-sum savings required to meet the education costs.
- b) Calculate the amount required for an annuity savings plan with the first savings installment starting today.

15. En. Shah wants to retire very soon. After retirement, he wishes to receive \$36,000 per annum. He would like his income to be hedged against inflation by adopting an income growth rate of 3% each year. If an investment portfolio with an expected annualised return of 8% could be constructed, what is the amount that he needs to put in?

17. If you could afford to contribute \$22,809 every year for 15 years. What would be the required rate of return should you wish to have \$1 million at the end of your investment period?

14.0 Basics of Company Analysis	Question 1	Question 2
14.1 The Accounting equation	<p>What are the composition of:</p> <ol style="list-style-type: none"> 1. Assets 2. Liabilities 3. Shareholders' Equity <p>Discuss Assets = Liabilities + Equity</p> <p>Assets are future economic benefit that is controlled by the entity as a result of past event or past transaction and are classified into Current and Long-term. Current assets include cash, accounts receivable, inventory, and other items which will be used within a year. Long-term assets include land, buildings, plant, equipment and other assets in service over one year.</p> <p>Liabilities are present obligations to another entity as a result of past event or past transaction and are classified into Current and Long-term. Current liabilities include payables such as wages, accounts, taxes, accounts payables and other obligations expected to be settled within a year. Long-term liabilities include long-term loan, bond/notes payables, long-term leases and other liabilities expected not to be liquidated within a year.</p> <p>Shareholders' Equity is the residual value of assets less liabilities. It is made of share capital and accumulated profit or losses of the company.</p>	<p>Discuss the situation of a company having a negative Shareholders' Equity balance</p> <p>A company having a negative Shareholders' Equity balance means that the accumulated losses have exceeded the share capital of the company.</p> <p>A company in this position would have more Liabilities than Assets, and is in very dire straits.</p>

<p>14.2 Reading the Annual Report</p>	<p>Discuss the following Annual Reports items</p> <ol style="list-style-type: none"> 1. Notice of Annual General Meeting <p>An Annual General Meeting (AGM) is a meeting of the shareholders that is required by law. Shareholders are given at least 14-day notice before an AGM is convened.</p> <ol style="list-style-type: none"> 2. Financial highlights <p>Company provides basic time series data, usually on yearly basis, for easy browsing by the shareholders. The usual highlights are: Financial results i.e. Turnover and Profits and Basic per-share statistics i.e. Earnings per share, Dividend per share and Net Tangible Asset per share</p> <ol style="list-style-type: none"> 3. Chairman's statement <p>The usual Chairman's statement consists of:</p> <ul style="list-style-type: none"> • the operational review of the company's activities • the major exercises being undertaken by the company • the outlook for the company 	<p>Discuss the importance of the Auditors' Report to Members</p> <ul style="list-style-type: none"> • Financial statements are the responsibility of the directors • Auditor is responsible only to Shareholders for the content of the audited accounts • Audits are conducted in accordance with approved Standards on Auditing in Malaysia • Financial statements are prepared so as to give a true and fair view the state of affairs of the Company and of their results and cash flows for the financial year • Auditor confirms that the financial statements of the Company were not subject to any qualification or any adverse comment
<p>14.3 Financial Ratio and time series analysis</p>	<p>Discuss the definition and application of the following ratios</p> <ol style="list-style-type: none"> 1. Gross Profit Margin 2. Operating Profit Margin 3. Net Profit Margin 4. Return on Asset 5. Return on Equity 6. Current Ratio 7. Debt-to-Total Asset 	<p>Discuss basic time series analysis</p> <p>A time series is a collection of observations of well-defined data items obtained through repeated measurements over time.</p> <p>For example, measuring the value of retail sales each month of the year would comprise a time series. This is because sales revenue is well defined, and consistently measured at equally spaced intervals. Data collected</p>

	<p>8. Debt-to-Equity Ratio</p> <p>Refer to BROWN COMPANY Financial Statements</p>	<p>irregularly or only once are not time series.</p> <p>A basic time series analysis aims to identify:</p> <ol style="list-style-type: none"> 1. Trend (long term direction) 2. Seasonal (calendar related movements); and 3. Irregularities (unsystematic, short term fluctuations).
<p>14.4 Assessing a company's financial health</p>	<p>Discuss the insolvency of a company</p> <p>In general, a company is insolvent when it cannot meet its debt obligation.</p> <p>A company is technically insolvent when its liabilities are greater than its assets.</p> <p>If any of its creditors initiate a winding up order by the High court to recover the debt then the company would be put under a Receiver.</p>	<p>The annual gross profit margin of company ABC has been declining consistently from 25% in 2002 to 5% in 2006. What can you infer from this trend?</p> <p>Gross profit margin is the first level of profit margin for a company, expressed as a percent of its turnover. A declining gross profit margin from 25% to 5% in 4 years indicates the company is facing increasing cost of sales. Simply, the company's prospect is not good because rising cost of sales in most cases is due to factors beyond the control of the company. Eg. The rising cost of fuel for an express bus company.</p>

BROWN COMPANY
BALANCE SHEET
As at December 31

	<u>Year 1</u>	<u>Year 2</u>
<u>ASSETS</u>		
Cash	\$ 2,000	\$ 2,200
Accounts receivable	3,000	3,500
Inventory	<u>4,000</u>	<u>4,200</u>
Total current assets	9,000	9,900
Fixed assets at cost	22,000	24,300
Accumulated depreciation	<u>9,000</u>	<u>10,500</u>
Net fixed assets	13,000	13,800
Total assets	<u>\$22,000</u>	<u>\$23,700</u>
<u>LIABILITIES AND EQUITY</u>		
Accruals	\$ 1,600	\$ 1,760
Accounts payable	<u>2,400</u>	<u>2,640</u>
Total current liabilities	4,000	4,400
Notes payable	11,000	11,800
Long-term debt	4,000	3,204
Common stock	2,000	2,300
Retained earnings	1,000	1,996
Total liabilities and Equity	<u>\$22,000</u>	<u>\$23,700</u>

BROWN COMPANY
INCOME STATEMENT
Year Ending December 31, Year 2

Sales	\$19,000
Cost of goods sold	<u>12,000</u>
Gross Profit	7,000
Depreciation expense	1,500
Selling, general, and administrative expense	<u>1,000</u>
Net Operating Income	4,500
Interest expense	<u>1,200</u>
Taxable income	3,300
Taxes	<u>1,440</u>
Net income	<u>\$ 1,860</u>

STUDY QUESTIONS

15.0 Macroeconomic and Sectoral Overview	Question 1	Question 2
15.1 Malaysia Economic Structure	<p>How Fiscal policy of the government may affect the economy?</p> <p>Increased tax will cut the amount of reinvestment available to the company. This measure is known as contractionary policy. On the other hand, increasing subsidies will introduce more money to the economy and boost production. This is known as expansionary policy</p>	<p>How can an investor understand the economy</p> <p>By performing the top down approach; understanding the general economy, performing industry analysis and understanding company's performance</p>
15.2 Sectoral Overview	<p>Explain how can an investor analyse which sector is doing well than the other sectors</p> <p>By looking at the stock market report based on the sectors as well as the trend of price increase in a specific sector such as real property price hike or slump and the rise of commodity price.</p>	<p>State three examples of stock market sectors</p> <p>Plantation, financial services and consumer products</p>
15.3 BNM And Treasury Economic Reports	<p>What is the effect of cutting interest rate in the economy? How this can result to liquidity trap?</p> <p>Cutting interest rate is meant to increase borrowing and lending, consumption, and fixed investment. When the relevant interest rate is already at or near zero, lowering it to a level which would stimulate the economy may not be possible. The monetary authority can increase the overall quantity of money available to the economy, but traditional monetary policy tools do not inject new money directly into the economy.</p>	<p>Who benefits from the weakening US currency?</p> <p>Exporters will benefit from the weakening dollar. Mutual funds with overseas investments rise along with the currency they are denominated in as long as the funds don't hedge against currency movement. People holding foreign currency accounts or notes will benefit as well as people holding gold; gold is priced in dollars across the globe and generally rises when the dollar loses value as buyers using other currencies drive up the price as it becomes cheaper. Also, our trade</p>

	<p>Rather, the new liquidity created must be injected into the real economy by way of financial intermediaries such as banks. In a liquidity trap, banks are unwilling to lend, so the central bank's newly-created liquidity is trapped behind unwilling lenders.</p> <p>A liquidity trap is a situation in monetary economics in which a country's nominal interest rate has been lowered nearly or equal to zero to avoid a recession, but the liquidity in the market created by these low interest rates does not stimulate the economy. In these situations, borrowers prefer to keep assets in short-term cash bank accounts rather than making long-term investments. This makes a recession even more severe, and can contribute to deflation.</p>	<p>deficit should decrease as U.S. entity sales outside the country increase, and U.S. companies will buy less from foreign trading partners. The weak dollar is encouraging foreign manufacturers to set up factories in the U.S., bringing jobs and other economic benefits.</p>
<p>15.4 Economic Forecast</p>	<p>Why stock market is considered as a leading indicator?</p> <p>Leading economic indicators are indicators which change before the economy changes. They usually lead the business cycle by about six months.</p> <p>Stock market returns are a leading indicator, as the stock market usually begins to decline before the economy declines and they improve before the economy begins to pull out of a recession.</p>	<p>Cite examples of lagging indicators</p> <p>Unemployment rate, corporate profits and labor cost per unit of output. Interest rates are another good lagging indicator.</p>

STUDY QUESTIONS

16.0 Market Cycles	Question 1	Question 2
16.1 General Business Cycle	<p>Explain Expansion Stage [7 o'clock to 12 o'clock] as suggested in the investment clock approach</p> <p>During the economic expansion stage, strong earnings growth achieved by companies make equity asset class the preferred choice.</p> <p>Share prices rise as companies perform well with the economy registering positive GDP growth rates.</p> <p>Unemployment rate would be low with higher consumer spending. The investor could overweight on equity.</p>	<p>Discuss the trends of expansion to peak in the general business cycle</p> <p>GNP increasing resulting industrial production escalating, capacity utilization growing, unit labor cost increasing, CPI increasing due to excess demand, production at maximum, labor market tightening and expectations that boom cannot last increase.</p>
16.2 Stock Market Cycle	<p>Discuss why at the end of recession, financial stocks rise in value</p> <p>Towards the end of recession, financial stocks rise in value because investors anticipate that banks' earnings will rise as both economy and loan demand recover. Brokerage houses also benefits from increase interest in trading stocks, companies selling of debts and securities and increase mergers during the recovery. The anticipation is, during the end of recession, there will be demand in loan, housing construction and security offerings.</p>	<p>What are the examples of defensive stocks during the recession time</p> <p>During recession, some industries do better than the others. Consumer staples, such as pharmaceuticals, food and beverages, outperform other sectors during a recession because although overall spending may decline, people still spend money on necessities so these defensive industries generally maintain their values.</p>

<p>16.3 Factors Influencing Property Market</p>	<p>Explain how investment in real estate is inflation-proof</p> <p>House price will rise as price of other commodity rises Rental income rises with inflation. Higher prices of goods and services will result to higher rental receivable. House-owners may have excess income after deducting the cost of financing.</p>	<p>What are the macroeconomic factors influencing property market?</p> <p>Macroeconomic factors influencing property market include:</p> <ul style="list-style-type: none"> The domestic economy The business cycle State differences Sector differences Socioeconomic Political environment
<p>16.4 International Business Climate</p>	<p>Does stock market correlation increases or decreases with globalisation?</p> <p>Globalization increases stock market correlation because of cross listing of shares in different market. Changes in the international market affect the local market. For example, US recession affect the GDP of exporting countries to the US.</p>	<p>Compare the key factors to growth of Indian and Chinese market</p> <p>India: skilled and semi skilled in IT and marketing services</p> <p>China: cheap factory and labour for manufacturing consumer products</p>

STUDY QUESTIONS

17.0 Alternative Investment products	Question 1	Question 2
17.1 Real Estate	<p>Discuss key reasons for including real estate in a client's investment portfolio.</p> <p>The key reasons for including real estate in a client's investment portfolio include:</p> <ol style="list-style-type: none"> 1. <u>Opportunity for superior returns:</u> This arises from the real estate market being less "informationally-efficient" compared to the stock and bond markets which could present bargains for the alert and astute real estate investor. The real estate market could be less informationally efficient than the stock and bond markets because there are fewer analysts and investors researching the real estate market. 2. <u>Inflation hedge:</u> Historical evidence has shown that property prices have risen in tandem with inflation, making real estate a good hedge against inflation. 3. <u>Source of rental income:</u> Direct property investments that are rented out provide a source of regular rental income for the real estate investor. Meanwhile, indirect property investments (i.e. REITs) have the potential to provide regular distribution income (similar to a dividend) to unit holders. 4. <u>Stability of capital values:</u> Because of the tangible nature of real estate, even in the worst case, the value of real estate cannot drop to zero. In the worst case, the land the real estate is built on should still have some value. 5. <u>Usability:</u> Direct real estate investment can also provide "utility" or use for the investor, since she can reside in it or mortgage it for cash. This is in contrast to stocks, where the investor cannot "live" in the company that issued the stock. 	<p>Describe the ways to evaluate direct and indirect real estate investments, i.e. REITs.</p> <p>The ways to evaluate real estate investment include the following:</p> <ol style="list-style-type: none"> 1. <u>Location:</u> Make sure that the property is located in a convenient and environmentally pleasant location as this will determine the potential for capital appreciation and rental income growth. For REITs, this applies to the location of the properties in the REIT portfolio. 2. <u>Valuation:</u> Make sure you are not overpaying for the property or REIT. There are several methods to value direct real estate property such as the cost approach, operating income approach and sales comparison approach. Meanwhile, for REITs, one should look at whether the REIT is trading at a premium or discount to its appraised Net Asset Value (NAV) per unit. If it is trading at a premium, the REIT could be expensive. 3. <u>Developer track record:</u> Make sure the developer you are buying the property from has a good track record of developing high quality properties. For REITs, ensure that the manager of the REIT has a good track record of managing properties. 4. <u>Legal issues:</u> Make sure that when you buy a property, the property is free from encumbrances (i.e. it has not been pledged by the seller as security for a liability) and the seller holds full legal title of the property. For REITs, this means checking the corporate governance track record of the REIT manager. 5. <u>Other issues:</u> Some would argue that it is also important to pay attention to the "feng shui" of the real estate investment.

<p>17.2 Gold</p>	<p>What are some of the reasons that make gold an appealing investment?</p> <p>The reasons that make gold an appealing investment are the following:</p> <ol style="list-style-type: none"> 1. <u>Gold is a good store of wealth and insurance:</u> This is because gold is easy to understand, highly liquid (i.e. it can be easily converted into cash) and bears no credit risk. 2. <u>A good inflation hedge:</u> Historically, the gold price has tended to increase with inflation. Moreover, there is speculation that as governments (especially the US) eventually struggle to repay their excess borrowings by printing more money, the global economy could return to the "gold standard" where every currency is pegged to gold. This is another factor in gold's favor. 3. <u>A good portfolio diversifier:</u> The correlation of gold with traditional assets such as bonds and equities has historically been less than 0.5, meaning that the gold price seldom tracks the price of traditional assets. So, when the price of traditional assets falls, the gold price is likely to rise or just stay flat. 	<p>Evaluate, in terms of risk, the ways an investor can get exposure to gold.</p> <p>There are several ways an investor can get exposure to gold:</p> <ol style="list-style-type: none"> 1. <u>Direct purchases of physical gold:</u> This would include buying gold bullion, gold coins or even jewelry. This is the lowest risk way of owning gold as the investor directly owns the physical gold. However, this method of owning gold can be rather cumbersome because of the need to store the gold. 2. <u>Exchange traded funds:</u> This involves buying listed certificates whose prices track that of physical gold. This is a more convenient way of owning gold as the investor does not have to worry about storing physical gold. However, this method entails slightly more risk, since the investor does not have the physical gold in his possession. 3. <u>Unit trusts:</u> This means buying a managed fund that seeks to invest the bulk of its assets in gold or precious metal-related equities. This is more risky than the first two methods because it exposes investors to not just the gold price but also to equity market risk. 4. <u>Mining stocks:</u> This means buying the shares of gold mining companies. This is slightly more risky than buying unit trusts because of the lack of investor knowledge about a particular mining stock and limited diversification potential. 5. <u>Derivatives:</u> This means buying futures and options on gold which give the investor leveraged exposure to gold. This is the most risky method to gain exposure to gold as the investor could potentially lose more than his initial investment.
------------------	--	--

<p>17.3 Commodity</p>	<p>Discuss the factors that drive commodity prices.</p> <p>Supply and demand factors drive commodity prices. So, in forming the outlook for commodity prices, it is important to understand how supply and demand dynamics will change.</p> <p>Supply factors are as follows:</p> <ul style="list-style-type: none"> • Existing production globally • Potential for new supplies • Threats to supply (i.e. war, bad weather, deliberate production cuts by a cartel, e.g. OPEC) <p>Demand factors to consider:</p> <ul style="list-style-type: none"> • Economic growth. Faster economic growth results from an increase in aggregate demand, which would increase demand for commodities which are the inputs used to produce goods and services to meet demand. • Investor sentiment and speculation. Sometimes, investors buy a commodity in anticipation of its price rising in the future because of anticipated supply cuts, for example. This could increase the demand for a commodity. • Technological change. It is also important to consider whether there will be certain technological changes in the future that could spur higher demand for a commodity. For example, in the late 1990s, the growth of the Internet spurred demand for fiber optic cables, which increased the demand for copper. 	<p>What are the limitations of investing in commodities via commodity-related stocks?</p> <p>Getting commodities exposure indirectly via commodity-related stocks is a common way to invest in commodities. However, there are some limitations to this approach:</p> <ul style="list-style-type: none"> • Such stocks do not give pure exposure to the commodity. This is because by investing in a particular stock, additional risks such as management risk, financial risk and equity market risk are being assumed. These risks could offset any benefit obtained from a rising commodity price. • Some companies may decide to “hedge” their commodities exposure by locking a price to sell their commodity produce in the future. Thus, if the price of the commodity rises in the short term, the stock price may not benefit.
<p>17.4 Risk and Return profile</p>	<p>Rank, in terms of increasing risk and expected return, the following investments: real estate, bonds, commodities and gold.</p> <p>In terms of increasing risk and expected return the ranking of the investments is as follows:</p> <ol style="list-style-type: none"> 1. Bonds 2. Real estate 3. Gold 4. Commodities 	<p>Despite the higher risk of some alternative investments such as commodities, justify, from a risk-reward perspective why an investor should still include such investments in her portfolio.</p> <p>Despite the higher stand-alone risk of some alternative investments, an investor might still want to consider including them in a portfolio due to the low correlation these investments have</p>

	<p>Justification: Bonds are the safest because they promise the investor a fixed income payment known as a coupon. Real estate is next because it is backed by physical assets. However, its income (rental income for direct properties and distribution income for REITs) is variable and subject to the economic cycle. Gold is riskier than real estate because it does not pay any income and gold prices can sometimes fluctuate wildly due to changes in investor sentiment. Commodities are the riskiest because just like gold, they do not pay any income. Prices can also fluctuate due to changes in economic growth prospects and investor sentiment.</p>	<p>with traditional investments. Their low correlation allows their values to increase or stay stable even when traditional investments' prices are falling. An example is oil, which rallied when equities sold-off during the outbreak of the first Gulf War in 1990. Thus, by adding alternative investments to a portfolio can help mitigate fluctuations in the value of a portfolio</p>
--	--	---

STUDY QUESTIONS

18.0 Designing an Investment Portfolio	Question 1	Question 2
18.1 Investment Policy Statement	<p>Describe the importance of the investment policy statement.</p> <p>The investment policy statement is important because:</p> <ul style="list-style-type: none"> • It identifies the investment objectives of the client up-front. Investment objectives include return objective, risk tolerance and investment constraints. • It ensures discipline in long-term investment decision making by making it more likely that the client and planner stay the investment "course" in spite of market volatility to achieve the investment objectives. • It provides continuity in the execution of the investment process if the client decides to change investment planners. • It forms a "terms of references" or informal contract between the client and the investment planner. 	<p>Identify and describe the key constraints a client could face.</p> <p>Investment constraints affect the return objective and the risk tolerance of a client. A planner needs to be mindful of these constraints when drawing up an investment plan. The key investment constraints faced by a client are:</p> <ul style="list-style-type: none"> • <u>Liquidity needs</u>: The planner needs to determine if the client faces any known needs for cash during the investment horizon. For example, if the planner determines that the client needs liquidity of RM100,000 in the next 3 months, the planner should allocate RM100,000 of the client's assets to highly liquid and low risk instruments such as money market funds or government bills. • <u>Time horizon</u>: It is also vital for the planner to know how long the client intends to invest for. This will determine the risk of the proposed portfolio. If a client has a short time horizon, the proposed portfolio cannot assume too much risk as the client may not have enough time to recoup short-term losses in the portfolio. Vice versa, if the client has a long time horizon, the portfolio can assume more risk as the client may have sufficient

		<p>time to recoup short-term losses in the portfolio.</p> <ul style="list-style-type: none"> • <u>Taxation</u>: The planner should also consider the tax preferences and status of the client. For example, if the client wishes to minimize his taxes, he should invest in tax-exempt vehicles such as unit trust funds. • <u>Legal and regulatory</u>: In drawing up the proposed portfolio, the planner should always ensure that she is complying with the relevant laws and regulations. • <u>Unique preferences</u>: This includes any constraints not mentioned above. For example, a client may only want to invest in ethical or Syariah compliant assets. And the planner needs to take this into account when drawing up the investment plan.
<p>18.2 Asset Allocation</p>	<p>Why is asset allocation a form of risk control for the client?</p> <p>Asset allocation is a form of risk control because it ensures that the way the client's assets are apportioned to various asset classes is consistent with the client's risk profile. For example, it ensures that a conservative client will have minimal allocation to equities most of the time and greater allocation to fixed income.</p>	<p>Describe the key asset allocation strategies.</p> <p>The key asset allocation strategies are:</p> <ul style="list-style-type: none"> • <u>Strategic asset allocation</u> <p>This strictly follows a "base" policy asset allocation consistent with the client's risk tolerance and return objective. For example, if it is determined that the policy asset allocation for the client is 80% equities and 20% bonds, this strategy would mean that regardless of market conditions, the asset allocation will have to adhere to this mix. This is a passive asset allocation strategy and should incur the lowest transaction costs.</p>

		<ul style="list-style-type: none"> • <u>Tactical asset allocation</u> This modifies strategic asset allocation by permitting deviations from strategic asset allocation based on market views. For example, if the strategic asset allocation is 80% equities and 20% bonds, this strategy allows for the planner/client to deliberately change the mix to 90% equities, 10% bonds if the planner/client is bullish on equities. • <u>Insured asset allocation</u> This “portfolio insurance” approach is focused on protecting the value of the portfolio above a certain level called the “floor value”. Active asset allocation is practiced so long as the value of the portfolio is above the floor. However, once the portfolio value falls below the floor, the strategy switches to defensive mode by investing the entire portfolio in risk-free securities such as government bonds. • <u>Integrated asset allocation</u> This approach attempts to synthesize all the three asset allocation strategies mentioned above.
<p>18.3 Investor’s Networth</p>	<p>Why is it important to calculate a client’s net worth?</p> <p>It is important to calculate a client’s net worth because it gives us a snapshot of the client’s financial position. First, knowing the client’s financial position would give us a better idea of the client’s risk tolerance. For example, a client with a stronger financial position is likely to</p>	<p>Mr. Tan gives you the following information about his current financial position:</p> <ul style="list-style-type: none"> -Total current assets (cash in bank): RM2mil -Total non-current assets (residence) : RM5mil -Total current liabilities (overdraft):RM1mil -Total non-current liabilities (mortgage): RM2mil. <p>Calculate Mr. Tan’s net worth.</p>

	<p>have higher risk tolerance compared to a client with a weaker financial position. Second, some investment products, such as hedge funds and structured products are only suitable for investors above a certain net worth. For example, in Malaysia, only investors with a net worth of more than RM3mil can invest in certain structured products and alternative investment funds</p>	<p>Based on the information Mr. Tan has provided, his net worth is equal to</p> $= (\text{Current Assets} + \text{Non-current Assets}) - (\text{Current Liabilities} + \text{Non-current liabilities})$ $= (\text{RM2mil} + \text{RM5mil}) - (\text{RM1mil} + \text{RM2mil})$ $= \text{RM4mil}$
<p>18.4 Investor's Risk Tolerance</p>	<p>Distinguish between a client's willingness and ability to take risk.</p> <p>Willingness to take risk is a function of the client's personality and this can be gauged through a personality profiling questionnaire using the techniques developed by Bailard, Biehl and Kaiser. Meanwhile, ability to take risk refers to the capacity of the client to take risk. This is a function of the client's stage in his lifecycle, strength of financial position and investment time horizon. Risk tolerance integrates the willingness and ability to take risk</p>	<p>What are some of the key factors discussed in a standard risk tolerance questionnaire?</p> <p>The key factors discussed in a standard risk tolerance questionnaire include the following:</p> <ul style="list-style-type: none"> • The client's investment goals • The client's investment horizon • The client's overall financial position • The client's risk appetite

STUDY QUESTIONS

19.0 Executing your portfolio	Question 1	Question 2
19.1 Types of assets and intermediaries	<p>Suggest how a planner can decide between direct and indirect assets.</p> <p>Direct assets are those where the investor directly owns the asset, e.g. an investment in direct property. Indirect assets are those where an investment vehicle owns the asset on the investor's behalf. An example would be a real estate investment trust (REIT). In deciding between direct and indirect assets, the planner should consider how much time and expertise she has in that particular investment. If either time or expertise is lacking, the planner should only consider indirect assets. However, if the planner has sufficient time and expertise, direct assets can be considered.</p>	<p>Distinguish between buy side and sell-side traders</p> <p>The difference between buy-side and sell-side traders rests mainly on the exclusivity of the trading relationship they have. Buy-side traders are professional traders or brokers employed by institutional investors or investment managers to execute trades solely for the portfolio managers. Buy side traders aim to execute trades quickly, at favorable prices and with minimal errors. Thus, buy-side traders have an exclusive trading relationship with their employer. Sell-side traders are professional traders or brokers who are employed by a brokerage firm. They execute trades for various customers, investment managers and institutional investors. Sell-side traders charge a commission for their services and also sell securities and make recommendations for their clients. Sell-side traders do not have an exclusive relationship with any client.</p>
19.2 The role of broker and dealer	<p>Distinguish between the role of a broker and a dealer.</p> <p>A broker acts solely as an agent or in an intermediation role. A broker firm thus only buys or sells securities on behalf of its clients. It does not trade for its own account. A dealer, on the other hand, acts as both an agent and a principal. Under the latter</p>	<p>Discuss front-running and how it is a conflict of interest between the planner and the client.</p> <p>Front-running arises when a broker, who upon receiving a client order, acts first for his own account before executing the client's order. This is a conflict of interest because it benefits the broker</p>

	<p>role, a dealer firm may buy or sell securities for its account, in addition to for clients' behalf.</p>	<p>at the expense of the client. The following example will make this clear:</p> <p>Suppose a broker receives an order to buy 40,000 shares of some stock, but the broker first places an order for 20,000 shares for his own account at RM10. Then afterward, the broker keys in the customer's order to buy 40,000 shares at RM10.50, allowing the broker to dispose his shares for a profit of RM10,000. This profit of RM10,000 is earned at the expense of the client</p>
<p>19.3 Timing your buying/selling</p>	<p>What is the basic rule for an investor to time his buying/selling?</p> <p>The basic rule for an investor in timing his buying/selling is to avoid buying when the market is at its peak and avoid selling when the market is at its low. To adhere to this principle, the investor needs to use either market cycle or macroeconomic indicators to anticipate the market's peak and trough. This is an art, rather than a science</p>	<p>Explain the market qualities an investor should consider in timing her buying/selling.</p> <p>In addition to market cycle analysis, the investor should also study the market's qualities when buying/selling. The market qualities to pay attention to include:</p> <ul style="list-style-type: none"> • "Tightness": Are the bid-ask spreads very narrow, which enable the investor to buy/sell with minimal loss of value? • "Depth": Is the cost of trading relatively large quantities (volume) relatively small? • "Resilience": Do market prices tend to reflect intrinsic value? <p>If the above conditions are not met, the investor may want to defer the buy/sell decision, if possible.</p>

<p>19.4 Transaction cost structure</p>	<p>List and explain the types of explicit transaction costs.</p> <p>Explicit transaction costs are those that are clearly visible to the investor, i.e. the investor receives a "receipt" for incurring such costs. Such costs include:</p> <ul style="list-style-type: none"> • Brokerage commission: paid to the broker when buy/sell trade for a stock is filled. • Up-front sales charge: paid to the agent/broker when you purchase an investment. Applicable mainly for funds. <p>Back-end fee: An exit fee paid to the agent/broker when you sell an investment. Applicable mainly for funds</p>	<p>List and explain the types of implicit transactions costs.</p> <p>Implicit transaction costs are those that are not visible to the investor, i.e. the investor does not receive a receipt for incurring such costs. They include:</p> <ul style="list-style-type: none"> • Bid-ask spread: the difference between the higher price the buyer is willing to pay for an asset and the seller is willing to sell it. For example, for a stock, if the bid price is RM10.00 and the ask price is RM10.50, the bid ask spread is RM0.50. This means that if you were to buy the stock, you would pay RM10.50 (the ask price), but if you were to dispose it immediately, you would only get RM10.00 (the bid price). The difference of RM0.50 represents a cost to you. • Impact costs: Applicable especially for large order sizes, where keying in a large order forces the price to move against you. For example, say the last done price for a stock is RM10 and you key in an order to sell 1mil units of the stock. This subsequently pushes the price of the stock down to RM9.00. The loss of RM1 per share represents an impact cost to you. • Opportunity costs: The cost of an order not being filled. This could arise when we give limit orders. For example, say you give a limit order to buy 1000 share of stock A at RM2.00. The current market price is RM2.50. The next day, the price of stock A goes up to RM3.00. Your limit order is not done (since the price of the stock did not hit RM2.00
--	---	---

		<p>or lower) and the opportunity cost is RM0.50 per share to you, since you did not buy the stock at RM2.50 and enjoy the run-up in its price to RM3.00.</p>
--	--	--

STUDY QUESTIONS

20.0 Portfolio Monitoring and Rebalancing	Question 1	Question 2
20.1 Monitoring to meet investment objectives	<p>Discuss why the time-weighted rate of return (TWRR) is a superior method of calculating the overall portfolio return compared to just comparing the ending portfolio value with the beginning portfolio value.</p> <p>The time weighted rate or return (TWRR) is a superior method of calculating the total portfolio return compared to just comparing the ending portfolio value with the beginning portfolio value as the TWRR method explicitly considers and adjusts for the new injections into and withdrawals from the investment portfolio</p>	<p>Discuss the role of performance attribution.</p> <p>Performance attribution seeks to explain how the portfolio performed versus its stated benchmark. Performance attribution attempts to determine how much of the return on a portfolio came from market timing (i.e. tactical asset allocation) and security selection (i.e. investment selection). In other words, it seeks to identify areas where the planner added/destroyed value for the client's portfolio.</p>
20.2 Markowitz's Diversification and Efficient Frontier	<p>What is the key implication of Markowitz's diversification for constructing an investment portfolio?</p> <p>The key implication of Markowitz's diversification for investment portfolio construction is that to reduce overall portfolio risk without sacrificing returns, a portfolio should consist of assets that have low correlation with each other. Markowitz's diversification is a major improvement from naive diversification, which just adds as many assets as possible into a portfolio (without regard for their correlations)</p>	<p>Relate the capital market line to the efficient frontier.</p> <p>The capital market line is the new and expanded efficient frontier that results once we allow for borrowing and lending at the risk free rate. Recall that the efficient frontier represents the combination of all assets in an economy that give the highest return for a given risk level. If we allow for borrowing and lending at the risk-free rate, all investors will hold the same portfolio of risky assets on the efficient frontier. This portfolio is called the "market" portfolio. By combining borrowing/lending at the risk free rate with the market portfolio, we can get an expanded efficient frontier, which is called the capital market line. Depending on their individual risk tolerance,</p>

		investors will then move along the capital market line by combining the market portfolio with either borrowing/lending to achieve the risk level they want
20.3 Rebalancing the portfolio	<p>Why is portfolio rebalancing important?</p> <p>Portfolio rebalancing is important because it ensures that the portfolio's current asset allocation does not deviate too much from its desired asset allocation. Since asset allocation is a major driver of whether the portfolio will achieve its goals, portfolio rebalancing ensures that the portfolio is on track to achieve its goals as stated in the investment policy statement</p>	<p>Discuss the various portfolio rebalancing methods.</p> <p>The portfolio rebalancing methods include:</p> <ul style="list-style-type: none"> • Sell high, buy low: Sell the assets in the portfolio that have put the portfolio out of balance due to their increase in value. Proceeds are then used to invest in assets that have not increased in value. • Inject new funds: New funds are injected into the portfolio to invest in the assets that have not appreciated in value, bringing their share of the portfolio upwards. • Rebalancing at fixed intervals: The portfolio is rebalanced at pre-determined intervals, e.g. every quarter or six months. • Use of rebalancing triggers: The portfolio is only rebalanced once a certain asset allocation threshold is breached.
20.4 Buy/Sell/Hold	<p>What is the general principle behind buying/selling/holding an asset?</p> <p>The general principal for buy/sell/hold is to buy if there is attractive upside, hold if there is neutral upside</p>	<p>Discuss a method for estimating the expected future return from a stock.</p> <p>The expected future return on a stock can be broken down into the following: = Capital gains + Income component</p>

	<p>and sell if there is significant downside. What constitutes attractive upside, neutral upside and significant downside is based on the required return and the risk profile of the client.</p>	<p>= (PE re-rating + Earnings growth) + Dividend yield</p> <p>PE re-rating is the capital gain that arises when investors are willing to pay up more per RM1 of the stock's earnings. For example, if the PE ratio of a stock is 10x, a re-rating happens when the PE ratio rises to 12x.</p> <p>Earnings growth refers to the capital appreciation that arises when the share price rises to maintain a constant PE ratio when the company's earnings grow. For example, if the PE ratio is 10x, if the earnings per share grows by 10%, the share price has to also rise by 10% to maintain the same PE ratio of 10x.</p> <p>Income component refers to the dividends received when investors invest in a stock.</p> <p>Note: The expected future return on a stock fund would also include an active return component, which reflects the relative out-performance/underperformance of the fund vs. a market index.</p>
--	---	--

Zakat and Tax Planning

STUDY QUESTIONS

1.0 Basics of Zakat	Question 1	Question 2
<p>1.1 Philosophy of Zakat – injunction, wisdom, etc</p>	<p>What is the purpose of zakat to the Muslims according to At Taubah verse 103 and to whom this verse is addressed?</p> <p>According to At Taubah verse 103, zakat is imposed upon Muslims in order to purify and cleanse themselves and their wealth.</p> <p>According to the consensus of Muslim jurists, this verse is addressed to Prophet Muhammad s.a.w and also to all Muslim rulers, in general.</p>	<p>What is fiqh / legal definition of zakat?</p> <p>An obligatory payment from specific wealth in specific rates and specific terms and to be distributed to specific beneficiaries.</p> <p>It simply means zakat is a pillar of Islam which payment must comply to the rules and not made arbitrarily.</p>
<p>1.2 Two kinds of Zakat – fitr and wealth</p>	<p>What are the timing differences of zakat fitr and zakat on wealth ?</p> <p>Both zakat fitrah and zakat on wealth are to be paid once a year..</p> <p>Zakat fitrah is to be paid during Ramadan while zakat on wealth is to be paid whenever owner's zakatable wealth has been held for complete one year (with certain exemption).</p> <p>Therefore, a wealth owner may be paying zakat more than once a year if he is owning more than one type of zakatable wealth.</p> <p>For zakat of crops and buried treasure, condition of hawl is not applicable and zakat must be paid after harvesting or when the wealth is received (and fulfilling other terms)</p>	<p>What is the core difference between zakat fitrah and zakat on wealth.</p> <p>Zakat fitrah is chargeable against every living Muslim at the end of Ramadhan. It is compulsory on adult, minor and the insane as well (payable by the guardian)</p> <p>Zakat amwal (wealth) is zakat on the 'surplus' of income or wealth of the Muslims.</p> <p>Therefore, zakat amwal its not related to the age or mental condition of the owner.</p>

<p>1.3 Conditions that make Zakat compulsory</p>	<p>Identify 5 general terms that makes zakat compulsory?</p> <ul style="list-style-type: none"> • Muslim ownership either by individual or group • Free, of not being a slave • Complete ownership. Owner is able to gain benefit from the assets + physical ownership. • Hawl. Must complete one year, except crops, maadin & rikaz. • Nisab. It is the threshold / minimum zakatable value 	<p>What is the <u>main</u> reason that makes certain assets deemed as 'incomplete possession' (milik naqis)?</p> <p>A wealth is categorized as "incomplete ownership" when the owner only control one aspect, either physical ownership or usufruct of a particular asset.</p> <p>If the owner is having control and access on both of physical ownership and the use of the asset, then only the asset will be liable for zakat.</p>
<p>1.4 Rate of Zakat</p>	<p>What is the reason that almost all kinds of monetary assets / financial assets is being zakated at the rate of 2.5%?</p> <p>All modern financial assets today uses zakat ruling for gold and silver currency (dinar and dirham).</p> <p>Zakat ruling on gold & silver currency is held as the main zakat principle and being referered to when discussing zakat on modern financial assets.</p> <p>So it will be zakated at the rate of 1/40 or 2.5%</p>	<p>What is the only type of zakat that is not levied using fixed percentage?.</p> <p>Zakat on cattle is the only zakat type using non-fixed percentage formula to calculate zakat.</p> <p>The zakat payable for livestock follows zakat schedule as explained by the Prophet Muhammadp.b.u.h, instead of charging fixed percentage for the cattle</p>

STUDY QUESTIONS

2.0 Understanding Zakat on Wealth	Question 1	Question 2	
2.1 Conditions of wealth subjected to Zakat	<p>What is the significance of nisab and hawl in determining the quantum of zakat payable?</p> <p>It signify that Islam do not require Muslims to pay zakat unless their wealth has achieved certain minimum amount and that minimum amount has endured one complete year.</p>	<p>What is the rules that ensures zakat is only levied on 'rich' Muslim?</p> <p>There are two basic rules / doctrines in zakat that ensure this. First is nisab. The owner must have the minimum amount of wealth.</p> <p>Second is rule of "excess". This is to signify that that only "excess" above basic necessities will be subject to zakat.</p>	
2.2 Types of wealth subjected to Zakat	<p>What are 5 type of zakat that has been agreed by (consensus) by all madzhab ?</p> <ol style="list-style-type: none"> 1. Gold & Silver 2. Business merchandise 3. Agricultural crops 4. Livestock / cattle 5. Extracted buried treasures & earth deposit 	<p>What is the rationale of zakat on earned income (mal mustafad) is levied when there is no specific text about it?</p> <p>Unlike gold, silver and agricultural produce which have clear & specific Quranic injunction about zakat, rules on zakat on income are derived from general injunction found in the Quran.</p> <p>Among the rulings are: At Taubah 103 (one's wealth need to be cleanse) and Al Baqarah 267 (Spend in Allah way from what one have earned legally)</p>	

<p>2.3 Business entity – Sole proprietorship, partnership or company</p>	<p>Do a Muslim need to pay zakat on companies for minorities shares he owned in Non-Muslim owned & controlled companies ?</p> <p>Yes, he's still obliged to pay zakat on his portion in that companies.</p> <p>The fact that the companies is owned & controlled by non-Muslim is indifferent to his obligation.</p>	<p>Do one need to pay zakat if he is the co-owner in hotel business which actively managed by his non-Muslim friend ?</p> <p>Yes, the obligation is still need to be comply to, but if the hotel business is involved in liquor, he need to deduct the liquor element (stock & profit generated) in determining the zakatable working capital of the hotel (at year end / hawl completion).</p>
<p>2.4 Who is liable to pay Zakat</p>	<p>What is the reason that zakat is levied from wealth of the Muslim orphan?</p> <p>Zakat is payable from orphan based on hadith of zakat on orphan wealth & the opinion of majority of jurist.</p> <p>Zakat is a responsibility on wealth owned by a Muslim, it focus on the surplus of wealth, not on the age of the owner.</p>	<p>List down those responsible to pay zakat?</p> <ol style="list-style-type: none"> 1. Muslim individuals 2. Muslim group 3. Guardian of the Muslim orphan 4. Companies that have Muslim ownership

STUDY QUESTIONS

3.0 How to Compute Zakat	Question 1	Question 2
3.1 Standard table of computation	<p>What are the basic rules regarding zakat on monetary / financial assets?</p> <ol style="list-style-type: none"> 1. All monetary wealth is zakated at the rate of 2.5% after the wealth has been held in a complete hawl and reach the nisab (85g of gold). 2. The benefits of the financial assets must be available to the owner. 3. The assets will be zakated at the market value / current value at the date of hawl completion. 	<p>Zakat is only chargeable against the returns of the financial assets. Is it true?</p> <p>No. Zakat is chargeable against both the principal and also the return of the assets.</p> <p>Basically zakat do not concern so much about the return / profit. This is because zakat is levied on the assets that fulfill the conditions of hawl, nisab and complete ownership.</p>
3.2 Business	<p>Is it fixed assets and long term investment are also subject to zakat?</p> <p>Basically , business is zakated upon the value of working capital at the date of hawl completion.</p> <p>Therefore, all fixed assets are exempted from zakat. Regarding long term investment, zakat is only chargeable on the liquid long term investment. Non-liquid investment such as stake is subsidiaries is not subject to zakat.</p>	<p>What is the basic equation of business zakat ?</p> <p>The basic equation is Cash + Stock in trade + Debtor – Creditor.</p> <p>However, zakat official will made some adjustment on the Working Capital to suit the zakat rulings</p>
3.3 Livestock	<p>What is the biggest implication of the rules in zakat on camel that affect zakat on wealth ?</p> <p>One fine example is zakat on camel. Nisab of camel is of 5 camels. But if the number of</p>	<p>Do one businessman need to pay zakat on 200 hundred goats he rear in the fodder.</p> <p>Zakat is not obligatory on cattle kept in fed foddered. But since he rear his livestock commercially, business zakat</p>

	<p>camel is less than 25, the zakat payable is a certain number of goat.</p> <p>Therefore, zakat is not necessary to be taken from the zakat liable wealth. The owner may pay zakat on certain asset using other asset that belongs to him.</p>	<p>calculation will be used here.</p> <p>So he need to pay business zakat. The cattle will be deemed as his stock for sale, except the cattle that has been designated for other purpose other than for sale.</p>
<p>3.4 Agriculture</p>	<p>A Muslim convert in Cameron Highland has been involved in large scale vegetable farming. Do he need to pay zakat on his crops?</p> <p>There is no zakat on vegetable farming, but since he done it commercially, he need to pay business zakat on it.</p>	<p>Why vegetable farming is not considered zakatable ?</p> <p>Zakat on agricultural produce is only for basic & staple foods & can be stored for extended period. This is an established view on zakat on crops.</p> <p>But according to the Hanafiyyah fiqh, all types of crops are subject to zakat after meeting the nisab.</p>

STUDY QUESTIONS

4.0 Economics Aspect of Zakat	Question 1	Question 2	
4.1 Distributive justice - 8 types of person eligible to receive Zakat	<p>Why is the principle of locality is dominant in the payment and distribution of zakat?</p> <p>Islam insist that a member of society must take care for the other member in the society. Zakat is to be taken from the rich among the society and be distributed to the poor among them.</p> <p>This principle of locality is very important in Islam. Zakat is not allowed to be distributed to other area where the poors are still available at the place of collection.</p>	<p>What is the proof that Islam insist zakat must be governed by ruler of the society.</p> <p>Al Quran and As Sunnah clearly told us this. For example, surah At Taubah verse 60 & 103, Al Haj verse 41 and traditions of the Prophet p.b.u.h and Caliph succeeded him simply implicate that zakat must be governed by Muslim ruler.</p> <p>Thus, it is an obligation of Muslim ruler to ensure that the system of zakat is well managed and efficient. The ultimate purpose of zakat cannot be achieved via <i>laissez faire</i> system.</p> <p>For Muslims living in the Non-Muslim majority areas, zakat must be handled by self-organized NGO's or the mosques. It is not to be handled individually for those Muslims reside in Non-Muslim majority areas.</p>	
4.2 Zakat and economic growth	<p>Explain how zakat play its role in the economic growth in particular Muslim society ?</p> <p>Zakat will ensure stability for economic growth because it gives great attention to the lowest end of society (the poor and destitutes) so that they will have adequate purchasing power to cover their basic needs.</p> <p>In the same time zakat will also continuously &</p>	<p>Explain how zakat law favour long term and strategic investment.</p> <p>Zakat will induce strategic & long term investment because fixed assets are exempted from zakat.</p> <p>So Muslim must balance their holdings in fixed assets and liquid assets and kept their holding in liquid wealth to the minimum.</p>	

	<p>automatically controlling the gap between the upper level and the lower level in Muslim society.</p>		
<p>4.3 Velocity of money and free flow of wealth</p>	<p>Do injunction have zakat have any effect on the velocity of money / flow of wealth ?</p> <p>Zakat is a built-in method in Islam to ensure wealth is circulating in a particular society. It goes to the extent that zakat fulfillment can be forced upon denial Muslim.</p> <p>This is to ensure social justice is upheld (in a systematic and organized safety net).</p>	<p>Explain how zakat (besides other Islamic injunction) prohibit idle / unused wealth in Muslim society.</p> <p>One can see how zakat is against idle assets / wealth from the obligation of zakat on orphan / minor wealth.</p> <p>The guardian of the orphan wealth should invest / make a trade (safe & sound trade) on the wealth entrusted to him so that the wealth wont reduced just to pay zakat.</p>	
<p>4.4 Tithe in other religions</p>	<p>What is the difference of charity concept between Islam and other religion ?</p> <p>Only in Islam, there exist systematic obligatory charity. Islam distinguishes between obligatory giving (<i>zakah</i>) and voluntary contributions (<i>sadaqah</i>).</p> <p>In Islam, all zakat fulfillment is considered <i>sadaqoh</i> but not all <i>sadaqah</i> can be considered as zakat.</p>	<p>Zakat is also a worship in the true and original teachings in Christianity and Jews. Is it true?</p> <p>In Islamic framework, all the Prophets of Bani Israel and also Prophet Isa a.s are considered Muslims. They are not the founder of the religion of Judaism or Christians as we know today.</p> <p>While the injunction of zakat among Ahli Kitab (People of The Books) can be found in many places in the Quran, the form and methods of zakat that were obligated upon the early days Ahli Kitab is unknown.</p>	

STUDY QUESTIONS

5.0 Legal Framework of Zakat	Question 1	Question 2
5.1 Origination of Zakat administration	<p>From where does the State Government derive its power in Zakat matters?</p> <p>The State Government derives its power in Zakat matters from the Federal Constitution, under Ninth Schedule, State list (List II).</p> <p>It states that:</p> <p>“Zakat, Fitrah and Baitulmal or similar Islamic religious revenue” and;</p> <p>“Wakafs and the definition and regulation of charitable and religious trusts, the appointment of trustees and the incorporation of persons in respect of Islamic religious and charitable endowments, institutions, trusts, charities and charitable institutions operating wholly within the State”</p> <p>as being the responsibilities of the State Government.</p>	<p>Discuss the Ninth Schedule of the Federal Constitution</p> <p>Basically, the Ninth Schedule of the Federal Constitution states that the power to legislate is shared between the Federal Government and State Government, and divides it into a Federal List, State List and a Concurrent List.</p> <p>In Malaysia, legislative power belongs to the Parliament, which comprises the Senate, House of Representatives and the Yang Di-Pertuan Agong who heads the Legislative Council.</p> <p>The Legislative Council functions as a law maker and has the authority to raise taxes and authorize expenditures.</p>
5.2 Zakat is a State matter	<p>What is the State enactment that rules the collection and distribution of Zakat in Selangor?</p> <p>Administration of The Religion of Islam (State of Selangor) 2003, articles 86-87.</p>	<p>What are other Islamic revenues that can be collected by State other than zakat?</p> <p>Under the Ninth Schedule, State List (List II), it has been described that other Islamic revenues that can be collected are Wakaf and charitable donations.</p>

<p>5.3 State Religious Authority and Collection centers</p>	<p>What are the reasons behind differing zakat practices from one state to another?</p> <p>The differing Zakat practices among states are because of the differences sources of zakat and the variation of ijthad by local Islamic scholars.</p>	<p>Discuss the differences between Baitul Mal and Zakat Collection centers in Selangor</p> <p>The differences between Baitul Mal and Zakat Collection centers in Selangor are mainly in that Zakat collection center focuses on collection and distribution of Zakat only, while Baitul Mal is responsible in collecting and managing other Islamic religious sources such as Wakafs, Luqatah and unclaimed Muslims' estates.</p>
<p>5.4 Role of Federal Government via JWZH, JPM</p>	<p>What are the objective and role of JWZH?</p> <p>JWZH's objective is to introduce best practices in managing assets of Muslims in the forms of Wakaf, Zakat and Mal (wealth).</p> <p>Its role is to plan, coordinate and monitor on the Wakaf and Zakat administration systems administered by the State Governments.</p>	<p>When was JWZH established?</p> <p>JWZH is a Federal department under the Prime Minister's office which was established in 2004.</p>

STUDY QUESTIONS

6.0 Functions of Zakat Administrator	Question 1	Question 2
6.1 Collection & Distribution	<p>Discuss Zakat Administrator from Quranic perspectives</p> <p>In the Quran, Zakat Administrator is known as Amil and was mentioned in Surah at-Taubah (9), verse 60.</p> <p>Amil is one of the 8 categories of people (asnaf) eligible to receive zakat.</p>	<p>Describe the types of Zakat al-Mal being collected in Selangor</p> <ol style="list-style-type: none"> i. Zakat on Income ii. Zakat on Gold iii. Zakat on Silver iv. Zakat on Livestock v. Zakat on agricultural vi. Zakat on Business vii. Zakat on Minerals viii. Zakat on Rikaz (treasure) ix. Zakat on Jewellery x. Zakat on Savings xi. Zakat on KWSP xii. Zakat on Unit Trust xiii. Zakat on Shares
6.2 Vision & Mission of Administrator	<p>Discuss the vision & mission of Lembaga Zakat Selangor</p> <p>Vision - "Menjadikan Lembaga Zakat Selangor (MAIS) sebagai organisasi terunggul dalam menerajui kecemerlangan pengurusan zakat bertaraf dunia."</p> <p>Mission – "Menguruskan dan memanfaatkan potensi kutipan dan agihan zakat dengan efisien, efektif dan berkualiti kepada umat Islam di Selangor berdasarkan nilai-nilai terpuji, selaras dengan tuntutan syarak untuk mencapai keseimbangan sosio ekonomi ummah."</p>	<p>What are the objectives of LZS?</p> <ol style="list-style-type: none"> i. To strengthen and to upgrade the efficiency of zakat management in Selangor ii. To smoothen the administration, collection and disbursement of zakat iii. To achieve optimum effectiveness through minimum running cost iv. To project a new image of progressive and pro-active zakat institution v. To reclaim the trust of Muslim ummah

<p>6.3 Typical Zakat authority set up</p>	<p>Discuss composition of board of LZS</p> <p>LZS Board comprises of key people from the State government and Islamic scholars:</p> <ul style="list-style-type: none"> • Pengerusi Majlis Agama Islam Selangor • Pengarah Jabatan Agama Islam Selangor • Penasihat Undang-Undang Negeri Selangor • Mufti Negeri Selangor • Pensyarah Akademi Pengajian Islam Universiti Malaya • Profesor Fakulti Syariah Dan Pengajian Islam UKM 	<p>Discuss the reasons for the varying structures of zakat authority between the states.</p> <p>Structure of Zakat authority body is differ from one state to another because of the different ruling statute, the entity of Zakat collection center which has lead also to variety of structure of Zakat authority body between states.</p>
<p>6.4 Zakat statistics and trends</p>	<p>What are the factors contributing to the growth of Zakat collection?</p> <p>Factors that contribute to the growth of Zakat collection are many. Among the important factors is the increasing number of Zakat payer that is in line with the overall economic growth being experienced in Malaysia and the efforts of Zakat authorities to promote awareness and collect the zakat.</p>	<p>Discuss the annual zakat collection between states.</p> <p>Total Zakat collection between states has been growing at 20% annual since 2000. It has increased every year especially in Selangor and Wilayah Persekutuan, due to increases in the population and number of employed Muslims in the two states.</p> <p>There are also significant increments in Zakat collection in states with low population such as Negeri Sembilan and Kelantan. For all states in Malaysia, more than RM500 millions worth of Zakat is being collected. To some extent, this reflects the amount of wealth and revenue that Muslims are having in this country.</p>

STUDY QUESTIONS

7.0 Zakat distributions	Question 1	Question 2
7.1 How recipients are determined (Had kifayah)	<p>Discuss <i>Had kifayah</i></p> <p>Islamic teaching is not confined to regular ritual only. It also has regulations and guidelines in determining Zakat recipients by using a method called 'Had Kifayah'. Had Kifayah works as a measurement of individual household expenses comparing to their household income. If anyone has an income below Had Kifayah, then they are entitled to receive Zakat.</p>	<p>How do you classify those with income which is below 50% of their needs?</p> <p>In Islamic teaching, those with income below 50% of their needs are categorized as Miskeen. And those with income less than 50% of their usage are known as Fakir. This is according to the calculation of Had Kifayah which plays the role of a benchmark in determining asnaf of Fakir and Miskeen only but not for other types of Zakat recipients.</p>
7.2 Schemes of assistance	<p>Must zakat be distributed to the asnaf in cash?</p> <p>No. Zakat collected by authorities may be distributed in the form of assistances to the asnafs. These schemes cater for specific needs of the respective asnaf, for examples:</p> <ul style="list-style-type: none"> • Tailoring courses • Computer classes • Clothing as Eidul Fitri gifts 	<p>Which of the asnaf are deemed as priority groups to receive Zakat assistance?</p> <p>In the fiqh of Zakat, the groups of people deemed as priority to receive Zakat assistance are:</p> <ul style="list-style-type: none"> • Fakir • Miskin • Muallaf
3.3 Livestock	<p>Discuss the principle of moderate quality in zakat on livestock</p> <p>When one pay zakat on livestock, he is supposed to give away the cattle of moderate quality, not the best nor the worst.</p>	<p>Does a businessman need to pay zakat on 200 hundred goats he rears and fed with fodder (i.e. not let loose to graze in the open field)?</p> <p>Zakat is not obligatory on the goats (and other such livestock) reared with fodder. But since he runs his farming as a business, zakat on business is applicable. The goats will be deemed as his stock for sale (urud tijarah).</p>

<p>7.3 Application process to receive zakat</p>	<p>Can those who need assistance to apply for Zakat by themselves?</p> <p>Yes, those who need assistance in time of need can apply for Zakat assistance by themselves, without having to wait for Zakat administrator (amil) to come forward to them.</p>	<p>Can others initiate the application for Zakat assistance on behalf of the needy?</p> <p>Yes. The public is encouraged to take down the particulars of the needy facing difficulties in their daily lives and apply for Zakat assistance. The application will go through the normal Zakat selection committee process.</p>
<p>7.4 Issues and challenges</p>	<p>Is it lawful for individuals who are not entitled to receive Zakat assistance to apply for Zakat?</p> <p>Zakat is given with special treatment according to Islamic teaching. It is given to certain category of people with specific needs only, not for anybody to utilize. Thus, it is considered unlawful for people who are not entitled to utilize Zakat assistance.</p>	<p>Are non-Muslims included in the Zakat recipients?</p> <p>Non-Muslims are not included as the Zakat recipients. It is unlawful to distribute Zakat to non-Muslims except for those who are inclined to know and learn more about Islamic teachings and practices. These groups of people are known as Muallaf and they are entitled to receive Zakat.</p>

STUDY QUESTIONS

8.0 Tax Incentive for Zakat	Question 1	Question 2
8.1 Zakat paid by Individual	<p>How is Zakat paid by individuals treated in tax computations?</p> <p>Zakat paid by Individuals to zakat authority are treated as tax rebate for income tax computations.</p>	<p>Is it lawful for Zakat payers to distribute their Zakat by themselves?</p> <p>The Administration of Islam Selangor (2003) enactment does not permit Zakat payers to distribute Zakat by themselves.</p> <p>Nonetheless, provided that the Zakat recipients are well determined, it is commonly accepted that Zakat payers may distribute by themselves but must not exceed 1/3 of the Zakat obligation amount. The balance of 2/3 should be paid to the Zakat authority.</p>
8.2 Treatment of zakat paid by Company, Trust body and Cooperative	<p>How is Zakat paid by Company, Trust body and Cooperative treated in tax computations?</p> <p>Zakat paid by Company, Trust body and Cooperative to zakat authority are treated as tax deduction for income tax computations, but the amount allowable is subject to 2.5% of aggregate income.</p>	<p>When is Zakat due?</p> <p>Zakat is an obligation for Muslim individuals or gorups. Once the possession of such wealth (eg. Savings, ornaments, merchandise, livestock, etc) is completed for one Lunar or Gregorian year (i.e. the hawl) and exceeds the threshold levels (i.e. the nisab), the Zakat becomes due.</p>
8.3 Case 1 - Individual	<p>Is it compulsory for someone to pay Zakat if the balance of his savings account is RM 5,800 at the end of the year?</p> <p>According to Lembaga Zakat Selangor computation table, one should not pay the Zakat for savings if the balance is less then the Nisab of RM 6,100.</p>	<p>Discuss 20 <i>Mithqal</i> to measure Nisab at present</p> <p>20 <i>Mithqal</i> is the standard wealth measurement in Zakat calculation according to Islamic teachings. Although the Mithqal as a commercial measurement is no longer available, it is still being practiced to compute the Nisab by converting 20 Mithqal into today's currency unit. For example, in Selangor, Nisab for Zakat is</p>

		<p>RM6,100 which similar to the amount of 20 Mithqal or the value of 85 gm of pure gold.</p>
<p>8.4 Case 2 - Company</p>	<p>Discuss the conditions that render a business asset as zakatable</p> <p>In principal, business assets are zakatable when they meet the following conditions:</p> <ul style="list-style-type: none"> • Growth asset (al-nama') • Trade goods (urud al-tijarah); and • Complete ownership (al-milk al-tam) <p>This means that zakat computation is not dependent on the source of the funds for the assets, regardless if it is internally generated or from borrowings.</p>	<p>Discuss the two methods to compute zakat of a business entity</p> <p>1. Growth capital method</p> $\text{Equity} + \text{Long Term Liability} - \text{Non Current Assets} = \text{Assets subjected to zakat}$ <p>2. Working capital method</p> $\text{Cash \& Cash Equivalent} + \text{Inventories} + \text{Trade Debtor} - \text{Trade Creditor} = \text{Assets subjected to zakat}$ <p>Amount of zakat due is 2.5% of Assets subjected to zakat upon meeting the conditions of Hawl and Nisab</p>

STUDY QUESTIONS

9.0 Introduction to Tax	Question 1	Question 2
9.1 Charge of Income Tax	<p>What is Tax?</p> <p>Under Sec 3 of Income Tax Act 1967 a tax is to be known as Income Tax shall be charged for each year of assessment upon the income of any person accruing in or derived from Malaysia or received in Malaysia from outside Malaysia’.</p>	<p>What are the main objectives of Taxation?</p> <p>Two main objectives of Taxation are :</p> <p>(a) To finance the administration and development</p> <p>(b) To promote economic growth</p>
9.2 Classes of income on which tax is chargeable	<p>Briefly explain the incomes that are chargeable to tax under ITA 1967</p> <p>Under Sec 4 Of ITA 1967, the income which tax is chargeable under this act is income in respect of -</p> <p>(a) Section 4(a) - gains or profits from a business for whatever period of time carried on</p> <p>(b) Section 4(b) – gains or profits from employments</p> <p>(c) Section 4(c) – dividends interest and discounts.</p> <p>(d) Section 4(d) – rents, royalties or premiums</p> <p>(e) Section 4(e) – pension, annuities or other periodical payments not falling under any of the foregoing paragraphs.</p> <p>(f) Section 4(f) – Gains or profits not falling under any of the foregoing paragraphs.</p>	<p>List down what are expenses that are not allowed for rental income.</p> <p>Following expenses is not allowable ;</p> <p>(a) Capital repayment on loan</p> <p>(b) Cost of renovation & improvement to property</p> <p>(c) Agency fees for sourcing the first tenant</p> <p>(d) Legal fees on the tenancy agreement in relation to the first tenancy.</p> <p>(e) Advertising</p>
9.3 Resident status	<p>What is the meaning of temporary absence under Sec 7 (1) (b) ITA 1967?</p> <p>These “temporary absence” are:</p> <p>(a) Connected with his</p>	<p>Why is it importance for us to determine the resident status of a tax payer?</p> <p>The concept of resident is important because a resident taxpayer would be given an</p>

	<p>service in Malaysia and owing to service matters or attending conferences or seminars or study abroad;</p> <p>(b) Owing to ill health involving himself or a member of his immediate family ; and</p> <p>(c) In respect of social visits not exceeding fourteen days in the aggregate</p>	<p>overall preferential tax treatment as compared to a non-resident individual</p>
<p>9.4 Basis period</p>	<p>Why is it crucial to determine the basis period of income?</p> <p>The determination of basis period for each source of income is crucial as income tax is imposed on the chargeable income derived by a person in the basis period of a year</p>	<p>What is the basis period for employment income?</p> <p>Section 25 (1) of the Act provides:</p> <p>“where gross income from an employment:-</p> <p>a. is not receivable in respect of any particular period; and</p> <p>b. first becomes receivable in the relevant period, it shall when received be treated as gross income of the relevant person for the relevant period.”</p>

STUDY QUESTIONS

10.0 Employment Chargeable Income	Question 1	Question 2	
10.1 Section 13 (1)(a) (b) (c) (d) and (e)	<p>Which leave passages that are tax exempted?</p> <p>The benefit of leave passage enjoyed by an employee and members of his immediate family in a calendar year is tax exempted subject to the limits of:</p> <ol style="list-style-type: none"> i. Leave passages within Malaysia not exceeding three times in a year ii. One leave passage outside Malaysia not exceeding RM3,000 	<p>What are the benefits that are exempted in Tax?</p> <p>The benefits that are exempted from tax are;</p> <ol style="list-style-type: none"> iii. Medical @ dental benefits iv. Child care benefits v. Leave passages within Malaysia not exceeding three times in a year vi. One leave passage outside Malaysia not exceeding RM3,000 vii. One new personal computer. viii. Benefits used solely in connection with the performance of his duties, such as uniform. 	
10.2 Form BE – individual with employment income only	<p>What type of form that a salary income earner should file?</p> <p>Form BE - For individual with employment income only</p>	<p>When is the due date of submitting the BE form?</p> <p>The individual should return the income tax BE form not later than 30 April for the year assessment.</p>	
10.3 Form B – individual with employment and business income	<p>What are the types of Return form that the salary income earner and self employed individual need to file?</p> <p>Form B - For individual with business income</p>	<p>When is the due date of submitting the B form?</p> <p>The individual should return the income tax B form not later than 30 Jun for the year assessment.</p>	

<p>10.4 Form P – income derived from partnership</p>	<p>Who is required to file in the P form?</p> <p>The principal partner is required to fill in the P form</p>	<p>When is the due date of submitting the P form?</p> <p>The principal partner should return the income tax P form not later than 30 Jun for the year assessment.</p>	
--	--	---	--

STUDY QUESTIONS

11.0 Business Income	Question 1	Question 2
11.1 Source of Income	<p>What is defined as business income under ITA 1967?</p> <p>Sec 2 of the Act defines "business" to include professions, vocation & trade & every manufacture, adventure @ concern in the nature of trade, but excludes employment</p>	<p>What are the factors that determine whether a single and isolated transaction falls under business income or not?</p> <p>A single and isolated transaction will fall within the definition of business as being an adventure in the nature of trade provided that the transaction bears clear indication of trade – or Badges of trade such as :</p> <ul style="list-style-type: none"> • The motive of the transaction – profit ? • The frequency of the transaction – single vs multiple • Organisation – mechanism of the transaction • Manner of disposal • Manner of financing • Nature of assets
11.2 Deductible expenses	<p>What are the conditions in order to secure a deduction from the gross income of a business source?</p> <p>Business expenses has to fulfill all the following conditions in order to secure a deduction from the gross income of a business source:</p> <ol style="list-style-type: none"> (a) each business source has to be accounted separately (b) the scope of expenses refers to "outgoing and expenses" (c) the expenses have to be "wholly and exclusively", (d) incurred; (e) in the production of gross income from that business source 	<p>Give 3 examples of deductible expenses from the gross income of a business income?</p> <p>Examples of deductible expenses from the gross income of a business income are;</p> <ol style="list-style-type: none"> (a) Wages & salary for staff employed (b) Interest payments arising from loans @ overdrafts taken & used for business purposes @ spent on assets used in earning business profits. (c) Rent payable on premises, land @ buildings occupied for purposes of producing the gross business income

<p>11.3 Special deductible expenses</p>	<p>What are special deductible expenses?</p> <p>Special deductible expenses under Sec 34(6) allow certain specific expenses a revenue deduction notwithstanding such expenses do not satisfy Sec 33 "wholly and exclusively" test.</p>	<p>Give 3 examples of special deductible expenses?</p> <p>The following business expenditures are eligible for additional deductions but are subject to certain conditions</p> <ol style="list-style-type: none"> i. Gift of personnel computers to employees ii. Practical training to non-employees iii. Provision of equipment for disable person
<p>11.4 Non-deductible expenses</p>	<p>What are non-deductible expenses?</p> <p>Non-deductible expenses are expenses that are not allowable as a deduction against the gross income in arriving at the adjusted income of the business.</p>	<p>Give 2 reasons why certain expenses are non-deductible?</p> <ol style="list-style-type: none"> i) Domestic or private expenses ii) Capital expenditure

STUDY QUESTIONS

12.0 Tax Computation	Question 1	Question 2																
12.1 Capital Allowance	<p>What are the qualifying criteria for Capital Allowance claim?</p> <p>Qualifying criteria for CA claimed if:</p> <ol style="list-style-type: none"> i. The person is carrying on a business; ii. He incurred qualifying plant expenditure @ qualifying building expenditure; iii. He used such assets in the business 	<p>What is the rate of Initial Allowance and Annual Allowance?</p> <p>With effect of Y/A 2002 the IA and CA are as follows</p> <table border="1" data-bbox="1036 590 1377 1010"> <thead> <tr> <th>Assets</th> <th>IA</th> <th>AA</th> </tr> </thead> <tbody> <tr> <td>Plant & Machinery</td> <td>20%</td> <td>14%</td> </tr> <tr> <td>Office equipments, furniture & fittings</td> <td>20%</td> <td>10%</td> </tr> <tr> <td>Heavy machinery, motor vehicles</td> <td>20%</td> <td>20%</td> </tr> <tr> <td>Computer & Tools</td> <td>20%</td> <td>40%</td> </tr> </tbody> </table>	Assets	IA	AA	Plant & Machinery	20%	14%	Office equipments, furniture & fittings	20%	10%	Heavy machinery, motor vehicles	20%	20%	Computer & Tools	20%	40%	
Assets	IA	AA																
Plant & Machinery	20%	14%																
Office equipments, furniture & fittings	20%	10%																
Heavy machinery, motor vehicles	20%	20%																
Computer & Tools	20%	40%																
12.2 Business loss	<p>Under what circumstances business loss occurred?</p> <p>This arises when deductible revenue expenses incurred exceeds gross income or no gross income is recognized in that basis year.</p>	<p>Can a business loss be carried forward?</p> <p>Yes. If the adjusted loss cannot be fully utilized in the current year, the balance is carried forward to be available to set off only against business sources at the aggregate statutory income from business in the future years.</p>																
12.3 Tax exempt income	<p>Under what circumstances the pension income is exempted?</p> <p>Pensions derived from Malaysia received by an individual who has reached the age of 55 ~ compulsory age of retirement from employment specified under any written law or due to ill-health. The pension must be in respect of exercising a</p>	<p>In what way the compensation for loss of employment is exempted?</p> <p>Compensation for loss of employment or in consideration for any covenant entered into by the employee restricting his right to take up a similar employment is exempt as follows:</p>																

	<p>former employment in Malaysia and where the pension is paid other than under any written law, it must be from an approved pension or provident fund scheme or society (Sch 6 Para 30).</p>	<p>(a) whole sum of compensation if due to ill health; or (b) RM6, 000 (RM4,000 for Y/A 2002 and before) for every completed year of service with the same employer or with companies in the same group if it is not due to ill health (Sch 6 Para 15).7. 8.</p>	
12.4 Relief and rebate	<p>What is the amount of child relief?</p> <p>The amount for child relief is RM1, 000 per child. In the event of child studying in local or overseas university, the relief is RM 4,000 per child.</p>	<p>Under what circumstances the personal rebate granted?</p> <p>Personal rebate are for individuals with chargeable income less than RM35,000</p>	

STUDY QUESTIONS

13.0 Legal framework of Tax	Question 1	Question 2
13.1 Lembaga Hasil Dalam NegeriMalaysia	<p>What are the main objectives of Taxation?</p> <p>Two main objectives of Taxation are :</p> <p>(a) To finance the administration and development.</p> <p>(b) To promote economic growth.</p>	<p>What are the challenges faced by LHDNM ?</p> <p>LHDNM challenges</p> <p>(a) increasing voluntary compliance.</p> <p>(b) increasing awareness of Tax responsibilities</p>
13.2 Acts administered by LHDNM	<p>What are the Act administered by LHDNM?</p> <p>Income Tax Act 1967</p> <p>Petroleum Income Tax Act 1967</p> <p>Real Property Gains Tax Act 1976</p> <p>Promotion of Investment Act 1986</p> <p>Stamp Act 1949</p> <p>Labuan Offshore Business Activity Tax Act 1990</p>	<p>What is the scope of charge under Income Tax Act 1967?</p> <p>Section 3 ITA 1967</p> <p>Subject to and in accordance with this Act, a tax to be known as income tax shall be charged for each year of assessment upon the income of any person accruing in or derived from Malaysia or received in Malaysia from outside Malaysia.</p>
13.3 Collection by LHDNM	<p>State the scheme of tax instalment payment for salaried individual, individual with business income an companies.</p> <p>Salaried Individual –</p> <p>Monthly Individual business income</p> <p>- bi monthly</p> <p>Companies - monthly.</p>	<p>For casses under appeal process, must the taxpayer make the tax payment?</p> <p>Yes, section 103(1) ITA 1967Tax payable shall be due and payable whether or not that person appeals against the assessment.</p>

13.4 Appeals	<p>Is there any time limit for an appeal to be made?</p> <p>Yes, Section 99(1) ITA 1967 within 30 days after the service of the notice of assessment.</p>	<p>What is the next course of action to be taken by a Taxpayer if the appeal cannot be resolved by LHDNM ?</p> <p>Make further appeal to the Special Commissioner of Income Tax.</p>
--------------	---	--

STUDY QUESTIONS

14.0 Tax Compliance	Question 1	Question 2	
14.1 Taxpayers Responsibilities	<p>What are the responsibilities of a citizen as required by the ITA 1967</p> <p>(a) understand the Income Tax law regulations & public rulings.</p> <p>(b) keep proper accounting records</p> <p>(c) notify change of mailing address.</p> <p>(d) pay income tax instalment PCB</p> <p>(e) compute income tax payable</p> <p>(f) submit income tax return form</p> <p>(g) pay final income tax installment</p>	<p>Why do Taxpayers need to keep proper accounting records ?</p> <p>To adequately support our ascertainment of income for Income Tax purposes.</p>	
14.2 Returns and Assessment	<p>What type of form that a salaried income earner should file and when is the due date for submission?</p> <p>Form BE for individual with employment income only and the due date for submission is not later than 30 april for the year of assessment.</p>	<p>What type of form that an individual with other sources of income besides employment income should file and when is the due date for submission ?.</p> <p>Form B for individual with othersources of income and the due date for submission is not later than 30 june for the year of assessment.</p>	

<p>14.3 e-filing</p>	<p>What are the advantages of e-filing?</p> <ol style="list-style-type: none"> 1. e-filing users can file their return forms electronically anytime & anywhere. 2. e-filing is easy, accurate and safe. 3. Taxpayers data & information is protected by the PKI technology. 	<p>Can Taxpayers file tax return forms manually now?</p> <p>Yes, they still can file the tax return forms manually to LHDNM but they are encourage to file the return forms electronically through e-filing.</p>	
<p>14.4 Offences and Penalties</p>	<p>What is the purpose of having the offence & penalty clause in Income Tax Act 1967 ?</p> <p>To deter taxpayers from non compliance of duties pertaining Income Tax Act</p>	<p>Can a Taxpayer whom has outstanding tax payable be prevented from leaving M'sia?</p> <p>Yes, Section 104 ITA 1967 Director of Immigration can prevent the taxpayer from leaving Malaysia untill he has paid all the tax payable or furnishes security to the satisfaction of DG of LHDNM for the payment.</p> <p>]</p>	

STUDY QUESTIONS

15.0 Tax Audit And Investigation	Question 1	Question 2											
15.1 Tax Audit	<p>What is tax audit?</p> <p>A Tax audit is an examination of a taxpayer's business records and financial affairs to ascertain that the amount of tax due should be reported and paid are in accordance with tax laws and regulation.</p>	<p>What are the differences between desk audit and field audit?</p> <table border="1" data-bbox="976 457 1380 1644"> <thead> <tr> <th data-bbox="976 457 1192 491">Desk audit</th> <th data-bbox="1192 457 1380 491">Field audit</th> </tr> </thead> <tbody> <tr> <td data-bbox="976 491 1192 653">1. Held at the IRB office.</td> <td data-bbox="1192 491 1380 653">Takes place at a taxpayer's premise</td> </tr> <tr> <td data-bbox="976 653 1192 974">2. Its is normally concerned with straightforward issues or tax adjustments which are easily dealt with via correspondence</td> <td data-bbox="1192 653 1380 974">It involves examination of the taxpayer's business records</td> </tr> <tr> <td data-bbox="976 974 1192 1455">Involves checking all information on income and expenses as well as claims made by the tax payer.</td> <td data-bbox="1192 974 1380 1455">It may also involve the examination of non business records such as personal bank statement in the case of sole-proprietorship or partnership</td> </tr> <tr> <td data-bbox="976 1455 1192 1644">4. A tax payer may be called for interview at IRB office.</td> <td data-bbox="1192 1455 1380 1644">Prior notice will be given</td> </tr> </tbody> </table>		Desk audit	Field audit	1. Held at the IRB office.	Takes place at a taxpayer's premise	2. Its is normally concerned with straightforward issues or tax adjustments which are easily dealt with via correspondence	It involves examination of the taxpayer's business records	Involves checking all information on income and expenses as well as claims made by the tax payer.	It may also involve the examination of non business records such as personal bank statement in the case of sole-proprietorship or partnership	4. A tax payer may be called for interview at IRB office.	Prior notice will be given
Desk audit	Field audit												
1. Held at the IRB office.	Takes place at a taxpayer's premise												
2. Its is normally concerned with straightforward issues or tax adjustments which are easily dealt with via correspondence	It involves examination of the taxpayer's business records												
Involves checking all information on income and expenses as well as claims made by the tax payer.	It may also involve the examination of non business records such as personal bank statement in the case of sole-proprietorship or partnership												
4. A tax payer may be called for interview at IRB office.	Prior notice will be given												

<p>15.2 Tax investigation</p>	<p>What is the objective of tax investigation?</p> <p>Tax investigation activities act as a deterrent against tax evasion, and</p> <ul style="list-style-type: none"> - Ensure the correct amount of tax is collected; - Ascertain the person responsible for the offence, to pursue criminal prosecution; and - Enhance voluntary compliance with tax laws and regulations. 	<p>What are the differences between civil tax investigation and criminal tax investigation?</p> <table border="1" data-bbox="976 317 1365 1251"> <thead> <tr> <th data-bbox="976 317 1170 384">Civil tax investigation</th> <th data-bbox="1170 317 1365 384">Criminal tax investigation</th> </tr> </thead> <tbody> <tr> <td data-bbox="976 384 1170 1251"> Civil tax investigation activity involves detection of tax evasion. The primary concern being recovery of tax loss and imposition of heavy penalties </td> <td data-bbox="1170 384 1365 1251"> criminal investigation, focus on gathering admissible evidence with a view towards prosecution and conviction of the tax evader for commission of offences pursuant to ITA, Penal Code (Act 574), Criminal Procedure Code (Act 593), Evidence Act 1950 (Act 56) and other relevant Acts. </td> </tr> </tbody> </table>	Civil tax investigation	Criminal tax investigation	Civil tax investigation activity involves detection of tax evasion. The primary concern being recovery of tax loss and imposition of heavy penalties	criminal investigation, focus on gathering admissible evidence with a view towards prosecution and conviction of the tax evader for commission of offences pursuant to ITA, Penal Code (Act 574), Criminal Procedure Code (Act 593), Evidence Act 1950 (Act 56) and other relevant Acts.
Civil tax investigation	Criminal tax investigation					
Civil tax investigation activity involves detection of tax evasion. The primary concern being recovery of tax loss and imposition of heavy penalties	criminal investigation, focus on gathering admissible evidence with a view towards prosecution and conviction of the tax evader for commission of offences pursuant to ITA, Penal Code (Act 574), Criminal Procedure Code (Act 593), Evidence Act 1950 (Act 56) and other relevant Acts.					
<p>15.3 Offences</p>	<p>Discuss the penalty imposed for offences under tax audit?</p> <p>If it is discovered during an audit that there has been an understatement or omission of income, a penalty will be imposed under subsection 113(2) or 112(3) of the ITA in which the penalty equal to the amount of tax undercharged (100%) or equal to treble the amount of tax payable (300%) respectively. However, the DGIR in exercising his discretionary powers may consider a lower penalty of</p>	<p>Discuss the penalty imposed for offences under tax investigation?</p> <p>If there is omission or understatement of income as a result of investigation, penalties will be imposed based on the provisions of Sections 112, 113 and 114 of the ITA.</p> <ul style="list-style-type: none"> - Under subsection 112(3) of the ITA, a penalty treble to the amount of tax undercharged (300%) is exigible; - Under subsection 113(1) of the ITA be liable to a fine of not less than RM1,000 and not more than RM10,000 and shall pay a special penalty of double the amount of tax which has been undercharged 				

	<p>45% to be imposed for the first offence. Concessionary penalty rates may be imposed in cases where the taxpayer makes a voluntary disclosure.</p>	<p>(200%); - Or as provided for under subsection 113(2) of the ITA, a penalty equal to the amount of tax undercharged (100%) can be impose; and - Section 114 of the ITA stipulates a fine of not less than RM1,000 and not more than RM20,000 or to imprisonment for a term not exceeding 3 years or both, and shall pay a special penalty of treble the amount of tax. - GIR has the power to compound any offences and abate or remit penalties imposed under ITA with the exception of penalties imposed on conviction.</p>
<p>15.4 Settlement</p>	<p>What is the payment procedure upon settlement of tax audit?</p> <p>The taxpayer is required to make full payment of taxes and penalties arising out of an audit. If the taxpayer is unable to make full payment of tax, IRBM may consider the taxpayer's application for settling the total tax liability by installments, for a predetermined period. Application for installment payment scheme should be submitted to the relevant Branch Director of IRBM for approval. Where a taxpayer fails to adhere to the installment payment scheme agreed upon, late payment penalty on the balance of tax outstanding will be imposed.</p>	<p>What is the payment procedure upon settlement of tax investigation?</p> <p>Taxpayer is encouraged to make full payment of taxes and penalties assessed in one single payment; However, where taxpayer is unable to do so, the DGIR will consider allowing taxpayer to settle the total tax liability by installments for a predetermined period; However the tax payer need to pay amount representing twenty five percent (25%) of the total tax liability as initial payment; the balance outstanding will then be settled by installments, where the settlement period will be determined by the DGIR; The tax payer is encouraged to forward post dated cheques to cover the balance of taxes. Where a taxpayer seeks a longer installment payment scheme than usually permitted, the penalties exigible will be much higher compared with a taxpayer who opts to settle in one lump sum payment or requests for an installment payment scheme of a shorter duration.</p>

STUDY QUESTIONS

16.0 Public Rulings	Question 1	Question 2
16.1 Budget speech	<p>What is government budget?</p> <p>A government budget is a legal document that is often passed by the legislature, and approved by the parliament or president. During budget speech the Finance Minister will reveal the economic performance of country and foresee the government's revenue and spending for the following year. The government will also announce new direct and indirect taxes for the country.</p>	<p>Discuss types of government spending?</p> <p>Government expenses include</p> <ol style="list-style-type: none"> 1. government consumption - spending on current goods and services 2. government investment expenditures - infrastructure investment or research expenditure; and 3. transfer payments like un-employment or retirement benefits.
16.2 Stimulus package	<p>Why government introduce stimulus package?</p> <p>Stimulus package was introduced to stimulate the country's economy in the short-term and also on building the long-term capacity of the economy. This is to ensure that Malaysia is well prepared to immediately seize the opportunities when the global economy recovers.</p>	<p>What are the thrusts under 2nd stimulus package?</p> <p>The 4 thrusts of the package are as follows;</p> <ol style="list-style-type: none"> 1. Reducing Unemployment and Increasing Employment Opportunities 2. Easing the burden of the rakyat, in particular, the vulnerable groups 3. Assisting the Private Sector in Facing the crisis; and 4. Building capacity for the future

<p>16.3 Public rulings</p>	<p>What is the purpose of Public Rulings?</p> <p>Public rulings are issued for the purpose of providing guidance for the public and officers of the IRB. It sets out the interpretation of the DG of IRB in respect of the particular tax law, and the policy and procedure that are to be applied</p>	<p>Who will issue the public rulings?</p> <p>The Director General of IRB will issue the public ruling depending on grey issues that need further explanation to the IRB officers and tax payers.</p>
<p>16.4 Effect of non-compliance</p>	<p>What is the responsibility of tax payer with regards to public rulings?</p> <p>Under the Self Assessment System, the tax payer, need to understand and comply with the Public Rulings, when submitting their return.</p>	<p>What is the effect of non-compliance of public rulings to the tax payer?</p> <p>Non-compliance of public rulings will end-up with composite or increase assessment of tax. Penalty will also be imposed in the case of under charge of tax payable.</p>

STUDY QUESTIONS

17.0 Role of the Financial Planner in Zakat and Tax Planning	Question 1	Question 2
17.1 Discharge our obligations first	<p>What are the financial planner's duties and obligations?</p> <p>The role of a financial planner is <u>to provide impartial assistance</u> in creating strategies to meet client's life goals</p> <p>In general, a financial planner has a duty of care (i.e. tort) and a professional duty (i.e. contractual) to his clients</p> <p>Specific to Zakat and Tax, the Islamic financial planner has a duty to make aware of the obligations for the client to fulfill</p>	<p>Discuss the duty of <i>an-Nasihah</i> by Islamic financial planners</p> <p>The duty of <i>an-Nasihah</i> refers to the giving of sincere advice to clients.</p> <p>It is implied in this hadith: The Prophet (pbuh) said, "Religion is <i>nasihah</i>." We asked, "For whom?" He said, "For Allah and His Book and His Messenger and the Imams (leaders) of the Muslims and the general Muslim people." (Related by Muslim)</p> <p><i>Nasihah</i> = corrective advice, good counsel and sincere conduct</p> <p>The Islamic financial planner guides the clients to what contains their happiness in this world and the Hereafter, and offering them assistance and protection</p>
17.2 Create client's awareness	<p>How do we create the awareness of Zakat and Tax in our clients?</p> <p>Firstly, by reminding them that both are obligations</p> <p>Secondly, by explaining the roles of Zakat to establish socioeconomic justice and of Tax in developing the nation</p>	<p>Discuss the difference between "create awareness" and "teaching"</p> <p>Create awareness = Stating the obvious. Teaching = giving explanation, making them understand</p> <p>The difference boils down to the amount of time spent with the client</p>

<p>17.3 Assist in Zakat computations</p>	<p>Why must planners raise the awareness before offering help to compute Zakat?</p> <p>Because Islamic financial planners cannot assume their Muslim clients are aware of the socio-economic aspects of zakat. While all Muslims know that zakat is obligatory, a better understanding of the socio-economic aspects of zakat will give more meaning to the clients</p>	<p>How should we treat the amount paid as zakat on income?</p> <p>First, we need to establish if the income is employment salary, or, wages for rendering professional services</p> <p>Second, to treat zakat paid from salary received as advance payment of zakat due for the current year. And, to treat zakat paid for professional services in the manner trade zakat is computed</p>
<p>17.4 Imparting knowledge is charity</p>	<p>Discuss a hadith to support that "Imparting knowledge is charity"</p> <p>Narrated Abdullah bin Mas'ud that the Prophet, peace be upon him, said: "Being envious is not allowed except in two cases: (1) towards a person to whom Allah has granted wealth and he spends it in the cause of Truth and (2) towards a person to whom Allah has granted knowledge and wisdom, and he acts according to it and teaches it to others." (Related by Bukhari)</p> <p>Imparting knowledge means teaching others something useful. When other people use that knowledge to benefit him and others, then a good thing is created. Thus, it is in this way that charity is done by teaching. Muslims are strongly encouraged to seek knowledge with the intention to practice it and share it with others.</p>	<p>Discuss when we should be careful not to waste time in teaching others</p> <p>An Islamic financial planner should not waste time in teaching others when the intended "student" reacts negatively to good gestures.</p> <p>The caution is implied in:</p> <p>"Seeking knowledge is incumbent on every Muslim; he who offers knowledge to those who do not appreciate it, is like the one who decorates pigs with precious stones, pearls and gold." (Related by Ibn Majah)</p>

STUDY QUESTIONS

18.0 Tax Planning for Individual	Question 1	Question 2
18.1 Tax planning techniques	<p>What are the objectives of tax planning?</p> <ul style="list-style-type: none"> • Reduce tax payable • Minimize tax litigation • Encourage productive investment 	<p>Highlight some tax planning techniques</p> <ul style="list-style-type: none"> • Income splitting: from joint assessment to separate • Income splitting: from sole proprietor to Sdn Bhd • Transfer Company's profit to individual • Fixed Tax Rate against Scale Tax Rate • Pay zakat as obligation and use as Tax Rebate • Set up business entity to claim Capital Allowance for assets use in business • Appoint Tax Consultants to maximize tax savings
18.2 Optimizing Relief	<p>Discuss Relief</p> <p>Relief - are deductions allowable by IRB to arrive at the Chargeable Income</p> <p>In the income tax return form, the deductions are mainly related to:</p> <p>Part C: Statutory Income and Total Income Part D: Deductions</p>	<p>Discuss Gratuity</p> <p>Gratuity refers to a sum received upon retirement or termination of a contract of employment</p> <p>Gratuity is exempted in the following circumstances:</p> <ol style="list-style-type: none"> 1. Retirement gratuity - due to ill-health or upon reaching the age of 55 years or a compulsory age provided that the individual has worked for 10 years minimum 2. Gratuity paid out of public funds 3. Gratuity paid to a contract officer out of public funds 4. Death gratuity

<p>18.3 Optimizing Rebate</p>	<p>Discuss Rebate</p> <p>Rebate is a privilege and special incentive provided by the government to lift the tax burden of a resident taxpayer</p> <p>Rebate is a deduction from tax payable</p> <p>However, excess rebate will not be given tax refund and cannot be carried forward</p> <p>Excess rebate is deemed as written off or opportunities gone</p>	<p>What are the types of rebate?</p> <ul style="list-style-type: none"> • E4 Tax Rebate For Individual (RM350) • E5 Tax Rebate For Husband or Wife (RM350) • E6 Zakat (Actual amount) • E7 Fees Paid For Work Pass (actual amount)
<p>18.4 Case Study</p>	<p>As discussed in class</p>	

STUDY QUESTIONS

19.0 Tax Planning for individual with Business Income	Question 1	Question 2
19.1 Commencement of business	<p>How is commencement date of business determined?</p> <ul style="list-style-type: none"> • The commencement date is based on the 'company's activities' and not on 'income accruing' basis. 	<p>What is the basis of commencement date for a trading company?</p> <p>For a trading company, the Operational activities commenced when the company made a purchase for inventories.</p>
19.2 Pre-commencement business expenses	<p>Can incorporating expenses deducted as operational expenses?</p> <p>Incorporating expenses – may be deducted as operational expenses in the case where a company's authorised capital is not more than RM250,000. The expenses allowed are :</p> <ul style="list-style-type: none"> ■ Costs of preparing the Memorandum and Articles of Association, Prospectus and prospectus advertisement. ■ Company's registration costs, payment for statutory's documents and stamp duty. ■ The costs of preparing incorporation agreement and stamp duty. ■ Printing and debentures stamping costs ■ Corporate seal's costs ■ Underwriter's commissions. 	<p>What are the strategies taken in pre-commencement of business expenses?</p> <p>Since all operating expenses incurred prior to formal operation will not be allowed as deduction against income so</p> <p>The basic strategy is to shorten as far as possible the pre-operating period. A company may also defer certain expenditure until operations commenced</p>
19.3 Business loss	<p>Can a business loss be set-off with other income?</p> <p>Business loss of a company or sole proprietor in the current year can be set-off from other sources of income eg dividend, interest, rental</p>	<p>In the event of change of ownership, can the business loss be utilized?</p> <p>The business loss can also be utilized in the event of change in ownership of the company.</p>

	etc earned by the company or sole proprietor in the same year.	It doesn't apply in the event of company is liquidated or wound up and such losses would be completely foregone.
19.4 Self assessment	<p>I What is self-assessment?</p> <p>Under Self assessment, an individual will assume the primary duty to estimate his tax, compute his income tax liability, and account for his tax payable in the current year as well as the final balance at the time he submits his return form.</p>	<p>What is deemed assessment?</p> <p>Upon submission of return form, the DG shall deem to have made an assessment on the day a return is submitted. The DG will no longer issue J form for the tax payer.</p> <p>.</p>

**Islamic
Estate, Waqf
and
Retirement
Planning**

STUDY QUESTIONS

1.0 Key objectives in Estate Planning	Question 1	Question 2
1.1 Unlock assets for continuity of dependants' livelihood	<p>What is estate Planning?</p> <p>Estate planning is a six step process that takes into account a person's desire on how his estate would be distributed based on the needs of his legal heirs, dependants and his wishes using necessary legal tools and measurable timeline.</p> <p>For Muslims the estate planning must be Syariah compliant.</p>	<p>What is the purpose of estate planning?</p> <p>The purpose of estate planning are to:</p> <ul style="list-style-type: none"> • Ensure continuous financial support to dependants and loved ones when a person dies • Administer the deceased's assets speedily • Ensure that the current lifestyle continues
1.2 Wealth distribution	<p>What is the difference if Wealth is distributed during life time and upon death?</p> <p>For wealth to be distributed during the life time, there is no limit to the amount to be distributed.</p> <p>However, upon death, the law of wasiat applies</p>	<p>How are properties of muslims and non muslims be distributed in the absence of planning?</p> <ul style="list-style-type: none"> • For a Muslim, in the absence of any form of planning, the sole basis of estate distribution will be in the form of Faraid (Islamic law of inheritance) • For a non-Muslim, in the absence of any form of Planning, Distribution Act 1971 will be the sole basis of the estate distribution.
1.3 Planning for the special ones – handicapped etc	<p>What is Wasiat?</p> <p>Wasiat is a declaration of a person made during his lifetime with respect to his property or benefit thereof, to be carried out for the purpose of charity or for any other purpose permissible by Islamic law after his death.</p> <p>General Rule on Wasiat</p>	<p>Define trust?</p> <p>A Trust is a legal obligation that comes into existence when an individual (known as Settlor) transfers the legal ownership of his assets to another person (Trustee) to hold for the benefit of the beneficiaries.</p> <p>A Trust is exempted from any</p>

	<p>Only 1/3 of the estate can be bequeathed to NON-FARAID HEIRS.</p> <p>Wasiat is subject to a court process for the estate distribution.</p>	<p>form of court process.</p> <p>It is immediate and is ready to be utilized as per the client's instruction.</p>
<p>1.4 Charitable endowment</p>	<p>How can a person create a charitable endowment?</p> <ul style="list-style-type: none"> • Establishing a foundation • Creating waqf (during lifetime or upon death) • Sadaqah 	<p>Define Waqf?</p> <p>Literally :Detention</p> <ul style="list-style-type: none"> • An irrevocable dedication of property or giving it away in charity for purpose of acquiring merit in the eyes of Allah percentage for the cattle

STUDY QUESTIONS

2.0 Legal framework of the Estate Administration	Question 1	Question 2
2.1 Laws related to Estate	<p>What are the primary laws related to the estate?</p> <ol style="list-style-type: none"> 1. Probate and Administration Act 1959 2. Small Estates Distribution Act 1955 3. Public Trust Corporation Act 1995 4. Rules of the High Court 1980 5. Wills Act 1959 6. Distribution Act 1971 7. Administration of Islamic Law (Federal Territories) Act 1993 (Section 50: Faraid Application) 8. Administration of the Religion of Islam (State of Selangor) Enactment 2003 (Section 65: Faraid Application) 9. Selangor Islamic Will Enactment 1999 	<p>What are the estate laws that relates to Muslims?</p> <ol style="list-style-type: none"> 1. Probate and Administration Act 1959 2. Small Estates Distribution Act 1955 3. Selangor Islamic Will Enactment 1999
2.2 The position of the Syariah Court	<p>What is the jurisdiction of the Syariah Court?</p> <p>Syariah Court – adjudicate on Muslim personal and family rights:</p> <ul style="list-style-type: none"> • Succession • Marriage • Divorce • Maintenance • Legitimacy • Guardianship • Zakat 	<p>What is the jurisdiction of the Civil Court?</p> <p>Civil courts - all other matters:</p> <ul style="list-style-type: none"> • Probate and Administration • Election • Bankruptcy and insolvency • Companies, partnership, sole proprietor • Contract • Islamic banking

<p>2.3 The Estate Administration</p>	<p>Define estate administration?</p> <p>Estate Administration is defined as Management of a deceased's assets upon death</p>	<p>What are the priorities of estate distribution?</p> <ul style="list-style-type: none"> • Assets held in trust • Payment of debts • Payment of taxes • Harta Sepencarian • Bequest • Other claims • Faraid
<p>2.4 Starting the process of Estate Administration</p>	<p>What are the factors in estate distribution that should be taken into account?</p> <ol style="list-style-type: none"> 1) the Legal cost of the estate distribution; 2) the Legal expediency in settling the estate; 3) the cooperation of the legal heirs; 4) the claim of Harta Sepencarian; 5) the claim from the legal heirs from other marriages;and 6) the complete list of all assets and liabilities. 	<p>What is the process of estate administration?</p> <p>The process of estate administration means the steps to be taken by the administrator / executor in winding up the estate.</p>

STUDY QUESTIONS

3.0 Key differences between Islamic and conventional Estate Planning	Question 1	Question 2
3.1 The concept of Wealth ownership in Islam	<p>What is the concept of wealth ownership in Islam?</p> <p>From the Islamic perspective, everything belongs to Allah and we are but mere trustees. As the vicegerents of Allah, we are entrusted to manage the Wealth as prescribed by Him.</p>	<p>What is the relationship between wealth and family members?</p> <p>From the Islamic perspective, charity begins at home and to the family members.</p> <p>After that, the provisions of charity can be expended to neighbours, extended family members and the needy.</p>
3.2 Legal Jurisdiction	<p>Explain the provision of Article 121 (1A) with regard to estate distribution?</p> <p>Article 121 (1A) of the Federal Constitution clearly stipulates the distinction between the jurisdiction of the Syariah Court and the Civil Court. The jurisdiction of both courts does not overlap one another.</p>	<p>What is the purpose of the Syariah Court?</p> <p>The purpose of the Syariah Court is to protect the rights and interests of the relevant beneficiaries. In cases of Harta Sepencarian, for example, the right of the wife is protected.</p>
3.3 Distribution Act 1971	<p>Is the Distribution Act applicable to Muslims?</p> <p>No.</p>	<p>What is the legal basis of distribution for Muslims ?</p> <p>Laws of Faraid</p>
3.4 Faraid vs. Distribution Act	<p>What is the source of Faraid?</p> <p>Al – Quran. Surah An-Nisa' 11,12,176.</p>	<p>Name 3 differences between Faraid and Distribution Act?</p> <p>Faraid is God's law whereas Distribution Act is statute law.</p> <p>Faraid cannot be changed. Distribution Act can be amended by parliament.</p> <p>Faraid is applicable to all Muslims world wide. Distribution Act is applicable to non muslims Malaysian only.</p>

STUDY QUESTIONS

4.0 The role of Executor and Administrator	Question 1	Question 2
4.1 The Executor and the Administrator	<p>Where does the Executor derives its authority?</p> <p>The Executor derives its authority from the Grant of probate.</p> <p>With the Grant of Probate, the Executor will proceed with the administration of the estate.</p>	<p>What is the differences between the executor and Administrator?</p> <p>The difference between the executor and the administrator is that the executor is named in the Will whereas the administrator is chosen by consensus among the deceased beneficiaries or through the court's inherent legal power.</p>
4.2 Calling in assets, liabilities settlement and distribution of assets	<p>What are the 5 duties duties of the Administrator?</p> <p>The 5 duties of Administrator</p> <ul style="list-style-type: none"> • Appoint legal representation • Confirm that that the deceased has not made any last will and testament • Identifying the assets • Identifying the deceased beneficiaries • Tracking down all ownership documents • Determining liabilities and establishing proof for amounts outstanding 	<p>What is the difference between the duties of executor and administrator?</p> <p>The executor has to:</p> <ul style="list-style-type: none"> • Locate the Will • Validate the Will • Distribute the 1/3 of the estate

<p>4.3 Small Estate Distribution Act 1955 and the Probate and Administration Act 1959</p>	<p>What are the advantages of SEDA?</p> <p>The advantages of SEDA are:</p> <ul style="list-style-type: none"> • Informal; • Less costly than petitioning in the High Court or ARB; • Attendance of lawyers not required unless with the Administrator's consent ; • No sureties are required (Section 35 PAA); • Convenient as there are 34 offices in Peninsular Malaysia alone; • There is an estimated timeline compared to other avenues 	<p>What are the advantages of Trustee corporation as Executor?</p> <p>The court exempts the estate from furnishing any Administration bonds.</p>
<p>4.4 Public Trust Corporation Act 1995 – Role of Amanah Raya Bhd</p>	<p>What are the objectives of Amanah Raya Berhad?</p> <p>The objectives of Amanah Raya Berhad is stated in S10 of Public Trust Corporation Act 1995</p> <ol style="list-style-type: none"> a) To be an organisation that exhibits a sense of social responsibility by having regard to the interests of the Malaysian community and by endeavouring to accommodate or encourage these when able to do so; and b) To be as efficient and profitable as private trust companies. 	<p>What does Section 17 of PTCA 1995 stipulates?</p> <p>Being the sole public trustee in Malaysia ARB is empowered to administer estate which does not exceed RM600,000.00 in value (movable assets only).</p>

STUDY QUESTIONS

5.0 Will, Wasiyyah & Wisoyah	Question 1	Question 2
5.1 What is Will, Wasiyyah & Wisoyah?	<p>How is the Will and the Wasiyyah similar?</p> <p>Both are planning instruments which take effect after death.</p>	<p>What is the Wisoyah?</p> <p>It is entrusting someone to do something after the giver of the 'amanah' passes away.</p>
5.2 Overview of the Wills Act 1959	<p>If a Will is not valid for non-compliance of the Wills Act 1959, how will the estate be distributed upon death?</p> <p>The Distribution Act 1971 will apply.</p>	<p>What is the purpose of writing a Will?</p> <p>To distribute property after death and appoint an executor to implement distribution.</p>
5.3 Overview of the Muslims Wills Enactment (Selangor) 1999	<p>What is the doctrine of obligatory bequest (Wasiat Wajibbah)?</p> <p>It enables grandchildren who are not waris to inherit from the estate of the grandfather whereby the father of the grandchildren had predeceased the grandfather and the grandchildren inheritance rights are blocked by the brother of the deceased father.</p>	<p>If the doctrine of obligatory bequest cannot apply, how should a Muslim plan for their grandchildren?</p> <p>Write a Wasiyyah in favour of the grandchildren.</p>
5.4 The requirements of a valid Will / Wasiyyah / Wisoyah.	<p>What are the restrictions of a Wasiyyah?</p> <p>(a) No bequest in favour of heirs.</p> <p>(b) Bequest cannot exceed one-third of estate after settlement of debts.</p>	<p>What are the requirements of a Wisoyah?</p> <p>(a) the Testator</p> <p>(b) the Wasi</p> <p>(c) the subject matter</p> <p>(d) the Sighah – offer and acceptance</p>

6.0 Faraid – Islamic Law Of Inheritance	Question 1	Question 2
6.1 Quranic Source	<p>What are the relevant verses which relate to Faraid in the Quran?</p> <p>Verses 11, 12 and 176 of the Surah An-Nisaa'.</p>	<p>If a man dies leaving behind a father, mother, wife and son, what are their respective Faraid ratios?</p> <p>Father – 1/6 Mother – 1/6 Wife – 1/8 Son – 13/24</p>
6.2 Classification of Heirs	<p>What is meant by Quranic Heirs (Ashabul-Furud)?</p> <p>They are persons whose inheritance portions have been fixed in the Quran e.g. wife has 1/8, daughter has 1/2 etc.</p>	<p>What is the role of Baitul Mal?</p> <p>Baitul Mal becomes a recipient under the Faraid if the heirs are not traceable or there are no heirs e.g. a Muslim convert.</p>
6.3 Responsibilities against the Estate before Distribution	<p>What must be settled from the Estate before it is distributed to the heirs according to the Faraid?</p> <p>(a) Burial expenses (b) Debts (c) Claims against the estate e.g. Hibah, Wasiyyah and Harta Sepencarian</p>	<p>Whose responsibility is it to ensure that the estate is distributed according to the Faraid after taking care of the responsibilities against the estate?</p> <p>The Administrator of the Estate (also known as the Wasi).</p>
6.4 Faraid Administration	<p>Discuss the possibility of Faraid being circumvented.</p> <p>The distribution of a Muslim estate must follow Faraid except when ALL heirs agree otherwise</p>	<p>What is the obligation of a wasi appointed under the EPF Nomination Form?</p> <p>To collect monies, settle debts and distribute according to the Faraid.</p>

STUDY QUESTIONS

7.0 Hibah & Matrimonial Assets (Harta Sepencarian)	Question 1	Question 2
7.1 What is "Hibah" – Gift during Lifetime?	<p>What is Hibah?</p> <p>It is a gifting during the lifetime, given without consideration but for the blessings of Allah s.w.t.</p>	<p>What are the pillars of Hibah according to Shafii Jurists?</p> <ul style="list-style-type: none"> (a) Donor must own property (b) Donee must exist at time of gifting (c) Subject matter must be capable of taking possession (d) Sighah – offer and acceptance (e) Handing over of possession and control by Donor (f) Accepting possession and control by Donee
7.2 Types of Validity of Hibah	<p>In what circumstances can a Hibah be revoked?</p> <p>Gift from father (or mother) to son.</p>	<p>What happens to the Hibah property if Hibah is invalidated at time of death?</p> <p>It will be become part of the Estate and will be subjected to the Faraid Law.</p>
7.3 The Concept of Matrimonial Assets in Islam	<p>What is Harta Sepencarian?</p> <p>It is property jointly acquired by the husband and wife during marriage in accordance with the Syariah Law.</p>	<p>When is Harta Sepencarian applicable?</p> <p>Upon divorce or death.</p>
7.4 Role of the Hibah and Matrimonial Assets in Estate Planning	<p>Discuss briefly the roles of Hibah and Harta Sepencarian</p> <p>A valid Hibah instrument allows the donor to give away a property to any donee and allows the donor to impose certain conditions on the donee without invalidating the Hibah itself. A mutually agreed Harta Sepencarian document between spouses will protect the interest of each spouse upon death. The document will also expedite the issuance of Sijil Faraid.</p>	<p>What is the effect of a valid Hibah and Harta Sepencarian on the Estate?</p> <p>If valid, both Hibah and Harta Sepencarian have the effect of reducing the amount of Estate as it has priority before distribution according to the Faraid.</p>

STUDY QUESTIONS

8.0 Trust And Power Of Attorney	Question 1	Question 2
8.1 What is Trust – The Concept of Legal and Beneficial Ownership	<p>What is the concept of Trust?</p> <p>Property is given but control not given to beneficiaries; it is excluded from the Estate.</p>	<p>Who are the parties to a Trust?</p> <p>(i) Settlor (ii) Trustee (iii) Beneficiary</p>
8.2 The Civil Law Trust vs. The Islamic Trust	<p>What are the Civil Law requirements Trust?</p> <p>Trustees Act 1945 and the Trustees Incorporation Act 1952</p>	<p>What is the Islamic Trust?</p> <p>The Waqf.</p>
8.3 Types of Power of Attorney (PA)	<p>What is a Power of Attorney document?</p> <p>It is a document written by Donor which empowers a Donee to act on his behalf upon terms specified in the Power of Attorney document.</p>	<p>What is the effect of an irrevocable Power of Attorney?</p> <p>It cannot be revoked and will continue even after the death of the Donor.</p>
8.4 Role of Trust and PA in Estate Planning	<p>Why is Trust an important planning instrument for Muslims?</p> <p>Muslims cannot plan 'after death' as distribution according to Faraid applies. Therefore all planning must be before death and Trust is important as control can be retained by Settlor.</p>	<p>Why is the irrevocable Power of Attorney important?</p> <p>It allows Assets to be liquidated / unlocked pending the Letter of Administration for the Estate being processed.</p>

STUDY QUESTIONS

9.0 Basics of Waqf	Question 1	Question 2
9.1 What is Waqf	<p>What is the meaning of waqf?</p> <p>Waqf is a dedication of property either in express terms or by implication, for any charitable purpose whether as wakaf am or wakaf khas according to Hukum Syarak.</p>	<p>What kind of property can be made waqf?</p> <p>Waqf can be made by giving away any movable or immovable property, and/or the usufruct of the property.</p>
9.2 Types of Waqf	<p>Discuss Waqf Khas</p> <p>Waqf khas is a waqf created for a specified charitable purpose. The purpose can be for family members, usually limited to two generations, or for any category of needy people.</p>	<p>What is the relationship between waqf dhurri and waqf khas?</p> <p>Waqf dhurri is one of the categories of waqf khas. It denotes the creation of waqf for specific beneficiaries who are the family members of the founder/waqif.</p>
9.3 The Prophet's (pbuh) advice to Umar	<p>What is the key concept of waqf that has been mentioned in the hadith?</p> <p>The key concept of waqf that has been mentioned in the hadith is that <i>"If you wish, retain the real and devote its usufruct to pious purposes"</i>. The concept means that the substance endowed as waqf (known as <i>mawquf</i>) should be retained and only its usufruct is devoted to pious purposes.</p>	<p>What are the three strict legal principles in the Islamic Law of waqf?</p> <p>The three strict legal principles in the Islamic Law of waqf are:</p> <ol style="list-style-type: none"> 1) <i>Waqf</i> assets cannot be sold 2) <i>Waqf</i> assets cannot be given as a gift 3) <i>Waqf</i> assets cannot be inherited

<p>9.4 The difference between Waqf and Sadaqah</p>	<p>What is the interpretation of "sadaqah jariyah" as propounded by the Muslim jurists?</p> <p>The interpretation of "sadaqah jariyah" as propounded by the Muslim jurists is waqf, and any normal sadaqah or charitable donation is thus, excluded.</p>	<p>Give three (3) differences between waqf and sadaqah.</p> <p>The three (3) differences between waqf and sadaqah are:</p> <ol style="list-style-type: none">1) Perpetuity is an essential condition to validate a waqf, but no such condition is needed in sadaqah;2) Property endowed as waqf (<i>Mawquf</i>) vests in God, but in sadaqah its property vests in the recipient/s.3) <i>Mawquf</i> shall not form a part of the <i>waqif's</i> estate, but sadaqah property forms part of the donee's estate.
--	--	--

STUDY QUESTIONS

10.0 Regulatory framework of Waqf	Question 1	Question 2
10.1 Administration of Waqf – Wakaf Enactments (S'gor, Melaka, NS)	<p>Specify the three specific waqf legislations available in Malaysia.</p> <p>The three specific waqf legislations available in Malaysia are:</p> <ol style="list-style-type: none"> 1) Wakaf (State of Selangor) Enactment 1999 (No.7 of 1999) 2) Wakaf (State of Malacca) Enactment 2005 (No.5 of 2005) 3) Wakaf (Negeri Sembilan) Enactment 2005 (No.5 of 2005) 	<p>What do you understand from the legal proposition that 'the SIRC's are the sole trustees for awqaf assets in Malaysia'?</p> <p>That legal proposition means that only the SIRC's can administer awqaf properties. No other individuals or bodies are allowed to hold the trusteeship power. The exercise of such a power from the mentioned two parties would be treated as illegal and not conforming to the laws.</p>
10.2 Tax treatment on Waqf	<p>Is a waqif entitled to receive any deduction of his income tax for the waqf made by him?</p> <p>Yes, a waqif is entitled to receive a deduction of his income tax for the waqf made by him according to S.44(6) of the Income Tax Act 1967.</p>	<p>What is the condition for a trust body to get a tax exemption for its business income?</p> <p>A trust body could get a tax exemption for its business income if it is established for charitable purposes only and approved by the Director General (of the Inland Revenue Board) for the purposes in accordance with Schedule 6, Para 13, of the Income Tax Act 1967.</p>
10.3 The role of Jabatan Wakaf, Zakat & Haji	<p>What does JAWHAR stands for?</p> <p>JAWHAR stands for the following interpretations :</p> <ol style="list-style-type: none"> 1) JA for Jabatan or Department; 2) W for waqf or awqaf; 3) H for Hajj; and 4) HAR for harta or property. 	<p>What are the key differences between the roles of JAWHAR and the SIRC's in the management of waqf, zakat and mal in Malaysia?</p> <p>The JAWHAR only co-ordinates the management of the said properties, while their full administration is within the responsibility of the SIRC's.</p>

<p>10.4 Waqf vs. Charitable Trust under the Trustee Act 1949</p>	<p>What is the relationship between waqf and the Doctrine of Cypres?</p> <p>The doctrine supports permanency rule of waqf where a creation of the said property (waqf) can never fail. Thus, should any purpose of waqf become unrealizable, impracticable or impossible to be carried out, according to the doctrine, the waqf shall not become void merely on that ground. It will be applied to purposes that are akin and similar to the purpose that has failed or become unrealizable or impracticable in conformity to the intention of the waqif.</p>	<p>Give two (2) differences between waqf and trust.</p> <p>The two (2) differences between waqf and trust are:</p> <ol style="list-style-type: none">1) Waqf is governed by the principles of Hukum Syarak & regulated by wakaf enactments/act & other relevant statutes, but trust is a civil law instrument regulated by the Trust Act 1949;2) Waqf is perpetual in nature, irrevocable & inalienable, but it is not necessary that a trust should have such attributes.
--	---	---

STUDY QUESTIONS

11.0 Role of Waqf in society	Question 1	Question 2
11.1 A Historical perspective	<p>What are the awqaf sectors that were flourished in the Muslim History?</p> <p>The key awqaf sectors that were flourished in the Muslim history are religious, educational and healthcare services.</p>	<p>Give two (2) examples of the earliest awqaf created in Malaysia.</p> <p>The two (2) examples of the earliest awqaf created in Malaysia are:</p> <ol style="list-style-type: none"> 1) Capitan Kling Mosque, Penang (SS period); 2) Kg. Laut Mosque, Kelantan
11.2 Contemporary forms of Waqf	<p>What is the interpretation of awqaf of shares?</p> <p>The interpretation of awqaf of shares is "a dedication of the existing shares (in company, unit trusts etc) belonging to a founder for any charitable purpose whether as wakaf am or wakaf khas according to Hukum Syarak".</p>	<p>What is the major fiqh concept applied in waqf kaki and waqf jemba?</p> <p>The major fiqh concept applied in waqf kaki and waqf jemba is <i>musya'</i> principle.</p>
11.3 Development and Distribution of waqf benefits	<p>Specify two (2) investment modes that can be used to develop awqaf properties?</p> <p>Two (2) investment modes that can be used to develop awqaf properties are:</p> <ol style="list-style-type: none"> 1) Leasing; and 2) <i>Sukuk</i> 	<p>Specify the distribution hierarchy of waqf benefits.</p> <p>The distribution hierarchy of waqf benefits is as follows:</p> <ol style="list-style-type: none"> 1) maintenance and repairs 2) debts and taxes, or other encumbrances attached to the <i>mawquf</i> 3) object and purpose stipulated by founder 4) If not stipulated according to discretion of Mutawalli

<p>11.4 Applications of Waqf – Public Infrastructure, Education, Hospital, etc</p>	<p>Can non-Muslims enjoy awqaf benefits?</p> <p>Yes, non-Muslims can validly enjoy awqaf benefits whether they are of general or specific beneficiaries.</p>	<p>Explain how can waqf serve as a microfinance institution?</p> <p>Waqf can serve as a microfinance institution by financing productive microenterprises at subsidized rates. It is meant for the poor in particular, so as to eradicate poverty.</p>
--	--	--

STUDY QUESTIONS

12.0 Creating a Waqf	Question 1	Question 2
12.1 During Lifetime (Inter-vivos) and Testamentary	<p>What rule should be applied in the testamentary waqf?</p> <p>The applicable rule which should be applied in the testamentary waqf is the Islamic Law of wills (wasiyyah).</p>	<p>Please explain the rule.</p> <p>According to the rule, a waqif can only dedicate his property as waqf within the extent of its one-third. Should he make it more than the prescribed amount, it will not be effective, unless the waqif's illegitimate heirs have given their consent to that excess. Otherwise, the waqf will only be valid with respect to the extent of one-third only. Besides, the rule also allows the waqif to amend or revoke his waqf whenever he likes in his lifetime.</p>
12.2 Trust company as Mutawalli	<p>Can a trust company act as a Mutawalli in Malaysia?</p> <p>Based on the existing legislations in Malaysia, a trust company has no power to act as a Mutawalli as it rests solely upon the SIRC. Nevertheless, a trust company may apply to the SIRC to get their consent for such a purpose.</p>	<p>Give one (1) legal authority which could grant mutawalliship power to a trust company to manage awqaf properties.</p> <p>One (1) of the legal authorities which could grant mutawalliship power to a trust company to manage awqaf properties is S.7(2)(c) of the Administration of the Religion of Islam (State of Selangor) Enactment (No.1 of 2003) which gives power to the Majlis to carry on any such activities in association with other bodies and this may include a trust company.</p>

<p>12.3 Family waqf</p>	<p>What is the key condition to validate a family waqf?</p> <p>The key condition to validate a family waqf is that its ultimate benefit should be reserved for permanent religious, pious or charitable purpose which can never fail.</p>	<p>How can a family waqf serve as a tool for financial planning?</p> <p>A family waqf can serve as a tool for financial planning by documenting a waqf deed in favour of a waqif's illegitimate heirs who are not entitled to receive the founder's estate. This can be done either <i>via</i> testamentary allocation or even in the waqif lifetime.</p>
<p>12.4 Contributing to Collective Waqf scheme</p>	<p>What is the interpretation of waqf share?</p> <p>According to S.2 of the Wakaf (State of Selangor) Enactment 1999 (No.7 of 1999), waqf share is "the creation of a wakaf through the issuance of shares which are subsequently endowed as a wakaf by the purchaser to the Majlis"</p>	<p>Give two (2) examples of collective waqf scheme.</p> <p>The two (2) examples of collective waqf scheme are: (1) Waqf REIT; and (2) Unit trusts-based waqf.</p>

Retirement Planning - Questions

Q1 . En. Ismail, age 30, has given you the following information and has asked you to calculate his desired retirement income.

- a.) Current Annual Earnings of RM200,000
- b.) 80% Replacement Ratio
- c.) He intends to retire at age 55
- d.) His salary increment is 4% per annum

Answer : 426,534

CMPD		
Compound Interest		
Set	NA	
n	25	
i	4	
PV	-200,000	
PMT	0	
FV	SOLVE	533,167
P/Y	1	
C/Y	1	
COMP		
533,167 X	80% =	426,534

Q2. What is the lump sum need at retirement of En.Ahmad, age 30, if his retirement income needed at retirement is EM100,000 at age 55 if based on principle liquidation method ? Assuming there is no consideration for inflation and the rate of return is 6% per annum. He needs the desired retirement income till age 75.

Answer : 1,215,812

CMPD		
Compound Interest		
Set	Begin	
n	20	
i	6	
PV	SOLVE	1,215,812
PMT	-100,000	
FV	0	
P/Y	1	
C/Y	1	

Q3. What is the lump sum need at retirement of En.Ahmad, age 30, if his retirement income needed at retirement is EM100,000 at age 55 if based on principle liquidation method ? Assuming inflation at 4% and the rate of return is 6% per annum. He needs the desired retirement income till age 75.

Answer : 1,667,846

CMPD
Compound Interest
Set **Begin**
n 20
i 2
PV SOLVE 1,667,846
PMT -100,000
FV 0
P/Y 1
C/Y 1

Q4. What is the lump sum need at retirement of En.Ahmad, age 30, if his retirement income needed at retirement is EM100,000 at age 55 if based on principle intact method ? Assuming there is no consideration for inflation and the rate of return is 6% per annum.

Answer : 1,766,667

CMPD
Compound Interest
Set **Begin**
n 1,000
i 6
PV SOLVE 1,766,667
PMT -100,000
FV 0
P/Y 1
C/Y 1

or

$$100,000 \times \left(\frac{100,000}{0.06} \right) = 1,766,667$$

Q5. What is the lump sum need at retirement of En.Ahmad, age 30, if his retirement income needed at retirement is EM100,000 at age 55 if based on principle intact method ? Assuming inflation at 4% and the rate of return is 6% per annum.

Answer : 5,100,000

CMPD
Compound Interest
Set **Begin**
n 1,000
i 2
PV SOLVE 5,100,000
PMT -100,000
FV 0
P/Y 1
C/Y 1

or

$$100,000 \times \left(\frac{100,000}{0.02} \right) = 5,100,000$$

Q6. What is the lump sum need at retirement of En.Ahmad, age 30, if his retirement income needed at retirement is EM100,000 at age 55 if based on principle liquidation method with wakaf creation of RM150,000? Assuming there is no consideration for inflation and the rate of return is 6% per annum. He needs the desired retirement income till age 75.

Answer : 1,262,582

CMPD
Compound Interest
Set Begin
n 20
i 6
PV SOLVE 1,262,582
PMT -100,000
FV -150,000
P/Y 1
C/Y 1

Q7. What is the lump sum need at retirement of En.Ahmad, age 30, if his retirement income needed at retirement is EM100,000 at age 55 if based on principle liquidation method with wakaf creation of RM150,000? Assuming inflation at 4% and the rate of return is 6% per annum. He needs the desired retirement income till age 75.

Answer : 1,768,792

CMPD
Compound Interest
Set Begin
n 20
i 2
PV SOLVE 1,768,792
PMT -100,000
FV -150,000
P/Y 1
C/Y 1

Q8. En.Bakri, age 40, requires RM200,000 as retirement income upon retirement at ag55. What lump sum amount is needed is based on principle liquidation method if the inflation is equal to the rate of return of 4%? He needs the desired retirement income till age 75.

Answer : 4,000,000

CMPD
Compound Interest
Set Begin
n 20
i 0
PV SOLVE 4,000,000
PMT -200,000
FV 0
P/Y 1
C/Y 1

Q9. En. Jamal is 30 years old and has been working for the last 6 years. His current salary is RM3,500 per month. His company pays a contractual bonus of 3 months p.a and based on the last six years, his company has been giving a salary increment of 6% p.a. He and his employer have been contributing to EPF, 11% and 12% respectively. He has just received his year end EPF statement which shows and accumulated amount of RM20,000. EPF has consistently paid a dividend of 5% p.a. He wants to know how much will he have in his EPF account when he his 55 years old if he continues working in the same company?

Answer : 1,165,778

a. Monthly Salary	3,500
Salary Frequency	15
Annual Salary	52,500
Total EPF Contributions	23%
Initial EPF Contributions	12,075

b. CMPD			
Compound Interest			
Set	End		
n	25		
i	-1		
PV	SOLVE	344,913	
PMT	-12,075		
FV	0		
P/Y	1		
C/Y	1		

c. CMPD			
Compound Interest			
Set	End		
n	20		
i	5		
PV	364,913	(20,000	+ 344,913
PMT	0		
FV	SOLVE	1,235,725	
P/Y	1		
C/Y	1		

d. 1,235,725 / 1.06 = 1,165,778

Q10. Pn. Salmah, age 40, is a senior executive in a reputable company. She earns RM6,000 per annum and receives 8% increment and 2 months contractual bonus every year. She and her employer contributes to EPF 12% and 14% respectively. Her current EPF balance is RM100,000 and EPF pays 5.5% per annum as dividend. She has invested heavily into unit trust, a lump sum investment of RM150,000 with a monthly top-up of RM500 and assumes the rate of return to be 8% p.a. She wants to retire comfortably at age 55, therefore desires 75% of her last drawn salary as retirement income and intends to enjoy it for 35 years during her retirement and wants it to be adjusted for inflation of 5% and deems the rate of return to be 7% then. She wants to leave behind a legacy by creating a wakaf of RM300,000 for MAKNA. She has approached you to calculate if current funding is sufficient for all her wishes and she is willing to set aside annually, monthly or even a lump sum amount should there be any shortfall in her funding. She is comfortable with a investment return of 8% per annum. Advise her accordingly.

Step 1 Calculate her last drawn salary.

Monthly Salary	6,000
Salary Frequency	14
Annual Salary	84,000
Total EPF Contributions	26%
Initial EPF Contributions	21,840

CMPD

Compound Interest

Set	NA
n	15
i	8
PV	-84,000
PMT	0
FV	SOLVE
P/Y	1
C/Y	1
	<u>266,462</u>

Step 2 Calculate her retirement income.

COMP			
266,462	X	75%	= <u>199,847</u>

Step 3 Calculate the lump sum need to fund her retirement if the approach is on principle liquidated basis with a wakaf creation of RM300,000 adjusted for inflation.

CMPD

Compound Interest

Set	Begin
n	35
i	2
PV	SOLVE
PMT	-199,847
FV	-300,000
P/Y	1
C/Y	1
	<u>5,245,825</u>

Step 4 Calculate the future value of her unit trust investment at age 55.

CMPD

Compound Interest

Set	Begin
n	180
i	0.6667
PV	-150,000
PMT	-500
FV	SOLVE
P/Y	1
C/Y	1
	<u>670,211</u>

Step 5 Calculate the future value of her EPF at age 55.

a. Monthly Salary	6,000
Salary Frequency	14
Annual Salary	84,000
Total EPF Contributions	0
Initial EPF Contributions	21,840

b. CMPD			
Compound Interest			
Set	End		
n	15		
i	-2.5		
PV	SOLVE	<u>403,554</u>	
PMT	-21,840		
FV	0		
P/Y	1		
C/Y	1		

c. CMPD			
Compound Interest			
Set	End		
n	15		
i	5.5		
PV	SOLVE	<u>1,124,172</u>	(100,000 + 403,554
PMT	0		
FV	SOLVE		
P/Y	1		
C/Y	1		

d. $1,124,172 / 1.08 = \underline{\underline{1,040,900}}$

Step 6 Calculate the retirement gap

	Principle Liquidation with Wakaf Creation
Total Retirement Fund Needed	-5,245,825
Less : Total Retirement Fund Available :- Unit Trust Investment EPF	670,211 1,040,900
	<u>1,711,111</u>
Retirement (Gap/Deficit) or Surplus	<u><u>-3,534,714</u></u>

Step 7 Calculate the annual, monthly and lump sum funding needed to fund the shortfall, if any.

Annual Funding Needed		120,539
a. CMPD		
Compound Interest		
Set	Begin	
n	15	
i	8	
PV	0	
PMT	SOLVE	120,539
FV	3,534,714	
P/Y	1	
C/Y	1	

Monthly Funding Needed		10,147
b. CMPD		
Compound Interest		
Set	Begin	
n	180 (n x 12)	
i	0.6667 (I / 12)	
PV	0	
PMT	SOLVE	10,147
FV	3,534,714	
P/Y	1	
C/Y	1	

Lump Sum		
Funding Needed		1,114,289
c. CMPD		
Compound Interest		
Set	Begin	
n	15	
i	8	
PV	SOLVE	1,114,289
PMT	0	
FV	3,534,714	
P/Y	1	
C/Y	1	

STUDY QUESTIONS

15.0 A holistic approach and the time horizon perspectives	Question 1	Question 2
15.1 "In the long run, we are all dead" – the Conventional view	<p>What is the classical economists' view when the economy goes into a slowdown?</p> <p>Classical economists say there is nothing much that can be done when the economy slows down and the market forces will sort it out in the long run.</p>	<p>What lessons can be drawn from Keynes' quote from an Islamic Financial Planning viewpoint?</p> <p>The need for Muslims to plan and not to leave things as it is, hoping that in the long run problems will even out.</p>
15.2 The final stage of wealth purification	<p>What are the 5 aspects of wealth purification?</p> <p>The 5 aspects are:</p> <ol style="list-style-type: none"> Settle all debts accordingly Payment of zakat – current and past years Disposal of Shariah non-compliant assets if any Return the properties belonging to others accordingly Participate in or create waqf for charity 	<p>What is cleansing in wealth purification?</p> <p>Cleansing is the disposal of Shariah non-compliant assets</p> <p>Cleansing also means the continuous effort of a Muslim to accumulate wealth in accordance to Shariah at all times.</p>
15.3 Integrating between <i>dunya</i> & <i>akhirah</i> objectives	<p>Discuss how Muslims should balance the goals of Dunya and Akhirah in estate, retirement and waqf planning</p> <p>Firstly, by integrating the Shariah methods available for the Muslims to plan.</p> <p>To balance means making enough preparation for: well-being of dependants, retirement years and one's life in the Hereafter via the instrument of Will</p>	<p>Discuss the advantages of using a Family waqf to plan</p> <p>If a Family waqf is created during the lifetime of the donor, the donor can still utilise the benefits for subsistence and contingencies, for example, medical expenses during his retirement period.</p> <p>Family waqf is not for perpetuity. The tenure is for two generations only. During this period, the needs of the donor's immediate family can be looked after. After the period ends, the waqf</p>

		<p>becomes general i.e. the benefits goes to public.</p> <p>The donor has the comfort of knowing that when he dies, the waqf will generate rewards for him in the Hereafter.</p>
<p>15.4 Achieving al-Falah</p>	<p>What are the two dimensions al-Falah?</p> <p>Al-Falah is NOT financial success but success in this world and in the hereafter.</p> <p>Being successful in this world and in the hereafter has two dimensions: material and spiritual.</p> <p>In Islamic financial planning, the spiritual aspects are tied to the religious beliefs of Islam.</p> <p>Spiritual rewards include the concept of barakah i.e. blessings, in particular, the spiritual gifts or protection transmitted from God.</p>	<p>Discuss how Muslims can achieve al-Falah</p> <p>To achieve al-Falah, Muslims must strive in the cause of Allah, and there are only two means of striving: with wealth and self</p> <p>Spending for charity (with zakat being the minimum) is striving with wealth.</p> <p>Putting effort to help the needy and seeking knowledge are examples of striving with self.</p>

STUDY QUESTIONS

16.0 Issues and Challenges in Estate, Retirement and Waqf	Question 1	Question 2
16.1 Legal issues and practical constraints – Nomination	<p>Discuss Nomination</p> <p>Nomination forms are forms prepared by the relevant financial institutions or government statutory bodies to make the necessary payments in the event of the death of the depositor/ subscriber/ investor/ Client.</p> <p>Examples of nomination forms are found in Tabung Haji, EPF, Unit Trust, Takaful, Insurance, Government Pension and Co-operatives.</p> <p>The purpose of nomination is to expedite the payment to the nominees when the depositor / subscriber / investor / Client dies.</p>	<p>How does EPF define the nominees?</p> <p>For non-Muslims members, the nominated person(s) will be the actual rightful beneficiary, who will receive your savings upon your death.</p> <p>For Muslim members, the nominated person(s) will be an executor (wasi) /administrator who will manage the withdrawal of your savings in the event of your death.</p>
16.1 Legal issues and practical constraints – Hibah in Takaful	<p>Can takaful proceeds qualify as an asset for hibah?</p> <p>According to BNM Shariah Advisory Council (SAC), takaful proceeds can be used for hibah since it is the right of the participant.</p> <p>Therefore, the participant is allowed to exercise his rights according to his choice as long as it does not contradict with Shariah.</p>	<p>What are BNM SAC's suggestions regarding hibah of takaful proceeds practices?</p> <p>The takaful nomination form has to be standardized and must stipulate clearly the status of the nominee either as a beneficiary or an executor (wasi) or a trustee.</p> <p>Any matter concerning distribution of takaful benefit must be based on the contract. Participants should be clearly explained on the implication of every contract being executed.</p>

<p>16.2 Registration of wills</p> <p>16.3 Role of PERWARIS</p>	<p>Discuss the Will register initiative by PERWARIS</p> <p>The Will register was launched in July 2007 in conjunction with the launch of PERWARIS</p> <p>Will register is a service by ARB</p> <p>Not compulsory register</p> <p>Only selected data is kept in the will register. Physical custody of the will is treated separately</p>	<p>Discuss PERWARIS and its roles</p> <p>In 2007, a consortium of Trustee corporations, Will writing companies and Muslim lawyer bodies had incorporated Persatuan Perwaris Harta Malaysia (PPHM) to co-ordinate and facilitate the growth of Islamic estate planning in Malaysia.</p> <p>The idea of PERWARIS is to ensure that the practice of Islamic Estate Planning is structured to grow in phases.</p> <p>It was envisaged that PERWARIS to play a role in educating and raising awareness of the consumers on the importance of estate planning</p>
<p>16.4 Career as Islamic Estate Planner</p>	<p>Highlight the importance of an Islamic Estate Planner</p> <p>Estate planning is important because it is an integral part of financial planning.</p> <p>An Islamic Estate Planner is a financial planner who specialises in assisting the client to plan and target his estate planning goals in conformity to Shariah.</p>	<p>Discuss the Islamic Estate Planning industry presently</p> <p>Islamic Estate Planning as an industry is in its embryonic stage compared to the other components of Islamic financial planning industry.</p> <p>Business opportunities are many for those who wish to develop a practice. Primarily because of the basic aspects of Islamic estate can be deemed as necessity – will writing and estate administration to resolve frozen assets.</p> <p>Presently, the industry has no regulator and no licensing regime for the individual practitioners.</p>

STUDY QUESTIONS

17.0 The role of The Islamic Estate Planner	Question 1	Question 2
17.1 Gathering of Client's personal information	<p>Why is it important for the estate planner to know the Family structure of the client?</p> <p>The estate planner needs to know the family structure of the client so that the estate planner can select the right estate planning tools.</p>	<p>Why is the position of Harta Sepencarian important in Estate Planning?</p> <p>The position of Harta Sepencarian is important because it determines the portion of the husband / wife share in the estate.</p>
17.2 Identifying issues and proposing the solution	<p>Name 5 potential issues in estate planning?</p> <p>Some of the potential issues are:</p> <ul style="list-style-type: none"> a) If one of the heirs is living outside Malaysia; b) If the client is a non-Malaysian; c) If the client is a Muslim and his family members are non-Muslims; d) If there is an issue of a non-cooperative heir e) Adopted children f) Polygamous marriage g) Previous unsolved estate h) Incapable legal heir i) Minors j) Quarrelsome attitude by some of the legal heirs 	<p>How can the estate planner propose the solution to the client?</p> <p>The solutions would depend on the circumstances of each case.</p> <p>It is important that the client is honest and disclose all relevant information for the estate planner to come up with a solution.</p>

<p>17.3 Assist in the execution by the solution provider</p>	<p>How can the estate planner play an important role in expediting the execution of the relevant estate planning documents?</p> <p>The estate planner plays an important role in expediting the execution of the relevant estate planning documents by furnishing more details to the solution provider if it is required by the solution provider.</p>	<p>What are the important roles of the estate Planner in assisting the execution of the documents?</p> <p>Some important roles of the estate Planner in assisting the execution of the documents may include:</p> <ul style="list-style-type: none"> a) Vetting through the documents b) Being present as a witness c) To facilitate the client and the service provider in obtaining the relevant documents.
<p>17.4 Periodic review and adjustments</p>	<p>When is the best time to make the periodic review of the estate planning documents?</p> <p>The estate planning documents should be reviewed on a yearly basis (on the anniversary, on a birthday or on a review day).</p>	<p>Why is the review of the estate planning documents important?</p> <p>The client may wish to review the documents to reflect the current status of the client or his family members from time to time i.e if there is a death of a waris or a divorce or making a new plan due to acquisition of more assets.</p>

STUDY QUESTIONS

18.0 Planning your estate	Question 1	Question 2
18.1 Know your waris	<p>What is the definition of a waris?</p> <p>A <i>waris</i> means a person who is entitled to inherit under the law of inheritance (<i>Faraid</i>).</p>	<p>What are the impediments to inheritance?</p> <p>The impediments to inheritance are homicide and Difference of Religion.</p>
18.2 Applying the right tools	<p>What are the main features of Islamic Will / Wasiyyah?</p> <ul style="list-style-type: none"> • Applicable upon death • Maximum of a 1/3 provision for <i>Sadaqatul Jariah</i> i.e hospital, orphanage • Maximum 1/3 provision for non legal heir i.e adopted child, step child • Maximum of 1/2 Provision for <i>Harta Sepencarian</i> • Appointment of executor • Provision of the client as nominee / trustee • Settlement of debt • Subject to Faraid Distribution • Provision on quantum of estate distribution • Subject to consent by legal heirs if more than 1/3 or a bequest is made to a legal heir. 	<p>What are the main features of Harta Sepencarian?</p> <p>Some features are as follows:</p> <ul style="list-style-type: none"> • Takes effect during the lifetime of the donor • Division of properties during lifetime or upon death without the actual transfer of the asset • Can be executed upon death • Does not form part of Hukum Faraid • Does not require consent from legal heir • Under the jurisdiction of the Syariah Court

<p>18.3 The Faraid information system (e-faraid)</p>	<p>Why is it important to know the E-Faraid System?</p> <p>The E-Faraid System will assist the estate planner to leverage technology to his advantage.</p>	<p>Why is it important to know the manual calculation of Faraid by the estate planner?</p> <p>The manual calculation of Faraid will help the Planner to win the trust of the client.</p>
<p>18.4 Cases of special needs – polygamous marriage, adopted child, converts, step child, etc.</p>	<p>What are the issues that may arise in polygamous marriage?</p> <p>The issues that may arise under polygamous marriage are:</p> <ul style="list-style-type: none"> – <i>Harta Sepencarian</i> – The portion of each wife is shared i.e 1 / 8 divided by 2, 3 or 4 	<p>Why are the following categories</p> <ul style="list-style-type: none"> • Adopted child • Converts • Step child <p>do not inherit under Faraid?</p> <p>Because they do not fall under the waris category and the do not fulfill the causes of inheritance.</p>

STUDY QUESTIONS

19.0 Issues in Islamic Estate Planning	Question 1	Question 2
19.1 Absolute Assignment in Takaful Proceeds	<p>What is the meaning of Absolute Assignment?</p> <p>Absolute Assignment means the transfer of ownership of a Takaful policy to a separate entity (assignee).</p>	<p>How can absolute assignment be cancelled?</p> <p>Absolute assignment can be cancelled with the consent of the assignee.</p>
19.2 Protecting Your Family From Indebtedness	<p>Why is it important for the estate planner for the client to have sufficient takaful coverage?</p> <p>To ensure that the client's estate is liquid and there is enough for debt settlement.</p>	<p>When should debt be mentioned?</p> <p>1) Upon death before funeral.</p> <p>2) Proof of debt Proof of debt should be made by the creditor to the administrator</p> <p>3) Evidence of debt Evidence of debt can be written or verbal. Preferably it should be verbal.</p>
19.3 Wasiyyah to heirs- Obligatory Will	<p>When does the situation of Obligatory Will arise?</p> <p>Obligatory Will arise upon the following situation:</p> <ol style="list-style-type: none"> 1) Ali predecease his father, Abu or dies with his father 2) Ali's children shall be entitled to Abu's estate upon Abu's death 3) Ali's children entitlement is up to 1/3 of Abu's estate 	<p>When can Obligatory Will be waived?</p> <p>Obligatory Will can be waived when the grandfather or grandmother had, during his or her lifetime and without having received any consideration, made a Will to the deceased son / daughter's children or gave them a property equivalent to what they would have been entitled according to the obligatory will during the grandfather or grandmother's lifetime.</p>

<p>19.4 Application of Hibah and Trust</p>	<p>What is the difference between Hibah between father / wife to children and Hibah between husband and wife?</p> <p>The difference are as follows:</p> <p>Hibah between father/mother to children:</p> <ul style="list-style-type: none">a) Can be revocableb) Has to be fair among children <p>Hibah between Husband and Wife is not revocable.</p>	<p>Why is the position of Hibah properties from the Faraid viewpoint?</p> <p>Hibah properties are not considered as part of Faraid.</p>
--	--	---

STUDY QUESTIONS

20.0 Legal Cases	Question 1	Question 2
20.1 Legal cases on Faraid	<p>Which forum can determine whether a person is the lawful legal heir under Faraid?</p> <p>The forum that can determine a legal heir is the Syariah Court.</p>	<p>Who can be the administrator of the deceased estate to implement Faraid?</p> <p>a) The legal heir b) The Public Trustee c) Private Trustee</p>
20.2 Legal cases on Wasiyyah	<p>What are the requirements of a valid Wasiyyah?</p> <p>The requirements of a Wasiyyah are:</p> <p>i) a testator ii) a beneficiary iii) subject matter of the will; and iv) sighth.</p>	<p>What is the maximum portion of Wasiyyah under the rule of bequest?</p> <p>The maximum portion under the rule of bequest is 1/3 of the estate.</p>
20.3 Legal cases on Waqf	<p>How can Wakaf be created?</p> <p>A wakaf can be created through a Deed of Wakaf.</p>	<p>Which Court has the jurisdiction to determine the validity of the Wakaf?</p> <p>The Syariah Court.</p>
20.4 Legal cases on Hibah	<p>What is the main consideration in making Hibah?</p> <p>The main consideration in making a Hibah is the transfer of the Hibah properties to the receipt.</p>	<p>Under which circumstances Hibah cannot be revoked?</p> <p>a) When Hibah is made from Husband to Wife b) When Hibah is made from adopted father to adopted son c) When the Hibah property has been developed</p>