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JOURNAL of Financial Planning IN INDIA

July 2021

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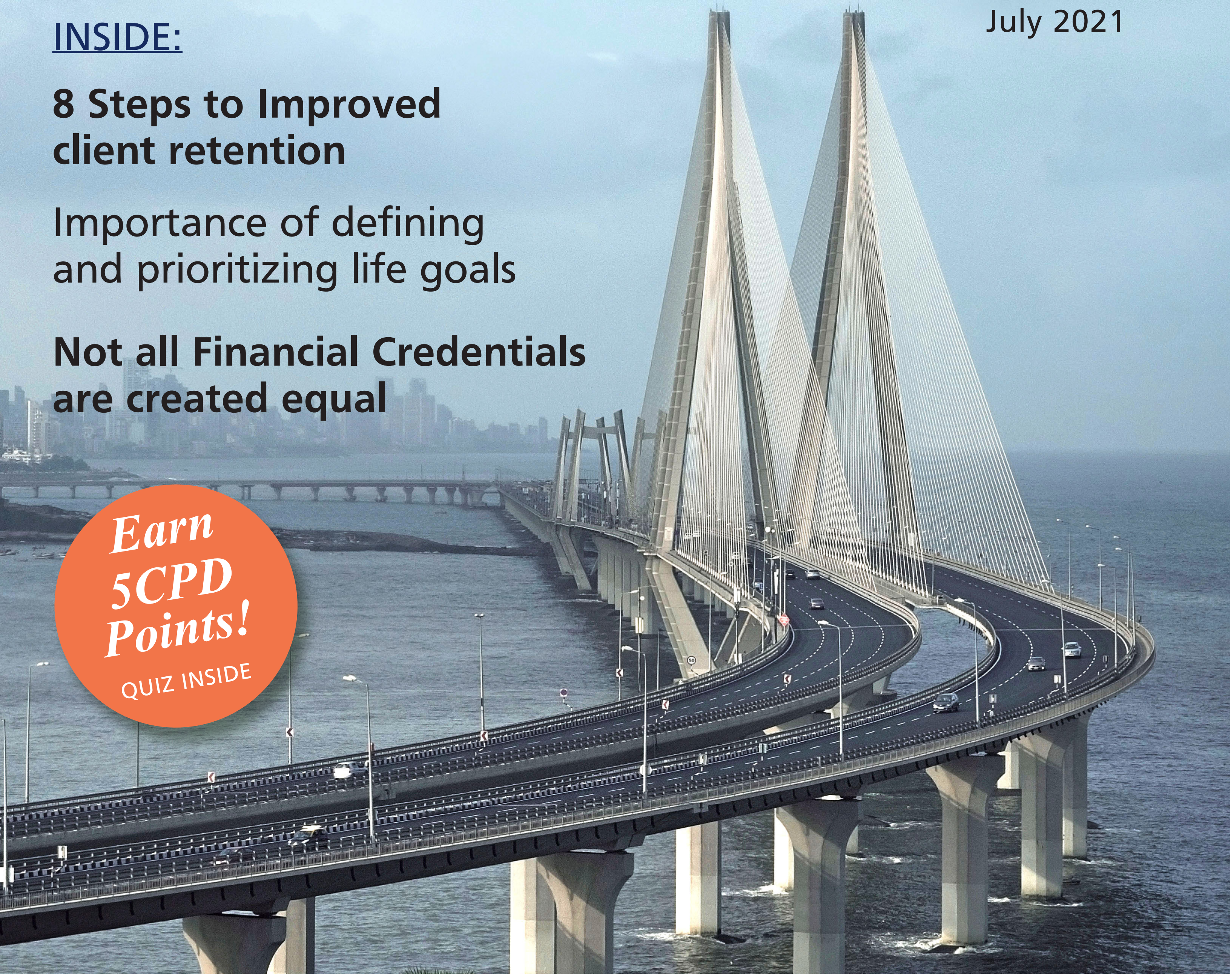

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FINANCIAL PLANNING STANDARDS BOARD

Message from Rajesh Krishnamoorthy, Country Head, FPSB Ltd. India Liaison Office

Dear Friends,

History is a great teacher, and sometimes, it also provides many answers when we nod our heads to a statement that says, “history repeats”! But for history to be repeated, at first it needs to be created!

Going back in time, let us try to remember historic events and references in Banking, Insurance and a Profession in India.

Year 1770 is when we had the first Bank in our country - Bank of Hindustan. Year 1921 saw the emergence of Imperial Bank of India which went on to become State Bank of India in 1955. These events are between 65-250 years old!

Manusmrithi, Dharmasastra and Arthasastra have references to Insurance! After we saw Oriental Life Insurance Company being set up in then Calcutta (now Kolkata) in 1818 we have been witness to our insurance laws getting refined between 1914-1938 culminating with the Insurance Act, 1938. Life Insurance Corporation was established in 1956. Again, these events and references are between 65-203 years old!

Our Parliament enacted The Chartered Accountants Act in 1949. Since then, we Indians have at least understood that we could approach a professional for our taxation related matters. We are used to this since over 70 years!

History is repeating with bubbles bursting and scams breaking out - see the plight of "robinhood" investors in India and those many who brag about their cryptocurrency but end up buying some sham coins on some unregulated portals loosing all their money! Well, that is a hard way to learn, but nevertheless, a lesson learnt! The more I speak to people who have been subject to some such setback in life (sigh), the more I get convinced that financial planning will get deep rooted in our society. It is just a matter of time!

Much like how Kautilya emphasized on maintaining the standards of public governance in the Mauryan Empire, at FPSB we are emphasizing the standards for financial planning. The three important internal issues for the ruler (read as custodian of the wellbeing of the people) to attend to were *Raksha*—or protection of life and liberty within the state; *Palana* or law and justice; and *Yogakshema* or welfare of the people. By upholding our standards in client engagement, we are ensuring *Yogakshema*. We are dispensing *Palana* as we help our clients keep a safe distance from scams saving them from injustice as consumers! We are making sure of *Raksha* for the client and their future generations when we do in-depth risk and estate planning.

Evolution has happened in Banking, Insurance and in many other professions and it continues to happen in front of our very own eyes. Today, electronic media has a huge reach. We have over 62 crore internet users in India and is expected to go to 90 crores in 2025. I believe that the awareness - of doing the right thing with your money, and having a financial plan for your life - will grow exponentially in the coming decade. Access to information is a big leveler.

Most of us do not realize we are in the process of making history until much later!

Onward and forward!!!

Rajesh Krishnamoorthy
Country Head, FPSB Ltd. India Liaison Office

Message from Noel Maye, CEO, FPSB Ltd.

Dear CFP professionals,

In keeping with the theme of Rajesh's letter, for this Journal message, I want to celebrate our more recent history – in particular, what we've accomplished together for CFP certification and the financial planning profession in India over the past two years.

When FPSB Ltd. took over direct administration of the CFP certification program in India in April 2019, we told you we would rebuild capabilities in India, streamline and strengthen the pathway to CFP certification, and demonstrate to you the value of CFP certification and of being part of a connected, growing Indian and global CFP professional community. I'm pleased to say we've delivered, and plan to keep doing so.

When we took over the program, there were 1,513 CFP professionals in India. By the end of June 2021, there were already 2,255 CFP professionals – this 50% growth is testament to the work being done by Rajesh and the team in India to deliver value through webinars, CPD opportunities and promotion; facilitating your certification renewals; onboarding newly certified professionals; and securing NISM accreditation for Investment Advisor licensing. So far this year, FPSB Ltd. has renewed certification for 798 CFP professionals, certified 415 new CFP professionals and reinstated 40 CFP professionals who had previously allowed their certification to lapse.

Two years ago, we had a disconnect between the education courses and exams being delivered in India, with thousands of candidates stalled in the pipeline or challenged to pass the CFP exams. FPSB Ltd. worked with global and Indian content specialists to create a new education and credentialing pathway to CFP certification to facilitate more structured learning and recognition opportunities for candidates for CFP certification in India. Either though self-study or one of our 14 Authorized Education Providers, candidates can now complete their education through three specialist education courses and our FPSB® Integrated Financial Planning course (launched last month) and sit for one of FPSB Ltd.'s specialist or CFP exams. By end of June, FPSB Ltd. had registered 533 new students and delivered 2,677 in-person and 1,673 online exams. By the end of 2021, we will transition all eligible candidates for certification from our legacy program (the five-exam model) to FPSB's new program and we anticipate strong growth figures for end of year 2021.

We've benefitted greatly from the insights and guidance of our India CFP Professional Advisory Council which, in addition to ensuring we understand the needs and interests of CFP professionals in India, has stepped forward to lead our innovative mentorship program for candidates for CFP certification in India.

FPSB Ltd. is committed to increasing engagement and connectivity among educators/trainers, practicing CFP professionals and firms, and industry, consumer and media groups interested in promoting the value of advice from competent and ethical financial advisors. As we shift our focus from building operating capacity and program capability, you can expect to see more promotion, outreach and engagement efforts from us to you and other key stakeholders in the coming months.

We can't do this without you, and are humbled by your continued support and commitment to our mission and vision that all Indians can live their best today, and plan their tomorrow. We welcome hearing from you, and to having your join as ambassadors, mentors or volunteers our efforts to establish financial planning as a recognized profession in India, with CFP certification its symbol of excellence.

Onward, forward and upward, together, for the profession and for the public we serve.

Noel Maye

Noel Maye
Chief Executive Officer
Financial Planning Standards Board Ltd.

Planning for a Life after Retirement

By Shri Supratim Bandyopadhyay, Chairman, PFRDA

Financial planning, particularly when it is about one's future, is important. However, globally knowledge about financial planning among people is very low as shown by OECD/INFE 2020 International Survey of Adult Financial Literacy. India is no exception. The primary reason for this situation is the lack of understanding of financial concepts and absence of financially prudent behaviors and attitudes amongst the people. Financial literacy is therefore, very important for robust financial planning.

Improvement in quality of health and lifestyle has meant that people will live longer after retirement and paradoxically, neither their employer nor the government can offer an attractive retirement income that fulfils all their aspirations until the end of their lifespan. Moreover, governments and employers worldwide are increasingly replacing their guaranteed pensions (defined benefits) with defined contributory pensions wherein employees choose their investments and bear the burden of investment risks. As contributory pensions are primarily funded by employees and partly by employer, it is left to the individuals or employees themselves to create the financial support they would require in their old age.

> *To lead a dignified retired life, it is prudent to plan one's retirement that enables periodic income in the form of annuity or pension.*

The cultural mindset of Indians is traditionally somewhat different from that of many other nation's, notably, prevalence of joint family system, planning bequest for children and investment preferences. Moreover, mandatory government financial support at old age or income security after attainment of specified old age is much less unlike developed countries. There is a change in the air of course, with joint family systems giving over to nuclear families and preferences for stocks, bonds, and mutual funds etc. (financial assets) instead of the traditional gold, real estate etc. (physical assets) are increasing amongst Indians. It is now, all the more crucial that Indians have an extended financial plan to meet their future income needs.

To lead a dignified retired life, it is prudent to plan one's retirement that enables periodic income in the form of annuity or pension. The cost of living is rising constantly. Moreover, as people age, medical problems increase and medical inflation is much higher than overall inflation. To meet these expenses, robust retirement planning is required.

Retirement planning is an important part of financial planning as it not only ensures an additional source of income but also helps in dealing with medical emergencies, fulfill life aspirations, be financially independent and live life with dignity.

It also places less burden on the public exchequer. With countries responding to tackle ageing population crisis through adoption of private pension savings, it is often opined that funded pensions contribute to economic growth by infusing money into capital markets. This creates opportunities to release more funds for long term investment & infrastructure building.

More pension savings create deeper capital markets, which is beneficial to entities whose growth hinges on external finance. Theoretically, if individuals have more purchasing power with their investment towards the retirement corpus and pension, they can spend and fulfill their desires and needs, which will create demand and ultimately boost GDP and the overall economy.

NPS enables a person to create a pension corpus of his/her choice which will meet all financial requirements post superannuation.

Arguably, one of the noteworthy schemes available in India is National Pension System (NPS) which was introduced mandatorily for central government employees with effect from 1st Jan 2004 and can be subscribed on a voluntary basis by any Indian citizen aged between 18-65 years. The age limit for entry to the scheme is being raised to 70 years very soon. NPS is a must have retirement planning scheme in the portfolio of a person which can also be subscribed along with other pension schemes like Superannuation Fund/Provident Fund. NPS is comparatively the most cost-effective pension scheme with attractive rate of returns, exclusive tax breaks and lots of flexibility. Thus, it enables a person to create a pension corpus of his/her choice which will meet all financial requirements post superannuation.

At a time of crisis unfolding due to COVID-19 pandemic, which is likely to put considerable economic and financial pressures on individuals and test their ability to preserve their financial well-being, it's an utmost need for us to increase financial literacy which will lead to financial resilience and enable our citizens to deal effectively with their financial requirements.

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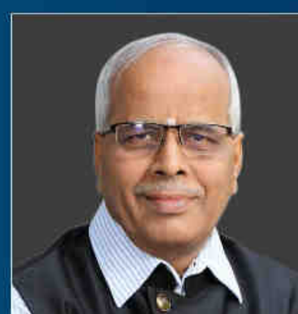

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Are you a practicing CFP^{CM} professional developing financial plans for clients in the preceding 5 years?

We would be glad to welcome you to join the FPSB® Mentorship Program. Please email fpsb.india@fpsb.org with subject line "Mentorship Program Volunteer".

FPSB credits CPD points toward this *pro bono* activity.

About the Journal

The purpose of the *Journal of Financial Planning in India* is to expand the knowledge base of CERTIFIED FINANCIAL PLANNER^{CM} professionals and those interested in the profession.

Future contributions will span a variety of areas including industry interviews, viewpoint columns, insightful articles and peer-reviewed technical papers. We wish to provide content that is interesting, original and, most importantly, beneficial to CFP^{CM} professionals and their work on behalf of their clients.

Journal of Financial Planning in India is published by Financial Planning Standards Board Ltd. (FPSB Ltd.)

Call for Articles

Writing Guidelines for Contributions

Articles:

We welcome previously written work and ideas that pertain to one of the areas of financial planning: tax planning, debt management, cash flow management, ethics and legal and regulatory environment, education planning, retirement planning, investment planning, insurance planning, and estate planning.

The articles should be of about 1500-3000 words in length with the goal of having an article between 6-8 pages long within the Journal, including all photos and graphics. Articles must be written in English and be relevant to Indian CFP[CM] professionals and/or the global CFP community.

Audience:

You are writing for people like you – other CFP[CM] professionals! Please provide timely and accurate information that has practical implications.

Style:

The Journal of Financial Planning in India is focused on providing and promoting easy-to-comprehend, professional written work. A contributor's thoughts, comments, ideas, and graphics should be easy to understand and structured for flow.

Elements to be included for submission:

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Send to: IndiaCFPCertification@fpsb.org
Format: When submitting an article, please include: author name(s), mailing address, email address, phone number, author picture, brief biographies of the author(s), and an executive summary.
Executive Summary: The executive summary is not a sales pitch for the article, but instead, a summary telling the reader what to expect, the purpose, the topic, the why, and the important practitioner implications. Executive summaries should be no more than 250 words.
Graphics: No more than 5 photos and graphics per article.
Endnotes/References: Please be sure to use APA formatting for references and endnotes.

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Our Work With Clients

- 8 Steps to Improved client retention
- How to Build Financial Resiliency as a Single Parent
- Scenario analysis takes your financial plan closer to reality
- Importance of defining and prioritizing life goals

8 Steps to Improved client retention

by **Ross Bernstein**

COURTESY: **The Financial Planner Digimag Issue 46 (4 of 2017).** South Africa

Thanks to a diverse two-day-long programme, the 2017 FPI Professionals Convention has been deemed a huge success. The informative programme included CFP® professionals, economic commentators, insurance and investment experts, political analysts and world-class motivational speakers.

Amongst the many outstanding presenters, **Ross Bernstein,** the renowned motivational speaker & best-selling sports author, proved to be an instant hit with the assembled financial planners, as he enthused about building stronger client relationships and growing advice practices' books of business.

He shared the following eight tips for building strong relationships**:**

#1 Make sure your customers know your story

"Story telling is the key to success in the modern business world - you have to have a story so that clients and potential clients know who you are," said Bernstein. He warned advisors to follow their dreams or risk spending the rest of their lives working for someone who did.

Financial planners must share their stories on their digital platforms. Client video testimonials are incredible tools to build the brand and establish relationships.

"Life is not about what happens, but how you choose to react - it is about overcoming diversity and doing things differently," he shared. South Africa's champion swimmer, Natalie du Toil is a great example of someone with a story to tell. She explains her many achievements through a quote from poet Benjamin Mays: "It must be borne in mind that the tragedy of life doesn't lie in not reaching your goal - the tragedy lies in having no goal to reach." Financial planners must share their stories on their digital platforms to encourage clients to do business with them because of the amazing connections that can develop as a result.

#2 Think charitably

Bernstein encouraged financial planners to be passionate about charitable work and make sure that they identified personally with these charities. He singled out South African golfing legends Gary Player and Ernie Els as examples, for their donations to cancer charities and autism research respectively. "Charity is a way to build relationships - it is a kind of universal language - but be sure to go beyond merely donating money and offer your time," he said. Consumers don't want to be sold; but they love to buy from someone who shares their values.

#3 Find your currency

Every financial planner has a personal currency - something that he or she can offer to clients or potential clients. Bernstein's currency is the 50-odd sports books he has penned over time and he loves giving them away whenever possible. "My books are loss leaders now; but they serve as an avenue to sell speeches," he revealed. What can financial planners 'give' as their currency? The list is endless for those prepared to think outside the box, for example giving of your time, mentoring a youngster who shows great potential, writing a book or giving someone a referral. In each of these cases your return is the positive karma that goes with selfless sharing, with no expectation of monetary reward.

#4 Invest in your brand

Financial planners are involved in 'showbiz, not tell biz'. Bernstein suggests rethinking every client touchpoint within the financial planning practice, from the person answering the phone to the client-facing wealth planners. Close attention should be given to the practices' digital assets such as its website. Differentiation is key: "We all say the same things - we offer great customer services, our business is built on values, we are trusted advisors etc. - imagine how much better it would be if you could offer proof of what makes you stand out in the crowd," he observed. Client video testimonials are incredible tools to build the brand and establish relationships. Always remember that your practice is not about you, but about helping your clients - so ask them questions about how you can make their experience better - and share their compliments when you live up to their expectations.

#5 Take calculated risks

"You must take risks to grow your business", said Bernstein, before adding that failure was an inevitable consequence of frequent risk taking. "Go and read the bios of every Fortune 500 CEO and you will find stories of failure, failure and more failure, followed by success - it turns out you fail your way to the top," he said. Financial planners can ensure success by staying focused and avoiding making the same mistakes twice. A calculated risk can be painful; but the reward is amazing when it comes off.

#6 Play by the rules

FPI includes ethics in its continuous professional development programme, and for good reason - there is a fine line between cheating and gamesmanship in both sport and business and it is important that financial planners never cross that line. "Integrity is doing the right thing even when no one is looking, so follow your moral compass and do the right thing," he noted.

#7 Be willing to adapt and change

Financial planners have experienced more than their fair share of disruption. In recent years they've had to adopt to major regulatory changes while being bombarded by all manner of technology-backed innovation. The latest ' threat' is from robo-advisors, and the explosion of companies in the Fintech and Insuretech space. "You will always encounter circumstances that are beyond your control," Bernstein warned. "And the internet makes it really easy for people to take your stuff [or steal your ideas]". The best way to deal with change is to place your clients at the centre of everything that you do, treat them fairly and with respect and the rest will take care of itself.

#8 Think about your legacy

Bernstein invited delegates to think about their legacy, or as poet Linda Ellis calls it, your 'dash', the short line that appears between your birthdate and your date of death. "Did you matter, did you make a difference, are you making a difference for your customers and your teammates and your clients," asked Bernstein. "Are you going to live a purposeful life or just push a rock up a hill?"

There you have it, eight tips to boost retention and onboard more clients. We leave you with some of Bernstein's closing thoughts: "Work hard, play hard and be present - it doesn't matter how much money you make if you are not giving back, doing the right thing and conducting your business with commitment, passion and fun. Being a champion is a choice and you get to decide whether your attitude is going to be positive, nourishing, amazing and smiling or negative and toxic. Winning for the sake of winning is fleeting, hollow and not sustainable - and remember, individuals win games; but it takes a team to win a championship".

How to Build Financial Resiliency as a Single Parent

by Joanna Leng, CFP, AEPP

Being resilient for your children is not about giving them the best you can. It is also giving them the best version of yourself.

Financial resiliency starts with having a strong mindset and healthy habits. Only with one can you make better decisions. Think of the times when your thoughts run wild and not being able to function at work. So, let us start with the mind.

1 Have a support group. When I was going through my divorce a decade ago, I had never thought about a support group. In fact, support groups can be your mental pillar when you need someone that understands you the most. It is often free, and you can get friendly advice from the group, like Facebook and online forums. Also, never put yourself in an uncomfortable spot of feeling the need to help anyone. Practice moderation, for any online friendship that you make.

2 Focus on your health, yes, you are the most important person in your family now. Think of it. Can you still work and provide for your family if one of your children is unwell and cannot go to school? Can your child continue his/her childhood if you cannot work and have no income for the family? Can you see now which one is more crucial?

3 What I found helped me during those times as a single parent with little friends I have got is by reading. I will save up money to buy parenting books and self-

help books. Focusing on my personal development more than any point in my life.

I learn to understand why people react the way they did and how to build mental and emotional resilience.

4 Accept imperfection, and never be critical of yourself. Do not compare yourself with the surrounding people. Focus on making progress. There is no positive progress because no one can determine if progress is positive or negative till the end of the day. There will be times we need to go through a few series of downturns, before things can get better.

5 Have a hobby or exercise. I found having a hobby on my own helps keep my mind clear of worries. It distracts me for the moment, and then I come back feeling refreshed and recharged. I brainstormed for 6 months before picking a hobby and sticking to it. It needs to be something you know you can continue progressing on it. Exercising came later, and like I said, it is a progress, never aim for perfection.

I have touched on the personal well-being, now to the financial part.

1 Always understand the difference between a good debt and a bad debt. A good debt is something that helps level up your life. Example, a study loan, to upgrade your skill sets for better employment. A bad debt is for example buying a material item that you do not need, a simple tote bag vs a branded bag.

2 Understand interest rates. We often take interest rates for granted. The simple understanding of an interest rate of 3% of 10,000 is $300. Yet, when you take a loan from a bank or anywhere else, what you pay for might be higher. We call this compounding interest. It means the end of day amount that you pay for will work out greater than the 3% you thought of.

3 Renew your mortgage interest rates. If you have your own place with a mortgage loan, never underestimate the interest rate you are paying. A bank will offer you an attractive rate for the first 2-3 years. After, it goes back to what they call a “default” rate, which can end up being 2-3 times higher than your initial offer. Thus, always take note of the expiry date of your mortgage loan. It will surprise you can save a few of hundreds each month on the interest. Also, to note that, when you do your refinancing of your mortgage, never increase your tenor. If you have a loan of 30 years and you have paid for 3 years, stick to the balance of

27 years, and not 30 years all over again. If you keep resetting your loan tenor, you are delaying pay off your mortgage. All you have done is letting the bank earn the additional years of interest.

4 Plan. When you have a stable income, start planning, by setting aside money for future expenses. These can be things like utility, mobile phone bills, your cable television. Once yearly expenses like school textbooks and uniforms are saved in a separate account every month. That way, you keep your expenses consistent.

5 Create a detailed weekly expenditure list, and below it, a weekly probable expenses list. Doing it on a weekly basis helps in:

A. Getting you organized for the week.

B. Detailed planning on a weekly basis is much more achievable than doing it monthly.

As you start your week, put in all those you have spent, and you know you must pay. Then as the week goes, move up the probable expenses up the list as you spend them. This gives you a good idea if you could be overspending.

You first set aside what is the weekly budget you can spend on. My first and last week are always the highest as bills like utility etc comes in. The middle 2 weeks have the lowest budget, making sure that all 4 weeks do not go beyond what you can afford to spend. As you start your week, put in all those you have spent, and you know you must pay. Then as the week goes, move up the probable expenses up the list as you spend them. This gives you a good idea if you could be overspending. The best thing that came out of this exercise for me is, I tend to think again on spending. 90% of the time, I do not need it, and for those 10% of the time when I do, I can often find a cheaper alternative or free alternative.

6 Get over the embarrassment. It is okay to look for second-hand items. Often, I have things that I own but do not want, yet; I am not willing to throw it away as it is such a waste. Often. If a friend wants it, I am more than happy to pass it on. My friend is doing me a favour by helping me get rid of it, and I am helping her to save money for something that she needs. It is a win-win for both parties.

Facebook groups and Carousell are good places to look. I own a few pet rabbits and we have a community where we sometimes let go items that do not suit us, or we do trades.

7 Have a financial plan in place. It is never possible to get everything you want if money was not an issue, but you need to have a plan to work towards. Not being able to afford any form of insurance is a kind of excuse. If you cannot afford the consistent premium, can you then handle the major bill that lands on your lap? Think about it now. As we go through the period of covid19, many people would have a reduction in income or even a total loss of income. Insurance cannot help to cover everything, but these are lessons we can learn. If today you have a pay reduction, will you make things work or would you sit and wait and say you will come back to work only when someone pays you the full salary you have before the lockdown? The answer is obvious, and it will only work for people who are sensible. Manage your finances on a reduced income basis, for example, you earn 3000, but you make it work with 2500. The 500 is being set aside for rainy days and insurance. That way, you can cover yourself and your children with a hospital plan, a term insurance like accident or death. It is a good start. Then when your income increases, you can look into saving for your children's tertiary education and your own retirement.

8 Have an accountability partner. Yes, it is difficult to do things alone, and you already know it. So, find someone that has done any of the above before and seek some advice. They never taught us in school on how to be financially independent, yet it is something we have to deal with daily. As a child with allowances and an adult with salary and bills. Not being able to manage finances is also one of the primary reasons marriages fail.

9 Communicate. Communicate with them on certain financial decisions you are making and get them to take part and listen to their view. It may surprise your young primary school children can be very understanding. I used to paste our utility bills on the fridge and my children will look at them and when we did better, they would cheer, and we would give ourselves a treat.

Scenario analysis takes your financial plan closer to reality

By Arti Arora, CFP[CM]

Life is dynamic and so are our finances and our financial lives and journeys that we embark on. Situations are bound to arise due to this dynamicity which calls for having alternatives in place.

Financial Planning (FP) process through its inbuilt scenario analysis does just that for the financial situations that may arise in your lives. Since the whole FP Process involves assumptions, forecasts and projections, it becomes pertinent to practically see through the analysis and develop solutions around the varying situations that may arise.

Given a particular expense pattern that you may be following in your work life, the amount of expenses post retirement can be easily deduced provided this exercise of current expense distribution has been done diligently and broken down to minutest details.

The expenses post retirement will in no way fall short of current expenses as most of us believe they will and in fact will either remain steady (increasing at the rate of inflation) or will rise marginally and this is how it should be. The aim is to make the retirement years the golden years of one's life and one must plan well towards it.

Let us hereby illustrate a retirement case study and how planning towards one's retirement changes in different probabilistic scenarios.

Mr. Dev Sharma, 45 & Mrs. Dhrati Sharma, 43 came forth with specific financial goals that they were seeking advice about. The couple also have a daughter, Ananya who is 3 and has been the centre of their lives since she is born. The two have started various investment plans to be able to fund her education, marriage and even create a nest egg for her so that she doesn't have to worry about anything.

Now, they were interested in planning their own retirement as they did not want to depend on Ananya for anything. The two were worried about the state of their finances and if they would be able to provide for their retirement years comfortably. Despite about a year's gap, the couple wanted to retire at the same time when Dev turned 55 and wanted their retirement planning done keeping this is mind. Their asset liability statement was as follows:

Investments	Current Valuation (in Rs.)
Dev's Cash in Hand	38,50,000
Dhrati's Fixed Deposit	26,00,000
Dev's Fixed Deposit	2,00,000
Ananya's Sukanya Samridhi	3,00,000
Dhrati's Public Provident Fund	3,00,000
Tax Saving Bonds	20,000
Dhrati's Mutual Fund Savings/SIP	3,51,000
Dhrati's Employee Provident Scheme	5,00,000
Dev's Other Govt. Schemes (National Pension Scheme)	1,00,000
Dev's Employee Provident Scheme	35,00,000
Dev's Public Provident Fund	7,20,000
Dev's Other (Shares)	3,00,000
Dev's Commercial Property	60,00,000
Ananya's Life Insurance/ULIP (LIC Endowment Plan)	24,000
Dhrati's Other Govt. Schemes (National Pension Scheme)	1,00,000
Total Investments:	1,88,79,000
Other Assets	Current Valuation
Residential House	94,00,000
Dev's Car / Two Wheeler	5,55,000
Dhrati's Other (Jewelry)	6,00,000
Total Other Assets:	1,05,55,000
Total Assets:	**2,94,34,000**
Liabilities	**Current Valuation**
Home Loan	72,00,000
Total Liabilities:	**72,00,000**
Net Worth:	**2,22,34,000**

Family's cash flow situation that they shared with us looked something like

this –

Dev's Net Salary Income	30,00,000
Dhrati's Net Salary Income	12,00,000
Dev's Bonus	5,00,000
Dhrati's Bonus	1,50,000
Total Income	**48,50,000**

Household Expenses	21,35,000
Discretionary Expenses	3,45,000
Committed Savings	4,00,000
Total Expenses	**28,80,000**

Discretionary Cash Flow Available	**19,70,000**

Analyzing their net worth and cash flow situation and also assessing their risk profile which was moderately aggressive, we asked them about how they picture their retirement to be like and when do they intend to retire. Dev did not want to work beyond 55 but if need be, was ok to stretch till 58. Dhrati wanted to retire exactly the same time as Dev so that they can cover up on the time they had missed spending with each other.

They wanted to be conservative on their expenses post retirement in the sense they wanted to plan for retirement expenses at a value of 20% less than the current expenses in today's value. These expenses that they shared with us had to be inflated too to arrive at expenses post retirement.

We advised them to be realistic as the expense heads might change but the expenses do not really reduce post retirement and so it made sense to plan keeping the total current expenses in mind to be more realistic and fair.

Basis this premise, we planned for his retirement with annual expenses of Rs. 25 lakh. His spouse, Dhrati was 2 years younger to him and so we planned for 27 years in retirement taking life expectancy of 80 years for both.

The first step in preparing their retirement plan was the understanding of their risk profile. As we took them through the risk analysis questionnaire, we realized that while Dev was moderately aggressive, Dhrati fell in the balanced category. Since there has to be consonance in the family risk profile for plan preparation, we assumed a balanced investment category for them as a unit with greater part of satellite portfolio allocated to Dev which could be parked in higher growth avenues.

The net portfolio return assumed for their retirement plan was 8% with an allocation of 55% debt and 45% equity. Basis this expected portfolio return, time horizon of 27 years, inflation of 5% and annual expenses of Rs. 25 lakh (in present value) and Rs. 40.72 lakh (in future value), the corpus required as on Dev's retirement came to around Rs. 7.80 crore.

Apart from this, they had another Rs. 35 lakh invested across a mix of stocks & mutual funds. They had been investing in these to build up a parallel retirement corpus.

The next logical step was to assess the gap in what was required and what was funded from the existing investment portfolio that Dev & Dhrati held.

The assets allocated specifically to retirement included Dev & Dhrati's current EPF balances as well as the ongoing contributions till they retire. Apart from this, they also allocated their PPF (along with ongoing contribution of Rs. 50,000 each for both of them) and Dev's & Dhrati's National pension account (NPS) along with Rs. 50,000 annual contribution to NPS for their retirement funding goal.

So, when we calculate all these investments separately, following are the end values they grow to –

Committed investments	Value as on retirement
Dev's EPF	1,24,32,524
Dev's NPS	13,04,526
Dev's PPF	22,57,925
Dhrati's EPF	19,64,223
Dhrati's NPS	13,04,526
Dhrati's PPF	14,18,338
Sum Total	**2,06,82,062**

All of the above investments when summed up came to an amount of Rs. 2.068 crores. During the tenure of their investments, we assumed an average interest on EPF to be 7% (which is 8.5% currently but over the next 10 years, it is expected to average out to 7%), NPS returns at 10% and PPF returns at 6.5% (currently at 7.1% but again expected to revised downwards over time).

We also grew their stock & fund portfolio mapped to retirement by an annualized 12% and so the expected portfolio value came to Rs. 1.087 crores by the time they would retire. It is pertinent to mention that reviewing this market linked part of retirement savings gains more prominence. We advised a quarterly portfolio review and an annual rebalancing if required to stay on track towards their retirement funding.

The gap in corpus required against amount funded thus came to around Rs. 4.645 crores and so of course, Dev & Dhrati's anxiousness was not baseless as to accumulate this amount, they had to save at least Rs. 1.90 lakh per month towards accumulating the required corpus.

While this amount could still be adjusted in their existing cash flow by managing their expenses a bit, they did not want to compromise on their goals for Ananya for which they had earmarked Rs. 60,000 per month across suitable investment avenues to be able to fund these goals adequately.

This left them with about Rs. 1.04 lakh per month as against the required amount of Rs. 1.90 lakh. This when we assumed an expected portfolio return of 15% per annum and so managing portfolio actively gained further prominence.

Taking in consonance their whole situation, the final financial plan advice that we rendered them was as follows:

a. If Dev & Dhrati could move their retirement forward by 3 more years that would give them scope to bridge the shortfall

By postponing their retirement by 3 years, the corpus they would need at retirement would be Rs. 8.34 crores. All their retirement savings including their EPF, PPF, NPS and mutual fund portfolio is expected to grow and become Rs. 4.33 crores leaving a shortfall of Rs. 4.01 crores. Assuming an annualized return of 15% on their investment portfolio that they build on from here, they would need to save Rs. 97,000 per month towards funding their retirement goal. This recommended amount is well within their discretionary cash flow range which makes the retirement planning goal achievable. While the above expected return may seem aggressive, even at an expected return of 12% per annum, their retirement planning goal is still within reach.

b. About a 15% expense reduction from the current level would leave them with a larger disposable surplus that could be duly employed towards creating the needed retirement corpus

By reducing their expenses by 15% and simultaneously increasing their savings and investment by the same percentage year on year, Dev & Dhrati can achieve their retirement planning goal efficiently. The recommended asset allocation for their retirement planning is aggressive in tune with their risk profile but even with rebalancing investments to safer and stable havens, they will be able to accumulate the required corpus to be able to live off their retirement years with ease.

Dev's Age	Savings increasing@12%	Ending value
45	12,50,000	38,82,310
46	14,00,000	38,82,310
47	15,68,000	38,82,310
48	17,56,160	34,22,259
49	19,66,899	34,84,482
50	22,02,927	35,47,836
51	24,67,278	36,12,342
52	27,63,352	36,78,021
53	30,94,954	35,43,413
54	34,66,348	37,08,993
55	38,82,310	38,82,310

The sum of all ending values in the table above is Rs. 4.05 crores which is the required corpus for their retirement. If you study the chart closely, we have switched their investments to a more debt oriented portfolio earning a return of 7% per annum from the time Dev turns 53. This part of portfolio rebalancing attains higher importance as the family goals draw nearer.

c. Stepping up their annual savings by about 14% every year for next 3 years, by 10% for next 5 years and by 8% for the last 2 years could help them bridge the gap conveniently and they could both retire at their desired age.

Dev's Age	Savings increasing@14% for first 3 years,10% for next 5 years & 8% for last 2 years respectively	Ending value
45	12,50,000	38,82,310
46	14,25,000	39,51,637
47	16,24,500	40,22,202
48	18,51,930	36,08,888
49	20,37,123	36,08,888
50	22,40,835	36,08,888
51	24,64,919	36,08,888
52	27,11,411	36,08,888
53	29,82,552	34,14,724
54	32,21,156	34,46,637
55	34,78,848	34,78,848

The sum of all ending values here is Rs. 4.02 crores which equals the corpus required on retirement.

As can be seen above, every financial plan is based on some assumptions and even when these are profound, reviewing the plan annually plays a very crucial role in you inching fast towards your goal achievement and makes the whole planning exercise more realistic and hence fruitful.

> *It is important to take in consideration the different scenarios that a plan offers to be able to stick to the one that the client can most relate to.*

Scenario analysis is a highly important aspect of the financial planning exercise and, as can be seen above, is also greatly solution oriented. It is important that you take in consideration the different scenarios that your plan offers you to be able to stick to the one that you can most relate to. With all its dynamics, it is only the comprehensive financial planning that can get you to the solution you are looking for and solve the financial jigsaw for you in the most efficient manner.

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Importance of defining and prioritizing life goals

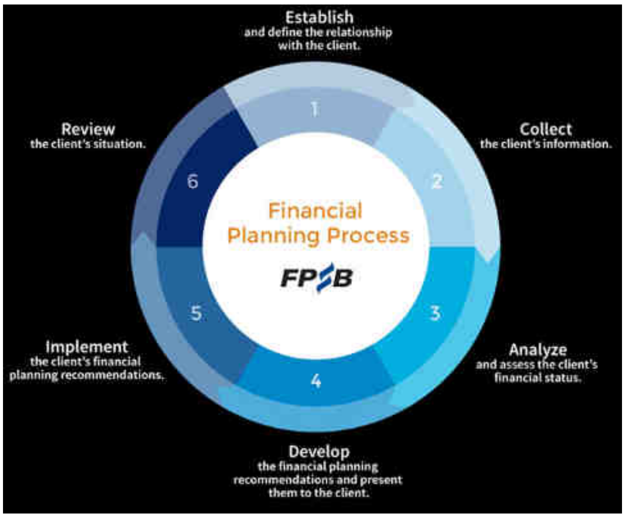
By Viresh Patel, CFP^{CM}

During my interactions with Ashish, a Business Loan Consultant for 15 years, and Shilpi, working for a bank for the last 12 years, they observed - “When I got married, me and my life partner sat together to plan our finances for future needs. We started with entering financial data about income, expenses, insurance premiums, EMIs and investments in an excel sheet. This was easy part, and we thought, we are experts in financial planning, but when it came to defining future needs together, we found that we need someone who can help us do that, as even after searching for information we waited for 6 months but were unable to define and more importantly prioritize the same. We realized we need someone, especially when we started having difference of opinion in the process of discussions in defining and prioritizing”.

When I started my CFP study back in 2011-2012 for the first time, I used to wonder about the data and details given in case study and ask myself - how are these case studies made and the data collected? In practical world, clients do not hand over their details of goals, life needs and life challenges and financial data in form of case study.

Financial planning needs great communication, listening & even silence skills.

It is only when I actually started interacting with clients in 2012-2013, that I realized that they expect the financial planner to ask questions & probe in a manner which help them define, join dots, collect & collate data & that is the time, I realized that financial planning needs great communication, listening & even silence skills which requires experience & a lot of practice.



When following step 2 of the financial planning process, i.e. collecting clients information, a whole lot of coaching and life experience with great communication skill is needed when it comes to goal defining and prioritizing

Why goal prioritising is important?

We all know that most of us - be it poor, lower middle-class, high net worth or of any age and family background, have multiple needs, while resources are always limited at that point in time.

As a student it is given to us in the case study that which one of the goals is more important and which one is the number one goal to be satisfied. But, when we as financial planners sit across with clients for collecting information, it is we who have to help them define and prioritize, as individual family members have different priorities at different point in time as per life stage and experience.

Let me share this with an example.

I was sitting across with Neha and Naman at my first data understanding & collection meeting. While about 8 goals were listed after helping them actually define Why, What, For Whom, When, How Often (frequency of occurrence) and What amount is required if they had to fulfil that goal today, there was particularly a point of time where the couple started discussing and arguing, which also put me under an awkward situation.

It was about their ‘First Car’ buying goal (down payment), where Naman shared that they need that goal to be satisfied in the year 2021 and it was a number 4 goal for him. Meanwhile, Neha said that the down payment for first car goal needs to be satisfied in year 2023, and before that they will have to be ready with ‘first year school fees’ goal which is coming in 2022 and this needs to be their number 4 goal. Naman thought that school fees would not be that big amount and regular cash flow will help them pay for the first year playschool fees.

Now, as a financial planner this was an awkward situation for me. Whether to give importance to First Year of schooling fees for Playschool or to the car's down payment and more important whether to give priority to a goal coming first or the one that is coming later and also, whom to follow, Naman or Neha.

It needed experience and good communication skill to handle the situation and right questions to plot ensuring they are clear and on same page.

It was not simple, but I asked them a question?

Which one is a responsibility goal and which one is a dream or an aspirational goal, and they both responded at the same time, "Okay, let us give higher priority to play school fees (number 4) and lower priority to car down payment (number 5), if the cash flow allocation seems a challenge".

To address cash flow challenge query at data collection I had to plot another question.

If you have cash constraint for allotment and if both these goals are falling on the same day, what is more important? And both responded to put higher priority (number 4) to play-school fees.

Financial planners have a role to play in helping the clients define goals and help them categorize into one of the three goal priority levels.

How to curate communication under similar situations?

As a Financial Planner each one of us come across such situations, and they will keep coming for lifetime, but we need to prepare *3 simple buckets* before putting numbers to each of the goals, which are:

A_ Basic

B_ Dream

C Aspiration

Basic Life Need or Goal

With existence comes duties and responsibilities. The day anyone is born there are certain inherent responsibilities and duties on the person which may differ from family to family, but for sure they are there for one to satisfy. Such life needs or goals, are BASIC GOALS. Food-Shelter-Clothing - anything and everything related to this are all basic goals and even if a person is on bed it will always bother him or her.

Dream Life Need or Goal

Vacation, car or a bigger car, second home, bigger house, foreign education, shopping for luxurious household items etc. Some of these may fall into basic for some families and some of these may fall into dream for other families, and hence it becomes very important for a financial planner to help the client's family define and prioritize the same.

Aspirational Life Need or Goal

A foreign trip every year, buying luxury cars, buying a beach facing bungalow, buying a private island, meeting idols, having private jet, having bigger and luxurious house etc. are some examples of aspirational goals. Again, for some, few of these life needs may fall into basic or dream and for others it may fall into aspirations. It depends on how the family themselves define, but a financial planner has definitely a role to play in helping the clients define it and help them categorize into one of the three goal priority levels and then help them number the goals.

It is only when the financial planner has a clear list of well-defined, well prioritized and mutually agreeable life needs by all stake holders of the family she/he can work and make a financial analysis and prepare a financial plan. In my opinion it is most important for a financial planner to help the client family not only define, but also prioritize the goals.

Let me share a couple of examples from my practice where I had to rework the plan. It made me learn and realize that it is a financial planner's job to help the clients define and prioritize their life needs.

Buying a bigger house

A client once came to my office. He wanted to upgrade his house (buy a bigger house) after 3 years. It was well-defined by this client that it is their number one goal, and I planned and started his investments for the down payment plus, some more, such that the EMIs would be comfortable. After 3 years when it came to buying, the client was ready with not only the down payment, but also with some surplus.

However, the actual house was bought for about Rs. 50 lakh more than what was planned. While the client opined that there was no fault of mine, I think I failed. When defining and prioritizing the goal of buying a bigger house was happening, the couple had been probed by me in detail. While the client decided to calculate the money only for the kitchen and expenses related to kitchen equipment in the new home, his spouse had put forth that they would also need a new wardrobe (furniture) and a bigger kitchen, to which my client did not agree. I could have probed more, but because my client had cut the conversation there, I also stopped. I think I could I saved their disturbance if I had probed better at the initial phase.

After this incidence, I never leave any discussion open and do my best to help the client's whole family open up, talk, discuss and mutually define and prioritize life goals.

Usage of redeemed amount

While recommending a client on current mutual fund schemes, I advised him to redeem a few ELSS Schemes and a few other schemes as well in his spouse's name.

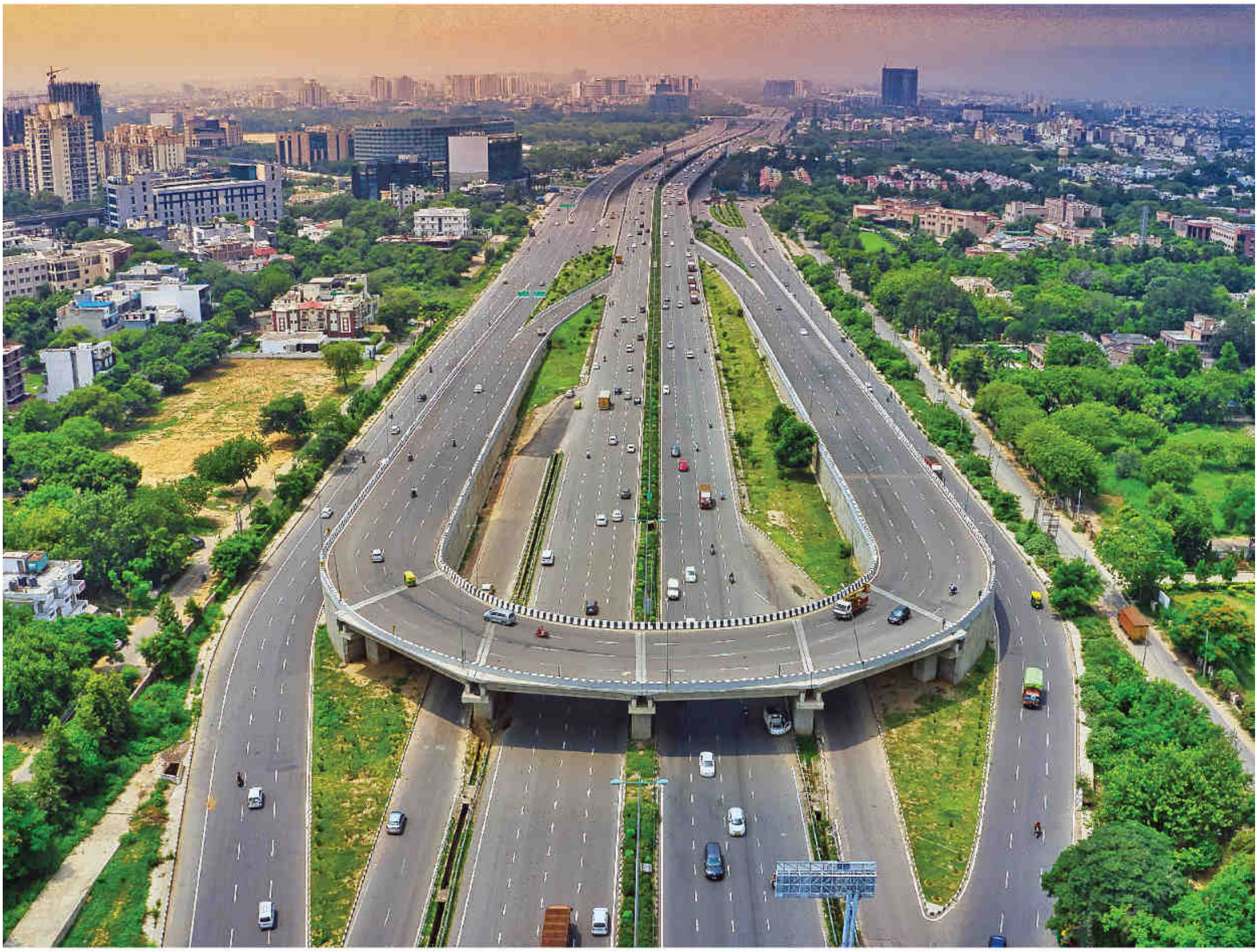
The client had just started a new business and was heavily invested in it. He required emergency fund preparation and a home upgrade.

Once the redeemed amount came to his bank account, I suggested keeping them in one of the ultra short-term funds. However, the client and his spouse differed on the usage and priority between emergency fund and buying of a home. It is the job of a financial planner to not only help define but also explain the importance of an emergency fund and that this should be the number 1 priority, which I missed while we were discussing the goal defining, goal prioritizing and even while presenting the plan. It took me a couple of meetings to come to a mutual understanding and actually act upon.

With these and similar life examples I gained maturity and experience. After years of practice I can now say that financial planners must discuss and prioritize life goals of every client into Basic, Dream and Aspirational and have them reach at a mutual consensus before proceeding further.

Viresh Patel, CFP^{CM}, *is a Fee only Practicing Financial Planner and Principal Officer, Financial North*.

Our Changing Market Place



- The Impact of the COVID-19 Pandemic on CFP Professionals
- REITs and InvITs – Will they manage to deliver?
- Passive Investing – Current Scenario

The Impact of the COVID-19 Pandemic on CFP Professionals

IFPHK
香港財務策劃師學會

"The COVID-19 pandemic has caused unprecedented disruptions to the world this year. CFP professionals are adapting to the changes, and continue to pivot to see how best to serve clients. Surveys on the impact of the pandemic on CFP professionals shed light on the state of the industry, and can pave the way for advancing financial planning," says **Dennis Lau**, CEO of the IFPHK.

From the second quarter of this year, several FPSB affiliates conducted surveys to understand the impact of the COVID-19 pandemic on CFP professionals and their clients. We look at the results from these surveys, and what the FPSB and its affiliates have been doing to inform the financial planning industry about its evolution during the pandemic and beyond.

Key Survey Findings From the IFPHK, the UK and the US

Gaining new clients

In the IFPHK survey conducted in June 2020, 40% of CFP professionals said there has been an increase of enquiries from prospective clients, almost the same as the 39% who reported a decrease in such enquiries. Though nearly a quarter of them have seen an uptick in new clients since March, a more significant 47% have seen a drop.

Existing clients and their needs

In Hong Kong, the percentage of CFP professionals who have experienced an increase in enquires from existing clients since March stood at 42%, the same as those who have experienced a decrease. In the US, however, the CFP Board found that more than 78% of CFP professionals reported an increase in client enquiries in early April.

The top three client concerns are "Unemployment or reduced income", "Protecting assets" and "Liquidity". The pandemic has accelerated the take-up of digital technology.

In Hong Kong, the most common primary recommendations that CFP professionals have made for clients are "Review and update short- and long-term goals" (26%), "Rebalance portfolio" (25%) and "Sit tight. Wait to make any major financial decisions until volatility decreases" (18%).

Meanwhile, according to the CFP professionals, the top three client concerns are said to be "Unemployment or reduced income" (23%), "Protecting assets" (19%) and "Liquidity" (18%).

In the survey of CFP professionals in the UK, around 50% of respondents said their primary advice to clients has been "Sit tight. Wait to make any major financial decisions until volatility decreases."

Most CFP professionals in the US have been recommending to clients to take a long-term view, and more than 70% of them said clients were worried about managing volatility and protecting assets. This is similar to the UK, where clients have ranked their top three priorities as managing volatility, protecting assets, and saving enough for retirement.

Challenges during the pandemic

Almost one-fifth of CFP professionals in both Hong Kong and the US have reported that maintaining more frequent communications with clients and prospects is a challenge for them. This has been echoed by respondents in the UK, where roughly the same proportion said not meeting their clients in person has been a challenge. Additionally, in Hong Kong, the same fraction of respondents said that planning in anticipation of possible economic recession is another challenge.

Value of having a financial plan

About 45% of Hong Kong CFP professionals agreed that more clients will seek financial planning or professional financial advice in the wake of the pandemic, as opposed to the little over 14% who disagreed.

CFP professionals mostly agreed that clients with a financial plan are more likely to make progress toward their goals: two-thirds of Hong Kong's CFP professionals were in agreement, while an overwhelming 93% and 94% of their counterparts in the UK and the US, respectively, concurred.

Client Vulnerability

One of the things that CFP professionals all over the world have had to contend with is their clients' emotions in these trying times. In Hong Kong, more than 78% of CFP professionals rated their clients' general stress levels to be high, while this figure was 30% in the UK. In the US, a sixth of the CFP professionals surveyed said their main challenge is that clients are "leaning on [them] as a therapist first, planner second."

In Australia, almost a quarter of the 2,000 consumers surveyed said they have a high level of financial stress, while 30% said their financial position is "okay". Tellingly, 70% of consumers believed they could have done better to improve their financial position from before the pandemic.

Meanwhile, in Canada, 40% of consumers reported that the pandemic has impacted their financial stress levels, with 10% reporting a significant impact. Slightly over half of the Canadian consumers who have a financial planner said financial stress has not had an impact on them at all.

The extent and depth to which clients have been affected by stress is an issue to which CFP professionals should pay special attention, as it is highly relevant to the issue of client vulnerability – something that we looked at in the last issue of Advisors Today. In fact, this issue is well worth revisiting to ensure that we understand how our clients' best interests can be served.

Financial Planning Advocacy

The Financial Planning Association of Australia (“FPA”) has been advocating for universal access to financial advice in the new normal. Their research reveals that many consumers have acknowledged that they need to strengthen and protect their finances after the pandemic. Among this group, the top priorities include having affordable advice and support from a financial planner. The FPA wants to make financial planning advice accessible to all consumers instead of only the affluent, a view shared by leaders of consumer advocacy groups and academia.

In June, the FPA launched a campaign to amplify the critical role that financial planners play in this global health crisis. Asking key questions of consumers on how they have weathered the storm with regard to financial management and retirement, the aim of the campaign was to encourage consumers to hire CFP professionals to obtain certain advice in uncertain times.

Over in the US, the CFP Board also seeks to assuage consumer concerns by assuring them that financial planning will help them navigate current and future quagmires. Consumers are reminded that a hallmark of the financial planning profession is that it does not just focus on managing investments, but takes a broader view of CFPs managing their clients’ entire financial situation.

To help bring financial planning to a broader audience in Hong Kong, the IFPHK will explore the possibility of providing incentives to consumers, for example, by way of tax benefits.

Financial Planning and Technology

The pandemic has accelerated the take-up of digital technology. In this regard, the global FPSB community has been busy helping fellow CFP professionals adjust to the changes. On World Financial Planning Day on 7 October 2020, the FPSB hosted a session entitled “The Future of Financial Planning – Adapting to a New Normal”, with a distinguished international panel. Participants spoke about the effects of the pandemic, both as a business disruptor and a catalyst for streamlining operations, incorporating technology, and developing service offerings to meet their clients’ changing needs.

CFP professionals in Australia have recently discussed the considerations for financial planners to go virtual. Those who have done so reported they were surprised that many clients preferred meeting virtually, as it saved them time in terms of travelling. In this health-conscious era, clients were also probably happy to engage in social distancing whenever possible. Those at the webinar added that virtual meetings have the advantage of clients being able to record them for later reference. However, some did mention that certain clients might be put off by having to use new technology.

The Way Forward

There are many challenges to overcome for financial planners as well as their clients. Bleak as the future may seem, there are also plenty of opportunities for financial planners to serve their clients in the best ways possible, by adhering to the tenets of professionalism in financial planning, and making good use of technology, amongst others. Financial planners should also build stronger connections with their international colleagues to share their experience and insight, and to advance the cause of financial planning to consumers around the world.

REITs and InvITs – Will they manage to deliver?

By Vibha Jhol, CA, FPM(I)

The Economic Times Wealth digest lists the top dividend paying stocks. Its edition on 26th April 2021 listed Embassy Office Parks REITs as one of the top dividend yield stocks with a dividend yield of more than 7%. Michael Holland, the CEO of Embassy REIT says that they have distributed more than Rs. 3,400 crores as dividend since getting listed in January 2019.

As of 29th April 2021, there are three listed REITs in India - Embassy Office Parks, Mindspace Business Parks REITs, and Brookfield India Real Estate Trust. Brookfield India Real Estate Trust has strong Canadian interest and other FPI presence. The market buzz is that DLF and Godrej will announce REITs soon. According to JLL, US$ 36 billion worth of real estate could be listed in the form of REITs in India soon.

The REITs space in India has seen much action in recent times – Insurance companies can now invest in debt securities of REITs and InvITs which will give a fillip to the sector. Tax leakage was plugged in the recent budget bringing in much cheer in the sector.

REITs and InvITs are the latest asset classes which have found favour with the investors.

Earlier, SEBI in its April 2019 circular has reduced the trading lots of REITs and InvITs as follows, making it affordable for the retail investors:

	Current (Rs)	Earlier (Rs)
REITs	50,000/-	2,00,000/-
InvITs	2,00,000/-	10,00,000/-

REITs REITs and InvITs are the latest asset classes which have found favour with the investors.

According to SEBI, mutual funds have invested a staggering Rs. 3,972 crores in REITs in 2020 and Rs. 9,138 crores in InvITs in 2020. And this being a Corona pandemic year!!

So, what exactly are these REITs and InvITs? Why is there so much of interest and action around these investment avenues?

REITs are real estate investment companies or trusts which invest in real estate. Equity REITs invest in shopping malls, student hostels, homes, healthcare avenues and offices and commercial real estate. They rent out the commercial space owned by them and whatever rental income is generated is the income of the Equity REIT. This income is distributed as dividend to the REIT unitholders.

A REIT is like a mutual fund of the real estate. They mobilize the savings of the retail sector, get the money from pension funds, insurance companies, HNIs, corporate treasuries, endowments, bank trusts etc., and buy real estate (residential and commercial) from the real estate developers. These properties are then leased out/rented out and the net distributable surplus of the REIT is distributed pro rata to the REIT unitholders.

The regulations of United States require that an equity REIT distribute at least 90% of its rental income as dividends to the unitholders. Mortgage REITs on the other hand fund mortgages by buying mortgage-backed securities or by loans. They have interest income. In the USA, 90% of the REITs are Equity REITs and 10% of the REITs are Mortgage REITs. One major distinction between REITs and other real estate companies is that a REIT must acquire and develop its properties primarily to operate them as part of its own portfolio rather than to resell them once they are developed.

SEBI has mandated that a REIT invest at least 80% of its investments in rental generating projects. It has also mandated that at least 90% of the income of REITs in India needs to be distributed as dividend income amongst the REIT unitholders.

This is in line with international best practices. For investors seeking good regular income, this would be welcome news. The US experience has been that returns on Equity REIT (capital appreciation) are less than the returns on high growth stocks but more than that of corporate bonds. So, an investor who prefers regular income with capital appreciation which is more than that offered by corporate bonds could opt for this vehicle of investment.

Experience of United States

According www.reit.com, in 2019 American REITs:

Dividend Income	US$ 111.2 billion	Half of total returns from REITs is dividend income. Same figure for S&P stocks – ¼%
Current 25 year trailing total annualized return of the FTSE NAREIT All Equity REITs	10.9 %	
FTSE NAREIT All Equity REITs - Dividend yield	3.9%	S&P 500 Dividend Yield <2%
Number of investors in REITs & REIT ETFs	87 million	
New property & maintenance	US$ 65 billion (2017)	
Mortgage REITs financed	1.8 million homes (2017)	REITs own 5.2 million properties
REITs in 2017 gave	2.3 million full time jobs	US$ 140.40 billion in Labor income

The FTSE NAREIT All Equity REITs index outperformed the S&P 500 of the United States in 16 years out of the last 25 years.

A comparison of data from NAREIT and the Bureau of Labor Statistics of USA reveals that, since 1992, annual REIT dividend growth in the US has exceeded inflation as measured by the Consumer Price Index (CPI) of USA every year except 2002 and 2009. This comparison is up-to 2013. This also serves the purpose of portfolio diversification. Having only equity in the portfolio can be extremely risky and volatile.

According to the data available at www.reit.com in the period January 1978 to December 2012, in the US, equity REIT performance exceeded both the broad equity market and other forms of real estate investment by more than 1% point per year, producing an average annual return of nearly 12.9%. As such, a US $100 million investment in equity REITs at the beginning of that time would have been worth more than US $5,500 million by the end. For the period 2013 to 2018, the average return on the FTSE NAREIT All REITs was around 7.85%. A comparison of real estate returns in the US over rolling five-year periods for the period from January 1976 through January 2013 further illustrates the strength of REITs' long-term performance. Equity REITs experienced 100 five-year periods during which their average annual total returns exceeded 20%. They experienced 85 five-year periods of average annual total returns between 15 and 20%. The US experience has been that REITs have higher Sharpe ratio, in general, as compared to other asset classes. The Sharpe ratio shows how efficient portfolio returns are relative to risk assumed in the portfolio. A higher Sharpe ratio indicates a superior risk adjusted performance compared to a lower Sharpe ratio.

It is estimated that all REITs in USA approximately own US $ 3.50 trillion in gross assets. The market capitalization of FTSE NAREIT All Equity REITs Index including mortgage REITs is US $ 2.50 trillion. REITs in the United States own and operate property across twelve diverse sectors like retail, residential, infrastructure, healthcare, office, industrial, self-storage, data centers, lodging etc. The listed REITs in USA raised US $102 billion in public offerings in 2020 and this despite 2020 being a Corona pandemic year.

Benefits to the Economy

The above clearly demonstrates that a well-developed REIT sector gives a fillip to the economy creating jobs and purchasing power and positively impacting the GDP. In times like these, India could also benefit from a vibrant REITs sector. Real estate is the second largest employment generating sector in the economy when one considers the residential, retail, hospitality, and commercial real estate sub-sectors. A vibrant real estate sector positively impacts construction, steel, cement, architecture, marketing, town planning etc. creating jobs (both direct and indirect) and purchasing power. It gives a fillip to the GDP and is a booster shot for the economy. It is estimated that this will be a US$ 650 billion sector in India and have a 14% share in the country's GDP by 2040.

According to a CRISIL report, Singapore, and Japanese REITs account for nearly 50% of the market capitalization of their respective country's real estate sector. The corresponding figure for the United States is 96%

REITs and InvITs provide avenues for money to flow into real estate and infrastructure sectors thus reducing the pressure on the banking system, which is heavily burdened especially in the absence of a vibrant and robust Indian bond market. Foreign investment into Indian REITs is also a very welcome feature.

The Government has announced its ambitious Pradhan Mantri Awas Yojna (PMAY) by which it aims to provide housing for all by 2022 – the 75th year of India's independence. As of date, REITs in India have been allowed only in the commercial real estate space with the residential real estate space yet to be accessible for REITs. According to an estimate by CRISIL, India will need Rs. 50 lakh crore by 2022 for its infrastructure requirements.

These ambitious targets call out for a vibrant REITs ecosystem with funds flowing in from FPIs, DIIs, HNIs and from retail investors.

These neo-emerging asset classes, as of date, have a combined asset size of more than US$ 10 billion.

The real estate market in India is facing turbulent times with depreciation in property prices in Corona times and builders are facing the issues of rising inventory. Real estate owners are finding it difficult to sell their units at a high price. Monetization of property units is becoming a big issue for both owners and real estate developers.

In such a scenario, REITs provide a good opportunity for investors who want to utilize the benefits which the real estate has to offer and for developers to monetize their assets.

Experience of Singapore, Hong Kong & Malaysia

The performance of REITs in Singapore, Hong Kong, Malaysia, Europe, and Australia is extremely promising.

According to the data available at www.fifthperson.com wherein they have published the returns on Singapore REITs for the last ten years and analyzed returns of these REITs from IPO to 31st Jan 2019, the top three Singapore, Hong Kong and Malaysian REITs would have given the following annualized returns:

Sl. No	Malaysian REITs	Returns	Hong Kong REITs	Returns	Singapore REITs	Returns
1.	Axis REIT	11.35%	Link REIT	18.03%	Ascendas REIT	10.57%
2.	MRCB – Quill REIT	7.72%	Sunlight REIT	9.04%	Parkway Life REIT	10.03%
3.	UOA REIT	6.83%	Yuexiu REIT	7.89%	CDL Hospitality Trust	9.99%

The above returns are considering non-participation in rights' issues and excluding brokerage, currency costs and taxes for non-Singapore residents.

These are higher than the bank fixed deposit rates and higher than the rates of corporate debt. It is also a good diversification strategy.

Singapore, USA, Europe etc. not only have very vibrant REIT markets, but such REIT markets are so strongly developed that there are many REIT ETFs which are performing well.

Benefits to Investors

Today, nearly 40 countries have adopted REITs and most of them permit overseas investments into real estate. The American investment consulting firm, Wilshire Associates, constructed an optimal portfolio and considered two scenarios - one with global investments in listed REITs and one without. The asset classes considered were stocks and bonds and real estate and cash. They reported that the portfolio with globally listed REITs reported a higher return and lower risk than the portfolio without globally listed REITs.

Interest rates in the United States and Europe continue to be low. As such, high dividend paying REITs are a better alternative to corporate debt. If an FII (Foreign Institutional Investor) is investing across the globe where interest rates are higher (say India), global REITs would be a good diversification tool and an instrument to increase portfolio returns. This augurs good news for India as this entails robust foreign flows both in the debt market (as interest rates are higher in India compared to the developed world) and in the REITs sector.

Having some amount of exposure to REITs in one's portfolio is not only a good diversification strategy but also an excellent tool to beat inflation.

Indian parents traditionally advise their children to invest in Gold and Real Estate. Financial planners advise one house property for self-stay and are not in favour of multiple residential properties as rental income in India on residential property is at best 4% to 5%.

As such, REITs provide the opportunity of higher dividend income and a chance to participate in the real estate success story compared to lower rental income from residential property. Many HNIs invest in multiple properties and REITs give them an opportunity to benefit from the real estate sector without the problems of protection and security of the physical property, liquidity, maintenance costs etc.

A well-regulated REIT gives stable dividend income and an opportunity to benefit from the real estate boom. REITs are the mutual funds of the real estate sector. They are managed by professionals and regulated by SEBI, with their performance regularly reported in the media and scrutinized by analysts. They are audited by statutory auditors. Investors can compare different investment avenues and there is a lot of transparency. This gives REITs far greater credibility than the unregulated chit funds and ponzi schemes.

InvITs

InvITs are funds which invest in the infrastructure sector (roads, ports, highways, bridges and flyovers, power plants, gas pipelines etc.,). SEBI has mandated that 80% of their assets should be in the completed income generating projects and no more than 20% of the assets should be in developing and under construction projects. SEBI has also mandated that 90% of their cash earnings should be distributed as dividends twice a year. Since this is the infrastructure space with very long-term horizon, institutional investors and HNIs, are the ideal investors. For the retail investor this is an evolving space, and more clarity is required. Those having a long-term view only should be investing in these.

Conclusion

REITs are here to stay. However, experts hold divergent views about the future of commercial office space in the light of the new normal of Work from Home. Experts differ about the percentage of work force that will return full time to the office space. Nevertheless, it appears that the REITs will be in a sweet spot in the foreseeable future!

The author is a visiting faculty at NMIMS and the CA Institute.

FPSB
FINANCIAL PLANNING STANDARDS BOARD

Passive investing – current scenario

By Deepak Pande, CFP^{CM}

In the developed countries, Mutual Fund (MF) Assets under Management (AUM) has raced past bank deposits. The scenario in India is quite different where MF AUM is slightly above one-fifth of the bank deposits. Investing could be in the form of **Active** investment where a Fund Manager actively manages the portfolio of a MF Scheme or Portfolio Management Scheme (PMS). Other form of investments is **Passive** investment where services of Fund Manager are required just for re-balancing the portfolio in the same composition as that of a market index, which is dynamic in nature.

Though **passive investing v**iz. index funds, ETFs, FoFs, etc. in India constitutes just around 9% amounting to Rs 2.72 lakh crore of the average MF AUM of Rs 32.17 lakh crore as on 31st March 2021, yet it has witnessed annualised growth of 142% in last 2 years.

US SCENARIO

Passive investing is made up of funds tracking market indices where human intervention is hardly required. In the United States, it has now reached nearly half-way mark of the stock market capitalisation as more & more investors shun stock-pickers and move towards index funds. Market share for passively managed equity and debt funds has risen to almost 50%, up 400 basis points from June 2018, according to data released by Bank of America Merrill Lynch. That follows a trend over the past decade in which investors have taken keen interest in indexing, particularly through exchange-traded funds (ETFs).

About 10 years back, active investment had a nearly 3 to 1 ratio over passive investment in U.S. equity funds, according to Morningstar. That gap began to dwindle significantly in 2012 and has come down sharply when one looks at present position.

Dr Micheal Burry, the man who predicted/anticipated global financial crisis says, the next stock market crisis is likely to be due to passive investment vehicles like Index ETFs. The liquidity is propping up all stocks irrespective of their fundamentals and earnings growth. He has compared growing stock and bond prices did with collateralised debt obligations did for subprime mortgages more than 12 years ago. Like most bubbles, the longer it goes on, the worse the crash will be. In nutshell, incessant funds inflow in passive funds have swelled the index so much that they are far ahead of their fundamentals in years.

In India, passive funds just mimic the portfolio allocation of the benchmark index, and Fund manager must keep rebalancing the portfolio.

STATUS IN INDIA

In India, passive funds just mimic the portfolio allocation of the benchmark index, and Fund manager must keep rebalancing the portfolio, so as to keep it aligned to the benchmark index. Since there are no skills required in managing such passive funds, no stock-investment calls are required to be taken, thereby reducing the cost for investors that, in turn, enhances the return for the investors.

In a market scenario, where majority of actively managed funds are finding it difficult to beat their respective benchmarks (barring last 5 months when incessant FPI funds inflows have changed the active investment scenario), investors are flocking to the passively managed funds and we see Fund Houses launching more of passively managed funds. This shift of investors could be attributed to SEBI re-classification of large cap, midcap and small cap categories, linking Total Expense Ratio (TER) to the corpus of the MF scheme, Indian equity markets maturing and enhanced coverage of equities.

EXCHANGE TRADED FUNDS

Other than passively managed Index funds, Exchange Traded Funds (ETFs) are also passively managed funds with low expense ratios. Since ETFs are traded on the Stock Exchanges, the unit price keeps changing like an equity share throughout the trading session, albeit, with a lower volatility.

NAVs of the index funds change only at the end of the day. The only distinction is mandatory requirement of demat account for ETF unlike index fund where it is optional. ETFs could have a problem of liquidity, as trading depends on the demand and supply whereas MF units could be bought back by the Fund Houses when redeemed, thereby posing no problem as far as liquidity is concerned.

GoI INITIATIVES

Government of India (GoI) commenced encouraging investments in ETFs by launching first equity CPSE ETF in March 2014 whereby units were offered at a discount to retail investors. The CPSE ETFs FFO series 1 to series 6 evoked good responses from investors as subscription always exceeded the issue size. Subsequently, GoI launched first debt Bharat ETF in December 2019 followed by second tranche in July 2020. The Bharat Bond ETF does not carry much credit risk as it invests only in AAA-rated state-owned corporations.

When investing in ETFs through a Systematic Investment Plan (SIP), one must pre-determine number of units, not amount, as units have to be purchased in round figure like equity shares. This facility of systematic investment in ETFs is available on select online trading platforms. Investing in passive funds makes sense in today’s scenario when majority of actively managed funds are not beating benchmark indices, therefore dis-incentivising payment of a higher fee for an actively managed fund. Hence, there is a need to increase the weight of passive funds in one’s portfolio in Indian markets.

GLOBAL SCENARIO

The inclination towards passive investing through index funds and exchange-traded funds (ETFs) has witnessed substantial growth over the years, substituting higher cost active investment trend. A migration towards passive investment could affect securities market in two major ways.

First, passive investing could establish higher correlation with returns and lesser stock-specific price information. Secondly, it could impact total investment inflows and alter market price dynamics. Since actively managed funds are finding it increasingly difficult to beat benchmark indices, there has been consistent outflows in the recent past, whereas passive funds’ corpus has remained stable.

Across globe, passive funds have increased their allocation to US equities, Japanese Government Pension fund's enhanced allocation towards equities, aptly supported by the Central bank's ETF purchases. Similar trend has been witnessed in the rising proportion of passive funds in European as well as emerging markets.

The investors' choice of investment vehicle depends not only on the track record of the fund manager but also on their own investment style preferences coupled with risk appetite. In principle, investors could earn better returns by identifying the active funds which are outperforming indices**.**

ACTIVE vs PASSIVE INVESTING

Proponents of active investing term passive investing as limited, with hardly any flexibility, which keeps the investors to latch on to those holdings irrespective of what is happening to the financial markets.

The recent shift of low-cost passive funds has been supported by artificial intelligence in the financial advisory industry.

By definition, passive funds would never beat the benchmark, even during tumultuous times when their core holdings are locked in to track the benchmark index. Active funds could get you higher rewards but those come with higher risk.

The recent shift of low-cost passive funds has been supported by artificial intelligence in the financial advisory industry. These include, emergence of robo advisors, fiduciary duty requirements, and moving away from upfront incentives. Regulators have focused on bringing transparency for the investors irrespective of active or passive form of investing.

CONCLUSION

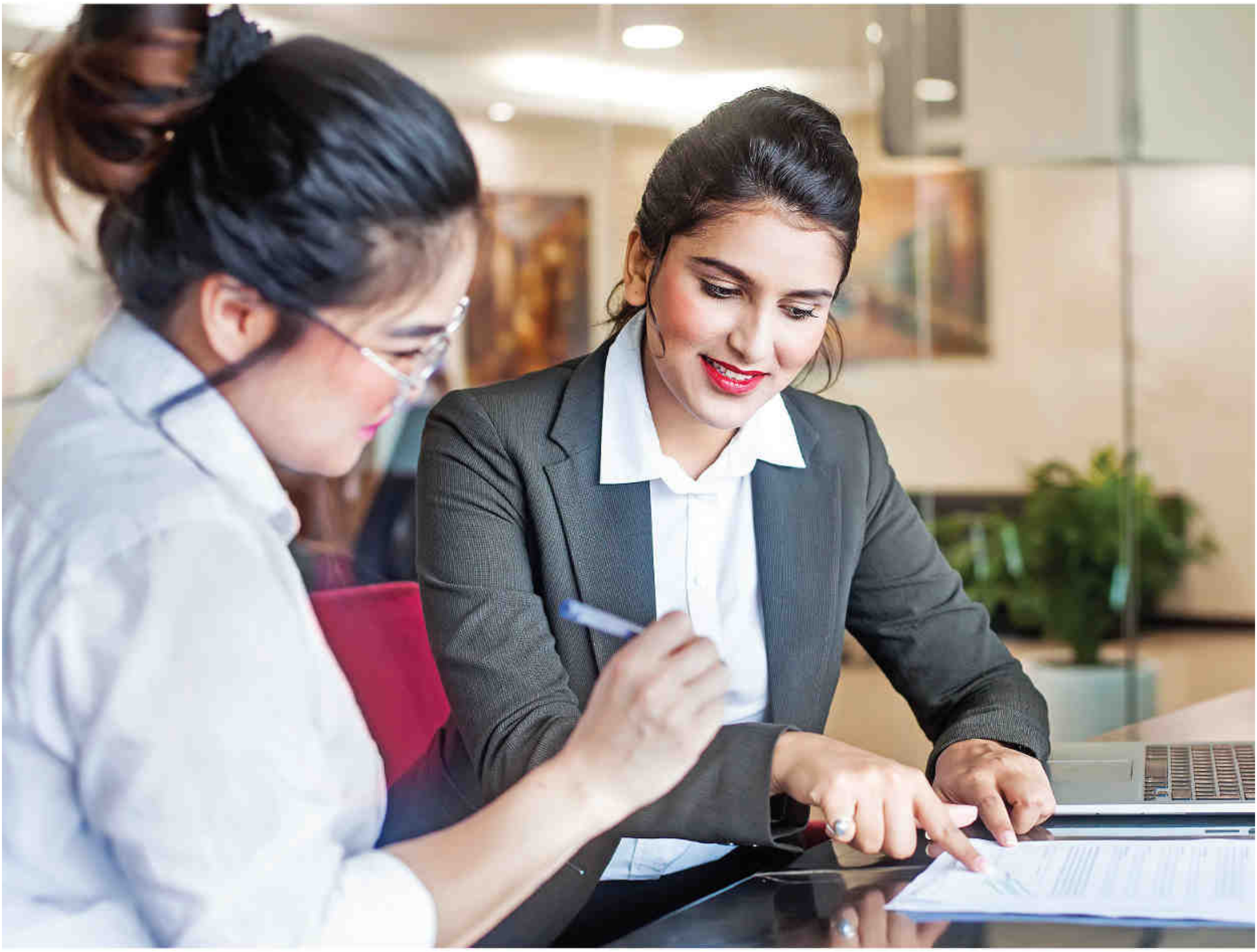
There has been a rapid growth trend, albeit on lower AUM base, over the past decade of ‘Passive Investing’ in India. The primary factor attributed to more than quadruple rise in passive investing is the inability of active Fund Managers to beat bench-mark indices in the last couple of years.

November 2020 onwards, we have witnessed massive inflow of FPI funds in equity markets where we noticed some of the MF schemes managing to beat benchmark indices, however, majority of MF schemes lagged the bench-mark indices. Government of India has aided in promotion of CPSE equity and Bharat bond ETFs by offering NAV discount to the retail category of investors (Maximum of Rs 2 lakh investment). Besides Index funds, those are managed passively having low expense ratio, Exchange Traded Funds (ETFs) also fall under the same category with a lower expense ratio. MF scheme NAVs are not dynamic in nature. This is because investments can be done only at the day-end NAV. However, ETFs are traded on the Stock Exchanges, and the ETF unit price keeps changing like an equity share throughout the trading session, albeit, with a lower volatility as it consists of basket of securities.

Apart from its benefits, Passive Investing also brings in its own set of challenges as they are purely driven by market forces, where there is no chance of outperformance, unlike active MF schemes where Fund Manager could take a decision on entering or exiting a stock. Another challenge in passive investing is that the the investors lack choice as index composition is static in nature.

Deepak is a CFP^{CM} professional and a banking, finance and investment professional. He is also the co-founder of Sky High Advisory LLP.

Our Shared Wisdom



- Not all Financial Credentials are created equal
- Grandfathering Clause – Tax Implications for Investors

Not all Financial Credentials are Created Equal

CFP BOARD

By Kevin R. Keller, CAE

Choosing a financial planner can be one of the most important decisions in a person's life. A financial planner can help you set your goals, provide a roadmap to reach them, and be your guide to the special tools and strategies that can help you get there.

When you begin looking for the financial planner who will meet your needs, there are a number of factors to consider, including professional credentials.

In the financial services industry, it's common to see financial advisors put letters after their names. Some advisors use long strings of these letters — something that has led to the phrase "alphabet soup."

However, not all financial credentials are created equal. There are rigorous certification and education programs that confer a designation. And there are designation-granting programs that can be completed over the course of a weekend.

How do you tell which are meaningful designations?

FINRA, the organization that oversees broker-dealers in the U.S., has a list on its website of the many professional designations held by financial advisors. There are now more than 200 designations listed. FINRA does not approve or endorse any professional credential or designation, but their list is a great resource for getting basic information about the designations you might see after a financial advisor's name

If you take a closer look at the FINRA list, you'll find that only [8 of the 200+ designations are accredited]. That's less than five percent of the listed designations.

Accreditation provides impartial, third party validation of a credentialing program, thereby enhancing the program's credibility and legitimacy.

What does accredited mean?

Accreditation provides impartial, third party validation of a credentialing program, thereby enhancing the program's credibility and legitimacy. It not only signifies that a credentialing program has met a set of accreditation requirements in the past, but also requires a program's commitment to improve continuously. Accredited programs must maintain ongoing relevance by updating their requirements to align with changes in the topics and practice areas they represent.

Accreditation is important. And it is not easy to achieve. But accreditation is essential for trust and legal defensibility of a certification.

That is why my predecessors at CFP Board pursued accreditation for our CERTIFIED FINANCIAL PLANNER™ certification program. In 1995, CFP® certification was first accredited by the National Commission of Certifying Agencies, or NCCA — and that was the first ever non-health related NCCA certification in the US. We successfully renewed NCCA accreditation in 2019, and we will go through the re-accreditation process again in 2024.

To ensure the CFP® certification program reflects the current practice of financial planning, CFP Board conducts a Practice Analysis Study to validate the essential financial planning knowledge and topics required for competent financial planning. The Practice Analysis Study is one of the ways we ensure that our accreditation continues, and we conduct this study approximately every 5 years.

A Practice Analysis Study involves research with our CFP® professionals, as well as broad-based input from educators from CFP Board-registered academic programs and other financial planning subject matter experts. This research validates which previously identified topics and tasks are still important to the practice of financial planning, and it identifies new topics and tasks that have become part of the practice of financial planning or will impact it in the near future. For our latest Practice Analysis Study, we expanded our research to include studies with the end-users of CFP® certification: the firms that hire CFP® professionals, and the clients of CFP® professionals. This additional research provided us a holistic, 360-degree view of the practice of financial planning.

The primary outcome of our Practice Analysis Study is an updated list of Principal Knowledge Topics. These are the topics covered in the curriculum of each CFP Board-registered academic program, the topics assessed on the CFP® exam, and the topics we accept for continuing education credit.

The updated Principal Knowledge Topics from our most recent study includes a brand-new category called Psychology of Financial Planning. This includes topics related to the attitudes, values and biases of clients and financial planners, the sources of money conflict, the principles of counseling, and general principles of effective communication, among other things.

The new Psychology of Financial Planning category really reinforces the value and relevance of CFP® certification. I've heard many times from leaders at firms that hire financial advisors that they need more advisors who can effectively communicate to and relate with their customers. A financial planner can have all the technical financial knowledge in the world. But that knowledge has little value if she can't effectively communicate that information to her client, and demonstrate understanding of how a recommended course of action meets the client's needs and goals.

Accreditation of the CFP® certification program validates and enhances the value of the CFP® mark for financial planners, their firms and their clients.

We believe the Psychology of Financial Planning will help ensure that the next generation of CFP® professionals develops not only with a mastery of financial planning's body of knowledge, but also prepared to provide excellent service to their clients. And we believe the Psychology of Financial Planning will be an important focus for the professional development of the nearly 90,000 individuals who currently hold CFP® certification in the U.S.

Accreditation of the CFP® certification program validates and enhances the value of the CFP® mark for financial planners, their firms and their clients. The CFP®

mark identifies financial advisors who have met competency standards that reflect the practice of financial planning. Those competency standards, together with CFP Board's enforcement of the *Code of Ethics and Standards of Conduct* for CFP® professionals, make CFP® certification the standard of excellence for financial planners.

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About the Author: Kevin R. Keller, CAE is Chief Executive Officer of CFP Board. CFP Board's mission is to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for competent and ethical personal financial planning.

Grandfathering Clause – Tax Implications for Investors

By Himanshu M, CFP^{CM}

Investors often base their decisions on where to put their money on existing tax structures. But if the government changes its mind on tax implications on a later date, it could negate the basic premise for the decision. This could further lead to disturbance in the gains of investors indirectly affecting their financial goals. Frequent changes in tax laws can weaken public faith in the government promises. Grandfathering provisions allow the government to introduce changes in tax rules for the future, without reneging on its past promises.

Grandfathering of acquisition cost resulted in reducing/lowering tax burden and providing relief to an extent.

Grandfathering Clause

The term implies relief and exemptions on taxes of equity shares. From 1st April 2018, the Government announced that long term gains on equity shares shall be taxable @ 10% for gains above Rs. 1 lakh, which was earlier exempt from any tax implications. Grandfathering concept was introduced to cope up with the sudden change in taxation and chaotic response of investors towards this amendment. It resulted in reducing/lowering tax burden and providing relief to an extent. Had there been no grandfathering, the correction may have turned out to be a full blown meltdown.

Not all investments are relevant in nature, and different rules are applied while calculating tax as per the clause depending upon the scenario. The Grandfathering clause states that Cost of acquisition of the security shall be higher of the actual cost or the fair market value of the security on 31st January 2018. However, to avoid an arbitrary loss situation, if the actual sale consideration is lower than the Fair Market Value as on 31st January 2018, the cost of acquisition would be either the actual sale consideration or actual cost, whichever is higher.

The FMV (Fair Market Value) of listed securities is the highest price of the security quoted on the recognized stock exchange. In the case of unlisted units as on 31st January 2018, the NAV of the units as on 31st January 2018 shall be considered as FMV. In case there was no trading in the security on 31st January 2018, the FMV is the highest price of security quoted on a date immediately preceding 31st January 2018 when the security had traded on the recognized stock exchange.

Illustrations

Scene 1 - Anmol sold the entire 4,000 equity shares at Rs. 375 per share in 2019 which were acquired in 2015 at Rs. 150 per share. Fair Market Value as on 31st January 2018 was Rs. 187.50. In this scenario the Capital gains will be Rs. 750,000.

As per the clause, the cost of acquisition of the security shall be considered to be higher of the actual cost or the fair market value of the security on 31st January 2018.

Particulars	Rs
Sales Consideration	15,00,000
Less- Cost of Acquisition	(7,50,000)
Long Term Capital Gain	7,50,000

Scene 2 - Anmol sold the entire 4,000 equity shares at Rs. 850 per share in 2019 which were acquired in 2015 at Rs. 300 per share. Fair Market Value as on 31st January 2018 was Rs. 237.50. In this scenario the Capital gains will be Rs. 22,00,000.

The same rule of the clause is applicable here.

Particulars	Rs
Sales Consideration	34,00,000
Less- Cost of Acquisition	(12,00,000)
Long Term Capital Gain	22,00,000

Scene 3 - Anmol sold the entire 4,000 equity shares at Rs. 493.75 per share in 2019 which were acquired in 2015 at Rs. 600 per share. Fair Market Value as on 31st January 2018 was Rs. 725. In this scenario the Capital loss will be Rs. 425,000.

Further as the clause states- to avoid an arbitrary loss situation, if the actual sale consideration is lower than the Fair Market Value as on 31st January 2018, the cost of acquisition would be either the actual sale consideration or actual cost, whichever is higher. Therefore, the gain/loss calculated in this scenario will be as follows:

Particulars	Rs
Sales Consideration	19,75,000
Less- Cost of Acquisition	(24,00,000)
Long Term Capital Gain/Loss	(4,25,000)

Scene 4 - Anmol sold the entire 4,000 equity shares at Rs. 447.25 per share in 2019 which were acquired in 2015 at Rs. 413.50 per share. Fair Market Value as on 31st January 2018 was Rs. 494. In this scenario the Capital gains/Loss will be NIL.

The same rule of the above clause is applicable here.

Particulars	Rs
Sales Consideration	17,89,000
Less- Cost of Acquisition	(17,89,000)
Long Term Capital Gain	NIL

Grandfathering is to be allowed by comparing different values (such as Cost, Sale price and market price as on base date of 31st January 2018) for each shares/units.

There is a need to capture the scrip wise details for computing Capital Gains/Losses. Scrip wise reporting is mandatory while filing Long term capital gains under section 112/A which includes Name of the scrip, ISIN code, Number of units or shares sold, Sale price, Purchase cost and Fair Market value as on base date. This ensures that wrong claims are avoided by the investors and gains are calculated accurately. However, day trading and short-term sale/purchase of listed shares has no requirement for scrip wise reporting in the ITR form.

Grandfathering clause ensures that the policy changes are fair to long term investors who have invested and/or remained invested according to the belief that long term tax is exempted.

Investors who intended to earn tax-free profit into equity markets before this clause was introduced were safeguarded from curbing their returns and thereby impacting their financial goals in the long run.

Indexation

Indexation gives the investors an opportunity to increase the purchase price of the asset which in turn helps in lowering the adverse impact on the cost caused by inflation. Simply stating, Indexation is a tax adjustment technique which takes into consideration inflation component and helps to calculate inflated value of any asset using CII (Cost Inflation Index)**.** Adjusting the purchase price of underlying asset or investment plays an important role in calculating capital gain/ loss as it reduces the overall tax liability**.**

Indexation benefit is applicable on long term investments; on assets such as Debt investments, Gold, Real estate, etc. Whereas, Short term capital gains and gains on equity shares are excluded from the benefit of indexation. However, Indexation benefit is not allowed in case of bonds or debentures except Capital Indexation Bonds or Sovereign Gold Bonds issued by RBI.

Illustration - Application of Indexation while calculating Capital gains including advance money forfeited concept

Sunil purchases a house on 1st April 1997 for Rs. 200,000. He enters into a sale agreement with Naresh and receives advance money of Rs. 20,000, but due to circumstances the agreement is breached and the advance money is forfeited. On 15th May 2005 Sunil gifts the house to his son Abhay. The following expenses are incurred by Sunil and Abhay for renewal of the house:

Addition of 2 rooms by Sunil during 1998-1999 Rs. 55,000

Addition of second floor by Abhay during 2010-11 Rs. 210,000

FMV as on 1 April 2001 Rs 350,000

Abhay enters into an agreement to sell the house for Rs. 21,50,000 to Vikas on 1st April 2013 after receiving an advance of Rs. 50,000. Vikas could not keep the promise and Abhay forfeited the money. Abhay ultimately finds a buyer Ashok to whom the house is transferred for Rs. 24,75,000 on 1st Dec 2018. Let us now compute the capital gains of Mr. Abhay for AY 2019-20. CII for 2018-19 is 280, and CII for 2010-11 is 167.

Solution

Particulars	Rs
Full value of consideration	Rs. 24,75,000
Less: (i) Cost of acquisition (350,000 - 50,000)*280/100 (ii) Cost of Improvement (210,000)*280/167	(Rs. 840,000) (Rs. 352,095)
Long term capital gain	Rs. 12,82,905

Notes to be remembered: 1. As per the provisions the amount forfeited by father is not to be taken into consideration while calculating son's (Assessee) capital gains.

2. Any advance money forfeited by Assessee before 1st April 2014 is to be deducted from the Cost Of Acquisition, stated under section 56(2)(ix). However, if the advance money is forfeited after 1st April 2014, the same shall be computed under the Head Income from Other sources and no effect of such amount will reflect in the Cost of Acquisition.

Indexation benefits remains the same for Non-Resident Indians as well; only the amount of tax payable by a NRI will differ.

Indexation benefits remains the same for Non-Resident Indians as well; only the amount of tax payable by a resident and NRI will differ. One important note to be made is that Indexation benefit is available from the date of agreement and not from the date of possession.

The benefit of indexation works best when your holding period is longer. For a holding period of 5 years and above, Long term capital gains tax on debt funds can come down from 20% to 6%-7%. With the help of indexation one can lower the long-term capital gains which brings down the taxable income, thereby reducing tax liability.

Conclusion

The Indexation rule and Grandfathering clause leads to positive effects for a common investor and avoids any undesirable situation which will affect them financially. Tax structures and incentives often determine the investment decisions of the common investor; even business investment decisions are guided by tax policies. Both these concepts are very effective tool in reducing the overall tax burden and help to plan tax strategically.

Continuing Professional Development (CPD)

Welcome to the CPD quiz!

This quiz is 10 questions long, and you need to answer 7 out of 10 correctly in order to earn 5 CPD points. Your quiz results will be provided after you complete all the questions.

You will be able to take the quiz up to two times.

Good luck!

Eight Steps to Improved Client Retention

1. In the opinion of the author, which one of the following tool is available to financial planners for building the brand and establishing relationship with their client?

a. Pricing model
b. Client video testimonials
c. Office setup and staff
d. Product mix

Not all Financial Credentials are created equal

2. Practice Analysis Study, which is conducted by the CFP Board once every 5 years, involves research work with ________________

   a. CFP Professionals
   b. educators
   c. subject matter experts
   d. All of the above.

The Impact of the COVID-19 Pandemic on CFP Professionals

3. In a Survey from the IFPHK, the UK and the US, the CFP professionals cited that ________ does NOT fall under the top three concerns of the clients during the pandemic:

   a. Unemployment or reduced income
   b. Protecting assets
   c. Liquidity
   d. Returns

How to Build Financial Resiliency as a Single Parent

4. Financial resiliency involves having healthy financial habits. Why is the author not in favor of increasing the loan tenor at the time of refinancing?

   a. It shall increase the amount of EMIs for the loanee.
   b. It adds to the number of years for which the loanee shall have to pay interest to the bank.
   c. The loanee shall not be able to sell the property during the loan tenor.
   d. It shall lead to higher interest rates for the loanee.

Importance of defining and prioritizing life goals

5. The author believes that discussions related to goal prioritizing is of utmost importance for a customer and requires that a CFP Professional must:

a. have a good work experience.
b. possess good communication skills.
c. plot the right set of questions to the client.
d. All of the above.

Passive Investing – Current Scenario

6. In the opinion of the author, reasons for the recent shift of investor preference towards low-cost passive funds could be everything but ______

a. the emergence of robo-advisors.
b. the fiduciary requirements.
c. the fact that index composition is static in nature and thus investors lack choice.
d. the withdrawal of upfront incentives.

REITs and InvITs – Will they manage to deliver?

7. The author calls out for a vibrant REIT ecosystem in the country as it would ____

a. give a fillip to the economy and positively impact the GDP.
b. help the real estate developers monetize their assets and dispose rising inventories.
c. lead to higher flow of FPI and HNI money into stock markets.
d. give investors higher returns than from fixed deposits.

Scenario analysis takes your financial plan closer to reality

8. Which one of the following is a leading reason for the author to believe that financial planners must practically see through the scenario analysis and develop solutions around the varying situations that may arise?

a. The number of years of retired life is uncertain
b. The Financial Planning process involves assumptions, forecasts and projections
c. The rising health costs each year
d. The expenses in post-retired life will increase because of inflation

Grandfathering Clause – Tax Implications for Investors

9. Grandfathering concept was introduced to reduce/lower tax burden and provide relief to investors of equity shares. Using the grandfathering concept, if the actual sale consideration of a listed security is lower than the Fair Market Value as on 31st January 2018, the cost of acquisition would be __________

   a. the actual cost.
   b. the sale consideration.
   c. the fair market value as on 31st January 2018.
   d. the indexed price.

Planning for a Life after Retirement

10. There is an ever-growing need for retirement planning on account of which of the following factors?

   a. Higher medical inflation
   b. Longer lifespan
   c. Nuclear family systems
   d. All of the above

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