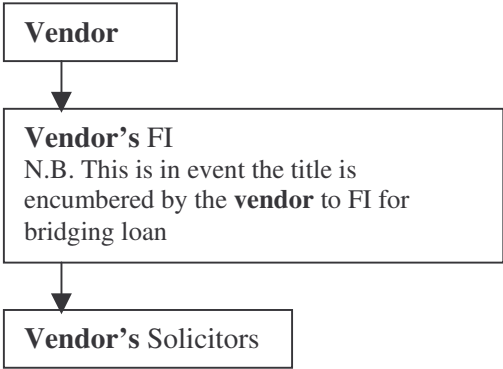


Amendments to Certified Credit Professional Qualifications (CCP) Study Materials

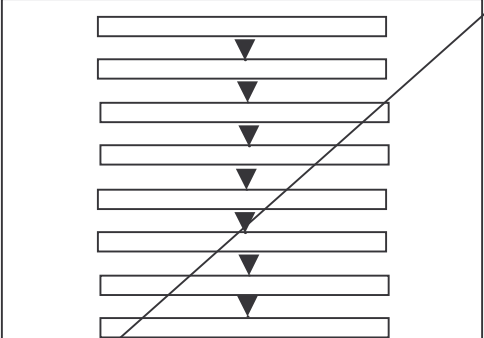
Consumer Credit

No	Description/Existing Contents	Amended Contents
1.	<p>Chapter 5, Page 5-3 Item 2.2</p> <p>To add as 3rd paragraph.</p>	<p>The client’s age must be above legal minority to be capable of entering into a contractual borrowing relationship with the financial institution (FI).</p>
2.	<p>Chapter 6, Page 6-11 Item 2.11 (a), No. 4, 5, 8, 9, 12 & 13.</p> <p>No. 4, 1st sentence. To add “Purchaser’s solicitors” after “...charge document and”.</p> <p>No. 5. To add “Purchaser’s” before “FI’s solicitors”</p> <p>No.5, 2nd bullet point To replace “affected” with “effected” and delete “or the project cannot be completed”</p> <p>No.5, 3rd bullet point To add “and cannot be completed” after “...project is abandoned”.</p> <p>No. 8 To add “Purchaser’s” before “FI’s</p>	<p>4. FI’s solicitors prepare a charge document and Purchaser’s solicitors lodge a private caveat (this is to prevent the developer or vendor from sub-sale transaction from fraudulently selling to another person at a higher price. It is the purchaser on the advice of his solicitor who will lodge the private caveat on the property.).</p> <p>5. Purchaser’s FI’s solicitors get undertaking from the developer’s solicitors to:</p> <ul style="list-style-type: none"> • Forward the title together with the registerable memorandum of transfer to the Purchaser’s FI; • Refund the loan amount in the event the transfer cannot be affected effected or Certificate of Fitness cannot be issued or the project cannot be completed; • Refund of the loan amount in the event the project is abandoned and cannot be completed; and • Obtain a letter of undertaking cum redemption from the developer’s FI. <p>8. Purchaser’s FI’s solicitor will conduct a land search to ensure</p>

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	<p>solicitor”.</p> <p>No 9, 12 & 13. To add “Purchaser’s” before “FI’s solicitors”.</p>	<p>there are no encumbrances and lodge a private caveat for cases if there is a redemption sum to be paid to the Developer’s FI.</p> <p>9. Purchaser’s FI’s solicitors to issue a legal opinion and inform the FI to release redemption amount to the Developer’s FI. After full redemption, presentation of memorandum of transfer and charge at the relevant land office for registration.</p> <p>12. Purchaser’s FI’s solicitors to make a search to confirm that there are no encumbrances on the land.</p> <p>13. Purchaser’s FI’s solicitors to issue a legal opinion and inform the FI to release the loan to developers.</p>
<p>3.</p>	<p>Chapter 6, Page 6-12 Item 2.11 (b). Header. To replace “developer” with “vendor”.</p> <p>Figure 6.3. To replace “developer” with “vendor”.</p> <p>No. 9. To replace “vendor’s FI” with “vendor direct”</p>	<p>(b) A sub-sale (Subsequent sale – refers to sales of property after buying from a vendor)</p>  <pre> graph TD Vendor[Vendor] --> VendorFI[Vendor's FI N.B. This is in event the title is encumbered by the vendor to FI for bridging loan] VendorFI --> VendorSolicitors[Vendor's Solicitors] </pre> <p>Figure 6.3. : A Sub-sale – Sales of Property after Buying from a Vendor</p> <p>9. FI’s solicitors to issue a legal opinion and inform the FI to release redemption amount to the vendor direct.</p>

No	Description/Existing Contents	Amended Contents
	To add No. 15.	15. FI to release the loan to vendor.
4.	Chapter 7, Page 7-2 Item 1.2 To add a paragraph after 2 nd paragraph.	However, one should bear in mind that it is important for the FI to retain control over the format and content of standard documents such as the Deed of Charge. External solicitors should follow closely the FI's requirements.
5.	Chapter 7, Page 7-3 Item 2.1 (a) (i) (a) Header. To add " Taken as Security " after "Property". (i) Header. To add " Deed of " before "Charge". 1 st bullet point. To add " at the Stamping Office ".	(a) Property Taken as Security (i) Deed of Charge (This document is taken when the property is issued with a title deed) • Stamped at the Stamping Office and registered at the respective land office.
6.	Chapter 7, Page 7-3 Item 2.1 (a) (ii), Heading. To add " Memorandum of " before "Transfer".	(ii) Memorandum of Transfer
7.	Chapter 9, Page 9-8 Item 3.2 To add as the 1 st bullet point.	• Lengthening the repayment period so that the monthly instalments will be reduced to within the repayment capacity of the borrower;
8.	Chapter 9, Page 9-11 Item 3.6.2 (8) To delete (8).	(8) The order for sale will be Form 16H.
9.	Chapter 9, Page 9-11 Item 3.6.2 (9), 1st sentence To replace "90 days" with " 120 days ".	Upon a successful auction, the bidder is given 120 days to pay the balance of the purchase price to the bank.
10.	Chapter 9, Page 9-13 Item 3.6.3 (2) To replace "Land Office" with " FI ".	(2) At the inquiry, the representative from the FI is required to give the balance amount outstanding to the Land Administrator.
11.	Chapter 9, Page 9-14 Figure 9.4, 2nd box (from bottom left) under	

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	<p>“Action successful”</p> <p>To replace “90 days” with “120 days” (refer to no. 8 above).</p>	<p style="text-align: center;">↓</p> <div style="border: 1px solid black; padding: 5px; margin: 0 auto; width: fit-content;"> <p style="text-align: center;">Full settlement to be paid within 120 days to the FI</p> </div>
12.	<p>Chapter 9, Page 9-15 Item 3.6.4 & Figure 9.5</p> <p>To delete the header and whole section on “3.6.4 Deed of assignment (property without title)” and replace with “3.6.4 Enforcement of the Assignment.</p> <p>The Federal Court in <i>PhileoAllied Bank (Malaysia) Bhd v Bupinder Singh Avatar Singh & Another</i> has now allowed a bank to dispose of the property either by public auction or private treaty without the necessity for an order of sale from the court. This is done pursuant to the powers of sale and the power of the attorney provided for under the Loan Agreement cum Assignment.”</p>	<p>3.6.4 Deed of assignment (property without title)</p> <p>(1) After the issuance of the legal notice of demand, the lawyer will issue a notice of termination.</p> <p>(2) The lawyer will then proceed to issue the originating summons supported by affidavit. A case number will be assigned. The originating summons will be extracted and served on the customer.</p> <p>(3) The notice to fix a hearing date will be served on the defendant.</p> <p>(4) An order for sale will be granted on the hearing date. Summons for direction is filed to fix the reserve price and auction date. The latest valuation report will be supplied by the FI.</p> <p>(5) The deposit and balance is paid to the bank.</p> <p>3.6.4 Enforcement of the Assignment The Federal Court in <i>PhileoAllied Bank (Malaysia) Bhd v Bupinder Singh Avatar Singh & Another</i> has now allowed a bank to dispose of the property either by public auction or private treaty without the necessity for an order of sale from the court. This is done pursuant to the powers of sale and the power</p>

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	<p>To delete the whole section on Figure 9.5. Overview of Foreclosure Proceedings in the High Court – Property With No Title’.</p> <p>Subsequently, the numbering for respective Figures to change accordingly.</p> <p>Figure 9.6 to Figure 9.5: Overview of the Process of Legal Action – Unsecured Facility, Figure 9.7 to Figure 9.6: Overview of Civil Suit in High Court, Figure 9.8 to Figure 9.7: Overview of Civil Suit in the Sessions and Magistrate Court, Figure 9.9 to Figure 9.8: Overview if Execution of Judgement</p>	<p>of the attorney provided for under the Loan Agreement cum Assignment.</p> <div style="border: 1px solid black; padding: 5px; text-align: center;">  <p>Figure 9.5. Overview of Foreclosure Proceedings in the High Court – Property With No Title</p> </div> <p>Figure 9.6 9.5: Overview of the Process of Legal Action – Unsecured Facility, Figure 9.7 9.6: Overview of Civil Suit in High Court, Figure 9.8 9.7: Overview of Civil Suit in the Sessions and Magistrate Court, Figure 9.9 9.8: Overview if Execution of Judgement</p>
13.	<p>Chapter 9, Page 9-22 Item 3.7.7, last sentence</p> <p>To add “(except bankruptcy notice)”.</p>	<p>However, in the event execution cannot be levied within 6 years, the court’s permission must be obtained before any execution proceedings (except bankruptcy notice) are commenced against the defendant.</p>
14.	<p>Chapter 10, Page 10-6 Item 6, 3rd and 4th bullet points</p> <p>3rd bullet point. To replace “...high” with “...higher”.</p> <p>4th bullet point. To replace “...high repayment cost...” with “...higher quantum of monthly repayment”</p>	<ul style="list-style-type: none"> • Reduce total interest costs where the initial loan was obtained at a higher cost; • Reduce monthly repayment where the initial loan was obtained at a higher quantum of monthly repayment due to a shorter loan

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	due to a shorter loan tenor;...	tenor; and/or
15.	Chapter 10, Page 10-6 Item 7. (a) To add 2 nd paragraph	In the event there is a change in the interest rate, the quantum of instalments will be effected to reflect the prevailing rate. If the instalments remain unchanged, the tenor of the loan will instead be adjusted depending on the direction of the change in interest rate.
16.	Chapter 10, Page 10-7 Item 7 (d), Header. To change "...on the loan repayment of overdraft portion" to "... on loan repayment ".	(d) Flexibility on loan repayment
17.	Chapter 10, Page 10-7 Item 7 (d) (iii) Pre-payment flexibility To add 2 sentences after the 3 rd sentence.	However, in today's housing loan market, where interest rates are generally lower in the first year and sometimes in the second year, the borrowers are not likely to repay early. In fact, they may even take advantage of the cash-flow from this loan to settle more expensive loans elsewhere.
18.	Chapter 10, Page 10-8 & 10-9 Item 7 (e) (2) Header. To add " Mortgage Reducing Term Assurance ". 1 st paragraph. 1 st sentence. To replace "provides" with " is designed to provide ". 2 nd sentence. To replace "will be based on terms of the insurance" with " sum will be subject to the terms of the insurance policy taken such as the level of cover e.g. where a 50% - 50% policy was taken for joint borrowers, conditions to apply in the event of arrears in repayments and interest rate coverage ".	(2) The Mortgage Life Assurance or Mortgage Reducing Term Assurance (MRTA) This type of policy is designed to provide for settlement of the outstanding balance of the housing loan with the financial institution, in the event of total permanent disability or death of the borrower. The settlement will be based on terms of the insurance sum will be subject to the terms of the insurance policy taken such as the level of cover e.g. where a 50%-50% policy was taken for joint borrowers, conditions to apply in the event of arrears in repayments and interest rate coverage.

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	<p>3rd paragraph. To replace 2nd and 3rd sentences, “The premium is only incurred once. There are no monthly or yearly premiums to be paid.” with “Financial institutions generally prefer the premium to be only incurred once, so that there are no monthly or yearly premiums to be paid subsequently. However, they may consider monthly or yearly payments of premium.”</p>	<p>The premium is only incurred once. There are no monthly or yearly premiums to be paid. Financial institutions generally prefer the premium to be only incurred once, so that there are no monthly or yearly premiums to be paid subsequently. However, they may consider monthly or yearly payments of premium. ...</p>
19.	<p>Chapter 10, Page 10-9 Item 8 (a)</p> <p>1st paragraph To replace “ability” with “inability”.</p> <p>2nd paragraph To replace “...is an issue for some owners. This can lead to unsatisfactory living conditions.” with “may affect the marketability and hence, the security value of the property.”</p>	<p>(a) Credit risk</p> <p>The most common risk in residential financing is the ability inability of the borrower to service the loan.</p> <p>Poor maintenance of multi-storey buildings is an issue for some owners. This can lead to unsatisfactory living conditions. may affect the marketability and hence, the security value of the property.</p>
20.	<p>Chapter 10, Page 10-9 Item 8 (b) (ii)</p> <p>To add “(although this can be mitigated by imposing a breakeven pre-sale condition),” after “...breakeven sales”.</p>	<p>(ii) Financial failure Financial failure of the developer can be due to cost exceeding the sale price, poor demand, inability to achieve breakeven sales (although this can be mitigated by imposing a breakeven pre-sale condition), oversupply situation, a completed project does not receive market acceptance.</p>
21.	<p>Chapter 10, Page 10-10 Item 8 (d)</p> <p>To delete 2nd bullet point.</p>	<p>Repayments are designed to repay the loan as soon as possible.</p>
22.	<p>Chapter 10, Page 10-13 Item 8 (f) (iv), 7, 8 &, 9th paragraphs</p> <p>7th paragraph To add “project” after “...housing development”</p>	<p>Every licensed developer shall open and maintain a ‘Housing Development Account’ (HDA) with a bank or finance company for each housing development project undertaken by the licensed developer.</p>

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	<p>8th paragraph, last sentence To replace “instalments of” with “progress payments towards”.</p> <p>9th paragraph To delete, “The developer is also required to deposit into the account any loans obtained for the construction of the houses.” and replace with “The Act is only applicable in Peninsular Malaysia. Accordingly, the schedule of progressive release of the loan under the Third Schedule has no application in Sabah and Sarawak.”</p>	<p>The developer is required to pay into the account all purchase monies received by the developer from the sale of the houses or any other sum or sums of money, which may be required by the regulations. These include instalments of progress payments towards the purchase price.</p> <p>The developer is also required to deposit into the account any loans obtained for the construction of the houses. The Act is only applicable in Peninsular Malaysia. Accordingly, the schedule of progressive release of the loan under the Third Schedule has no application in Sabah and Sarawak.</p>
23.	<p>Chapter 10, Page 10-18 Item 8 (i), subheader, “Buyer’s duty”, 1st paragraph, 1st sentence</p> <p>To add “potential” before “...legal owners...”</p>	<p>Buyer’s duty After signing the sale and purchase agreement (SPA), buyers have to realise that they are now potential legal owners of the property and will have to settle all the necessary payments required of them.</p>
24.	<p>Note: The ‘Amended Chapter 11’ is available for download and print</p>	
24 (a)	<p>Chapter 11, Page 11-2 Item 1.1 (i)</p> <p>To add after last bullet points as new paragraphs.</p>	<p>Credit officers must understand the difference between the intrinsic value and the market value of shares. The market value of shares is usually not always reflected by the intrinsic value of shares.</p> <p>Blue Chip Stocks are stocks that have already been well established and well-positioned in the market. These companies would probably have a good track record of management, earnings as well as dividend payout.</p>

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		<p>Defensive Stocks are stocks that are operating in a business environment that is the backbone of the economy and will not be badly affected through economic cycles.</p> <p>It is therefore less risky for financial institutions (FIs) to hold Blue Chips or Defensive Stocks as security for loans. However, it must be realised that in any business there is always the element of risks and that share prices of all shares will invariably be affected by the market sentiments whatever shares are held as security. The difference is that the good shares will eventually recover as they are supported by fundamentals.</p> <p>Speculative shares are normally perceived to be more expensive and less attractive than Blue Chips or Defensive Stocks because of the speculative element. Their share prices fluctuate over a broader price range and are also more volatile and the prices can suddenly go up or down. FIs take a greater risk holding speculative shares as security because a sudden drop in the price of these shares can result in a short fall in the value of security. FIs should therefore limit the exposure to holding speculative shares as security.</p> <p>The comparison of companies is normally made, based on the Fundamental Analysis of the individual companies. To compare the value of share of different company's, market indicators like Price Earnings Ratios (PE Ratios)</p>

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		<p>and Dividend Yields can be used as a general guide. But these indicators are basically indicators. To more effectively value each company, one has to make a comprehensive analysis of the business sectors, the management quality, the position of the company in that business environment, its size, its strategies as well as its financial strengths. The PE Ratios give a guide as to the market price in relation to the earning capacity of the company, while the Dividend Yield gives the investors some comfort as to the Income he/she will receive from the company. However, it must be noted that both these indicators are historical in nature unless the credit officer is able to project the prospective indicators.</p> <p>Another risk attached to holding shares as security is its marketability. The less marketable the shares are, the higher the risks. This is especially so for shares which are very thinly traded – where market prices can be managed by borrowers. The volume of shares held as security in relation to its marketability is crucial too. The general market sentiment is equally important, as prices are very often affected not only by fundamental factors but also emotional factors.</p> <p>The investment styles of the investors should be considered to determine his risk profile. We must be able to differentiate between investors who are speculative, growth or value-inclined.</p>

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24 (b)	<p>Chapter 11, Page 11-2 Item 1.1 (ii)</p> <p>To replace 1st paragraph.</p>	<p>(ii) Preference shares A risk averse investor who is income oriented rather than capital gains oriented will find preference shares attractive. Preference shares allow the investors to enjoy the advantages of owning ordinary shares as well as bonds (fixed income). An investor who is interested to invest in a particular company may opt to invest in the preference shares of the company because they are treated in preference to the ordinary share holders in terms of dividend payments. Preference shares allow the investors to enjoy the advantages of owning ordinary shares as well as being given fixed income ahead of the ordinary share holders.</p>
24 (c)	<p>Chapter 11, Page 11-3 Item 1.1 (ii) (b)</p> <p>To delete the header and whole section on “(b) Redeemable or callable preference shares” and replace with new “(b) Participating preference shares”</p> <p>To add new header and section, “(c) Convertible preference shares”.</p>	<p>(b) Redeemable or callable preference shares Redeemable preference shares can be redeemed or recalled by the company. When this option is exercised, the investors will receive a pre-determined sum of money, which usually includes any unpaid dividends. The company usually pays a premium to a preferred shareholder for this privilege.</p> <p>(b) Participating preference shares In the case of participating preference shares, the holder is also able to participate in the some of the rights of the ordinary shareholders when the company performs well. The participative nature is spelt out in the offer document.</p> <p>(c) Convertible preference shares Convertible preference shares</p>

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		<p>have the added feature to allow the holder to be able to convert the preference shares into ordinary shares of the company at an agreed conversion rate within a pre-determined time frame.</p> <p>However, the investor must be aware of some preference shares that are redeemable at the option of the company. Such redeemable preference shares can be redeemed or recalled by the company. When this option is exercised, the investors will receive a pre-determined sum of money, which usually includes any unpaid dividends. The company usually pays a premium to the preferred shareholder for this privilege.</p>
24 (d)	<p>Chapter 11, Page 11-3 Item 1.2, 1st paragraph</p> <p>To add as 2nd sentence.</p>	<p>Most loan stocks that are listed are usually the ones with the convertible nature as non-convertible loan stocks are least attractive and will have to carry a higher coupon rate.</p>
24 (e)	<p>Chapter 11, Page 11-3 Item 1.2 (i)</p> <p>1st paragraph, 1st sentence To add “convertible” after “CULS are...”</p> <p>1st paragraph, 4th sentence To replace “...the principal sum on maturity” with “...to the holder at specific dates, usually bi-annually, as spelt out in the CULS agreement and the undertaking to</p>	<p>(i) Convertible loan stocks CULS are convertible unsecured loan stocks. A loan stock is a security issued by a company for a loan made to it by investors. CULS combine certain advantages of bonds (which are loan securities) with the option of converting into ordinary shares, known as the conversion privilege. The bond characteristics of CULS are they pay investors a fixed rate of interest and the principal sum on maturity to the holder at specific dates, usually bi-annually, as spelt out in the CULS agreement and the undertaking to repay the</p>

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	<p>repay the principal sum on its maturity in the case of the redeemable loan stocks”.</p> <p>3rd paragraph, 2nd sentence. To replace “...may enable the company to raise equity indirectly on more favourable terms than through the issue of new shares.” with “...by giving the investor the chance of potential capital gain with the convertibility feature. It thus enables the company to raise equity indirectly on more favourable terms than through the issue of new shares”.</p>	<p>principal sum on its maturity in the case of the redeemable loan stocks. ...</p> <p>Companies issue CULS because they make the bonds more saleable with the addition of a conversion privilege. CULS also lower the cost of borrowing money and may enable the company to raise equity indirectly on more favourable terms than through the issue of new shares. by giving the investor the chance of potential capital gain with the convertibility feature. It thus enables the company to raise equity indirectly on more favourable terms than through the issue of new shares. ...</p>
<p>24 (f)</p>	<p>Chapter 11, Page 11-4 Item 1.3</p> <p>To add a paragraph after header.</p>	<p>1.3 Derivatives: Warrants or TSR, and Options The value of warrants and options are derived from the underlying asset of the ordinary shares related to these instruments. As an example, the warrant value of Company A’s warrant is derived or dependant on the value of Company A’s share.</p>
<p>24 (g)</p>	<p>Chapter 11, Page 11-4 & 11-5 Item 1.3 (i)</p> <p>To add as new 2nd paragraph.</p> <p>2nd paragraph, 1st sentence To add “market” before “...price of the</p>	<p>The theoretical price of the warrant is the difference between the market value of the ordinary shares and the exercise price. However, the market value of the warrant is normally at a premium because of the lower capital outlay as well as the speculative element. The price of the warrant will be determined by the expiry date the warrant.</p> <p>When you buy a warrant, you pay the market price of the warrant, which is</p>

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	<p>warrant” and delete “which is usually...instrument directly”.</p> <p>3rd paragraph, 1st sentence To delete “...which is much lower than the price of the share.”</p> <p>3rd paragraph, 3rd sentence. To replace “more than RM2” with “more than RM2.60”.</p> <p>3rd paragraph, last sentence. To add, “In practice however, the market price of the warrant will rise in momentum with the price of the ordinary shares within the exercisable period. In which case, you will probably be able to sell the warrant above RM0.60.”</p> <p>To add as new 5th paragraph “If the ordinary share price falls below RM2.00, then the warrant is ‘Out of Money’ because it is better to buy the ordinary share at RM2.00 than to exercise the warrant. On the other hand, if the share price rises above RM2.60, then the investor is ‘In the Money’ because the price of the warrant would have probably risen above RM0.60.”</p> <p>4th paragraph, 1st & 2nd sentence To replace “falls below RM2, you might decide not to exercise your rights to subscribe to the share at RM2. It is no longer attractive as you can buy it from the market at a lower price.” with “do not appreciate above RM2.60 during its lifespan, you will lose the RM0.60 per unit that you have</p>	<p>usually lower than that of the stock or commodity it covers and so it requires less capital than buying the instrument directly. ...</p> <p>For example, when you buy a warrant for a share of a company, you pay the price of the warrant (say, RM0.60 per unit) which is much lower than the price of the share. The warrant gives you the right, during the exercise period, to subscribe to the share at a fixed price of, say, RM2 each share. If the prevailing price of the share rises to more than RM2.60, you might decide to exercise your right and buy the share at the agreed price of RM2. In practice however, the market price of the warrant will rise in momentum with the price of the ordinary shares within the exercisable period. In which case, you will probably be able to sell the warrant above RM0.60.</p> <p>If the ordinary share price falls below RM2.00, then the warrant is ‘Out of Money’ because it is better to buy the ordinary share at RM2.00 than to exercise the warrant. On the other hand, if the share price rises above RM2.60, then the investor is ‘In the Money’ because the price of the warrant would have probably risen above RM0.60.</p> <p>Should the situation be reversed, whereby the price of the underlying instrument or share as in the example above falls below RM2, you might decide not to exercise your rights to subscribe to the share at RM2. It is no longer attractive as you can buy it from the market at a lower price. do not</p>

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	<p>paid for the warrant.”</p> <p>5th paragraph, 2nd sentence To add “as a sweetener” before “...together with...”</p> <p>5th paragraph, 4th sentence To add, “so that they can raise cheaper money from the shareholders.” after “...such packages”.</p> <p>5th paragraph, 5th & 6th sentences To delete “Doing so enables them to raise capital initially from the sale of debt (bonds), and subsequently from the sale of the warrants near the expiry date. The latter is timed to coincide with the time when the potential earnings of the project start materialising so that additional shares issued for the warrants will be supported by higher earnings.” and replace with “The debt securities raised is timed to coincide with exercising of the warrant by the ultimate holders to raise equity fund to repay the maturity value of the bond.”</p>	<p>appreciate above RM2.60 during its lifespan, you will lose the RM0.60 per unit that you have paid for the warrant. Remember that the warrant becomes worthless after the exercise period has expired.</p> <p>Why do companies issue warrants? Warrants are often issued to investors as a sweetener together with debt securities (particularly bonds) in a package. The warrants are detached from the bonds and traded separately. Companies embarking on capital projects with long gestation periods normally opt to issue such packages so that they can raise cheaper money from the shareholders. Doing so enables them to raise capital initially from the sale of debt (bonds), and subsequently from the sale of the warrants near the expiry date. The latter is timed to coincide with the time when the potential earnings of the project start materialising so that additional shares issued for the warrants will be supported by higher earnings. The debt securities raised is timed to coincide with exercising of the warrant by the ultimate holders to raise equity fund to repay the maturity value of the bond.</p>
24 (h)	Chapter 11, Page 11-5 Item 1.3 (ii)	(ii) Options Options give the buyer/holder of the option the right, but not the obligation, to buy or sell a specified asset at a specified price (strike price), at or before a specified date from the seller, for which the buyer pays a premium (this limits the buyer’s potential loss in the options market to the amount of his premium). Options that give the buyer the right to buy are known as

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	<p>To add as new 3rd sentence, “The right to buy ... option.”</p> <p>To add as last 2 sentences, “The FIs ... writing the option.”</p>	<p>calls. The right to buy ordinary shares of the company gives the investor the potential to make capital gains at the cost of the premium paid when the market price of the ordinary shares goes above the total of the strike price and the premium paid to write the option. Options that give the buyer the right to sell are known as puts. The seller of the option has a contingent liability or an obligation, which is activated if the buyer exercises his right. The FIs will not consider the selling aspect of the option as it carries an unquantifiable risk unless they are holding the ordinary shares as security. In this case, the investor is protected if the share price falls below the strike price, and he would have already obtained the premium for writing the option.</p>
<p>24 (i)</p>	<p>Chapter 11, Page 11-5 Item 1.4 (i)</p> <p>To add as last 2 paragraphs.</p>	<p>The stringent procedures imposed by the Securities Commission gives some comfort to finance based on new shares in a company to investors. However FIs must value the IPO based on the prospectus and are comfortable that the market price of the shares when listed will be above the value attached to it for the loan. FIs must be able to differentiate the financial impact depending on the types of IPO – the Issue of new shares, Offer for Sale by existing shareholders, Introduction, Tender System and Private Placement especially in the area of dilution of equity and the probable market price of the shares on its listing. The FIs must know whether any new funds are to be injected into the company</p>

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		<p>or the existing shareholders are selling off their stake in the IPO. In the latter case, the financial situation of the company does not change. Only the shareholders will change.</p> <p>The risk associated with financing based on an IPO scheme is the difficulty in assessing the potential market price although the FIs may have access to the Prospectus and make comparative evaluation of similar companies currently listed on the Stock Exchange.</p>
24 (j)	<p>Chapter 11, Page 11-5 Item 1.4 (ii), 1st sentence</p> <p>To replace “CIC (Capital Issues Committee)” with “Securities Commission”.</p>	<p>The principles of Share option schemes have been adopted by the CIC (Capital Issues Committee) Securities Commission in considering share option schemes for employees.</p>
24 (k)	<p>Chapter 11, Page 11-6 Item 1.4 (iii)</p> <p>To add as last paragraph “The risk associated with financing of an ESOS scheme is the difficulty in assessing the potential market price although the FIs may have access to the Prospectus and make comparative evaluation of similar companies currently listed on the Stock Exchange.”</p>	<p>The risk associated with financing of an ESOS scheme is the difficulty in assessing the potential market price although the FIs may have access to the Prospectus and make comparative evaluation of similar companies currently listed on the Stock Exchange.</p>
24 (l)	<p>Chapter 11, Page 11-6 Item 1.4 (iii), 2nd paragraph</p> <p>2nd sentence To replace “twice the value of your collateral” with “thrice the value of the collateral depending on the strategy of the FIs as well as the market condition.”</p> <p>3rd sentence To replace “a deposit of RM150,000” with “an amount of RM100,000,” and “shares worth up to RM300,000 on margin financing” with “a lot more shares worth up to the margin approved by the FIs”.</p>	<p>Banks as well as share brokers do the financing. One can be offered financing, frequently up to twice thrice the value of the collateral depending on the strategy of the FIs as well as the market condition. For example, if you place a deposit of RM150,000, an amount of RM100,000, you would be able to purchase shares worth up to RM300,000 on margin financing. a lot more shares worth up to the margin approved by the FIs. ...</p>

No	Description/Existing Contents	Amended Contents
24 (m)	<p>Chapter 11, Page 11-6 Item 1.4 (iii), Last paragraph, 1st sentence</p> <p>To replace “twice” with “70% of the total outstanding”.</p>	<p>Margin financing or share margin trading is a loan granted sometimes up to twice 70% of the total outstanding collateral value to trade in shares listed on the Kuala Lumpur Stock Exchange (KLSE) without having to produce the entire cost upfront.</p>
24 (n)	<p>Chapter 11, Page 11-7 Item 1.5 (vi)</p> <p>To add “are less volatile due to their strong fundamentals,” after “...in value and”</p>	<p>(vi) Some shares are stable in value and are less volatile due to their strong fundamentals, as such are less risky for the financier.</p>
24 (o)	<p>Chapter 11, Page 11-7 Item 1.5 (vii)</p> <p>To replace “legal mortgage are simple and not costly when compared to other securities.” with “Pledge of the Shares are simple as compared to a legal mortgage due to the latter’s high legal costs as well as the rigidity of a charge”.</p>	<p>(vii) The formalities to complete a legal mortgage are simple and not costly when compared to other securities. Pledge of the Shares are simple as compared to a legal mortgage due to the latter’s high legal costs as well as the rigidity of a charge.</p>
24 (p)	<p>Chapter 11, Page 11-7 Item 1.6</p> <p>To add as last paragraph.</p>	<p>The FIs should address the potential Yield Gap – difference between the dividends received and the interest cost of maintaining the loan. Basically, the FIs be comfortable with this key risk or credit considerations and must be able to identify clear alternatives source of cash such as the investor’s surplus monthly expenses or the potential appreciation of the investment values of the shares to enable the investor to service the interest payable.</p>
24 (q)	<p>Chapter 11, Page 11-9 Item 1.14, 1st paragraph</p> <p>To add as last 4 sentences.</p>	<p>What the bonus exercise does is to make the share more marketable in trading as more shares will be in issue. Theoretically, the share price will be adjusted downwards in proportion to the new bonus shares that are issued. Therefore, credit officers must realise that the whole exercise of a bonus issue does not change the attractiveness of the</p>

No	Description/Existing Contents	Amended Contents
		<p>company nor increase the total value of investments held by the investors. It just increases the shares currently being held by the investors after the bonus issue exercise although in practice there could be a slight increase in total values of the investment held partly because the company is perceived to must have performed sufficiently well to be able to accumulate and distribute the reserve as bonus shares.</p>
<p>24 (r)</p>	<p>Chapter 11, Page 11-9 Item 1.15, 1st paragraph, 2nd sentence</p> <p>To replace “capital requirements” with “cash requirements or to reduce its level of gearing”.</p>	<p>Companies carry out a rights issue when they want to raise additional funds to finance their capital requirements cash requirements or to reduce its level of gearing.</p>
<p>24 (s)</p>	<p>Chapter 11, Page 11-10 Item 1.15</p> <p>To add as last 3 paragraphs.</p>	<p>Just as in the case of the bonus issue, the market price of the shares will be adjusted after the whole rights issue exercise. However, in the case of a rights issue, the investor has the right to take up the rights entitlement or to sell their rights to the shares in the open market or to just ignore the issue depending on his perception of the purpose of the right issue and the prospective impact of the shares after the exercise. Alternatively, the investor can sell his shares cum the rights entitlement before the ex-date.</p> <p>Normally for a right issue to be successful, the rights price should be at a discount to the theoretical ex-market price of the shares to attract the current investors of the shares to take up their rights entitlement.</p> <p>As far as the FIs position is concerned, the ultimate market price of the shares will be the secured market value held by them.</p>

No	Description/Existing Contents	Amended Contents
24 (t)	<p>Chapter 11, Page 11-10 Item 2.1</p> <p>To add as last 2 paragraphs.</p>	<p>Each fund will be governed by the Prospectus and Trustee Agreement which will spell out in detail the objectives of the Fund as well as the rules governing the running of the Fund. The investors must understand the purpose of the Fund that they are investing in by carefully reading such documents.</p> <p>Credit Officers must understand the rules of the Funds to be able to assess the risk level of financing the respective Funds. Items like what shares the Funds are allowed to invest in as well as charges and distribution policy made by the Funds should be understood to safeguard their valuation.</p>
24 (u)	<p>Chapter 11, Page 11-10 & 11-11 Item 2.3</p> <p>To replace “The total assets of the fund determine the value of the fund and the price paid by unit holders or the amount received when they redeem their units. The unit trust fund earns income from its varied investments in the form of dividends, interest income and capital gains. This income is then distributed to the unit holders in proportion to the units they hold, in the form of dividends or bonus units.” with “The net assets of the fund determine the value of the fund and the price paid by unit holders or the amount received when they redeem their units. The Net Asset Value (NAV) being determined by the formula = (Asset Value + Cash + Accrued Income) – (Liabilities + Expenses).</p> <p>The unit trust fund earns income from its varied investments in the form of dividends, interest income and capital gains. This Fund may distribute dividends</p>	<p>2.3 Income earned</p> <p>The total assets of the fund determine the value of the fund and the price paid by unit holders or the amount received when they redeem their units. The unit trust fund earns income from its varied investments in the form of dividends, interest income and capital gains. This income is then distributed to the unit holders in proportion to the units they hold, in the form of dividends or bonus units. The net assets of the fund determine the value of the fund and the price paid by unit holders or the amount received when they redeem their units. The Net Asset Value (NAV) being determined by the formula = (Asset Value + Cash + Accrued Income) – (Liabilities + Expenses).</p> <p>The unit trust fund earns income from its varied investments in the</p>

No	Description/Existing Contents	Amended Contents
	<p>or issue bonus units in accordance with the Trustee Agreement from time to time. However this exercise will only result in an equivalent adjustment in its unit value.”</p>	<p>form of dividends, interest income and capital gains. This Fund may distribute dividends or issue bonus units in accordance with the Trustee Agreement from time to time. However this exercise will only result in an equivalent adjustment in its unit value.</p>
<p>24 (v)</p>	<p>Chapter 11, Page 11-12 Item 2.7 (iii)</p> <p>To delete (iii).</p>	<p>(iii) There is forced savings with the investor committed to pay monthly instalments if the investor is investing his own money.</p>
<p>24 (w)</p>	<p>Chapter 11, Page 11-13 Item 2.9 (i)</p> <p>To replace “violent” with “wide”</p>	<p>(i) Violent Wide price fluctuations can have an adverse effect on the repayment of the loan.</p>
<p>25.</p>	<p>Chapter 12, Page 12-2 Item 1.2, 2nd paragraph, 1st and 2nd sentence</p> <p>To add “normally” after “Interest...”</p> <p>3rd paragraph, formula To replace, “T = 1/365” with “T = 30/365 or 31/365 depending on the number of days in the month”</p>	<p>Interest is normally calculated and charged on a monthly basis. Interest is normally calculated using the simple interest formula:</p> <p>Loan Interest = Principal (P) x Time (T) x Interest rate quoted where P = Balance at the end of each preceding month T = 30/365 or 31/365 depending on the number of days in the month</p> <p>The entire facility needs to be drawn down.</p>
<p>26.</p>	<p>Chapter 12, Page 12-2 to 12-3 Item 1.3</p> <p>To delete “The interest rate is sometimes charged at the maximum of only BLR plus 2.5 spread.” and replace with “Consumers readily embrace a revolving open-ended credit facility as it enables them to make impulse purchases. It also enables the borrower to meet unforeseen or unplanned personal expenses. Overdrafts</p>	<p>1.3 Benefits</p> <p>The interest rate is sometimes charged at the maximum of only BLR plus 2.5 spread. Consumers readily embrace a revolving open-ended credit facility as it enables them to make impulse purchases. It also enables the borrower to meet unforeseen or unplanned personal expenses. Overdrafts also come in handy</p>

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	<p>also come in handy when one is allowed to draw against uncleared effects.</p> <p>The interest rate is generally lower than the credit card rates.”</p>	<p>when one is allowed to draw against uncleared effects.</p> <p>The interest rate is generally lower than the credit card rates.</p>
27.	<p>Chapter 12, Page 12-2 Item 1.5</p> <p>1st paragraph, 1st sentence To replace “of a credit memo form” with “spelt out in the internal credit memorandum upon which a loan application has been approved,”</p>	<p>The terms and conditions of a credit memo spelt out in the internal credit memorandum upon which a loan application has been approved, form the basis of preparing a letter of offer.</p>
28.	<p>Chapter 12, Page 12-3 Item 1.6</p> <p>2nd paragraph, 1st sentence To replace “The test of the Five Cs of credit would be a tool, i.e.” with “Assessing Five Cs of a credit is a possible tool to evaluate the strength of a borrower’s position, i.e.”</p>	<p>The test of the Five Cs of credit would be a tool, i.e. Assessing Five Cs of a credit is a possible tool to evaluate the strength of a borrower’s position, i.e.</p>
29.	<p>Chapter 12, Page 12-4 Item 2.1</p> <p>Header To delete “Types of” before “...overdrafts”</p> <p>1st paragraph, 1st sentence To delete “An overdraft can be”</p> <p>To delete the whole section on “(a) A temporary overdraft granted on ad-hoc basis. This is where the bank grants the borrower an overdraft for a short period normally no more than 30 days” and replace with “(a) An overdraft facility allows the borrower to draw bank funds to the extent of a stipulated limit. The outstanding is subject to call on demand by the bank. It is the general practice of banks to review the borrower’s eligibility for the facility and quantum on a 12 monthly basis, based on the borrower’s creditworthiness.</p>	<p>2.1 Types of Overdrafts An overdraft can be</p> <p>(a) A temporary overdraft granted on ad-hoc basis. This is where the bank grants the borrower an overdraft for a short period normally no more than 30 days</p> <p>(a) An overdraft facility allows the borrower to draw bank funds to the extent of a stipulated limit. The outstanding is subject to call on demand by the bank. It is the general practice of banks to review the borrower’s eligibility for the facility and quantum on a 12 monthly basis, based on the borrower’s creditworthiness.</p>

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	<p>To delete the whole section on “(b) <u>An annual overdraft</u>. This is where the overdraft limit is reviewed every 12 months.” and replace with “(b) A temporary overdraft is granted on ad-hoc basis. This is where the bank grants the borrower an overdraft for a short period normally no more than 30 days.”</p> <p>2nd last paragraph To replace “In Malaysia, an overdraft can only be offered by a commercial bank.” with “In Malaysia, overdraft facilities can only be offered by commercial banks.”</p> <p>Last paragraph To delete “whether temporary or annual”.</p>	<p>(b) An annual overdraft This is where the overdraft limit is reviewed every 12 months.</p> <p>(b) A temporary overdraft is granted on ad-hoc basis. This is where the bank grants the borrower an overdraft for a short period normally not more than 30 days.</p> <p>In Malaysia, overdraft facilities can only be offered by commercial banks.</p> <p>An overdraft whether temporary or annual can be used for personal as well as for investment reasons.</p>
30.	<p>Chapter 12, Page 12-4 Item 2.2, 2nd last paragraph, 1st sentence</p> <p>To replace “self-liquidating” with “flexible”.</p>	<p>This is a self-liquidating flexible facility in that repayment can be made to the bank without notice. Generally, a healthy operation of the account is expected.</p>
31.	<p>Chapter 12, Page 12-5 Item 2.3, last paragraph</p> <p>To replace “though charged sometimes at the maximum of BLR plus 2.5 spread, is still lower than the credit card rates” with “is generally lower than the credit card rates”.</p>	<p>The interest rate though charged sometimes at the maximum of BLR plus 2.5 spread, is still lower is generally lower than the credit card rates.</p>
32.	<p>Chapter 12, Page 12-11 Practice Questions</p> <p>Question 4 To replace “What is the difference between a temporary overdraft and an annual overdraft?” with “What is a temporary overdraft?”</p>	<p>4. What is the difference between a temporary overdraft and an annual overdraft? What is a temporary overdraft?</p>
33.	<p>Chapter 13, Page 13-13 Item 1.5.5, under subheader “Statutory rebate”</p>	<p>Statutory rebate The rebate system is based on the Sum of Digits (SOD) concept which relates to the amount term charges</p>

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	To add as 1 st paragraph.	are recognised as earned up to the point of redemption. The remaining term charges that are not recognised as earned will be the amount to be rebated.
34.	<p>Chapter 13, Page 13-15 Item 1.5.6.</p> <p>To insert a new header and section “1.5.6 Hire-purchase financing – the process”.</p>	<p>1.5.6 Hire-purchase financing – the process</p> <p>In any hire-purchase agreement, there is always the dealer, generally the seller, by whom or on whose behalf negotiations leading to the making of a hire-purchase agreement with the financier were carried out.</p> <p>Where the negotiation is successful, the prospective hirer will submit his or her supporting documents to the financier for the approval of a hire-purchase facility or loan. The financier may require the prospective hirer to furnish a guarantor to guarantee the performance of the prospective hirer under the hire-purchase agreement.</p> <p>A financier will not finance a loan for more than 90% of the “cash price” of the goods. Thus, a hirer must pay a deposit of at least 10% of the “cash price” of the goods. Nevertheless, the hirer can agree to pay more than 10% and the balance to be paid in instalments under a hire-purchase facility.</p> <p>Once the hire-purchase facility is approved, the financier will send a letter of undertaking to</p>

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	<p>Subsequent numbering from 1.5.6 to 1.5.9 to change accordingly.</p>	<p>the dealer to inform him of the approved hire-purchase facility. The parties related to the hire-purchase agreement will then be required to sign and enter into the agreement. Within 14 days after the making of the hire-purchase agreement, the financier must serve on the hirer and the guarantors a copy of the agreement each, failing which would render the hire-purchase agreement unenforceable by the financier. The document required to be served on the hirer and guarantors may be served by delivering it to them personally or by posting it by registered post addressed to the last known place of abode or business.</p> <p>1.5.7 1.5.6 Repossession 1.5.8 1.5.7 Procedures involved during the repossession 1.5.9 1.5.8 Procedures after the goods has been repossessed 1.5.10 1.5.9 Problems of repossession</p>
35.	<p>Chapter 13, Page 13-19 Figure 13.2 Lease Transaction</p> <p>To number the steps chronologically.</p>	<ol style="list-style-type: none"> 1. Signed by both parties 2. Title of Equipment (asset) 3. Payment to equipment supplier 4. Delivery of equipment 5. Payment of rental
36.	<p>Chapter 13, Page 13-21 Item 2.4.1 (a), 4th paragraph, last sentence</p> <p>To delete last sentence, “Alternatively, if the regulations permit, the lessee may be given a purchase option at a nominal price, called bargain buyout or purchase option.”</p>	<p>The lessor’s payback period, viz., primary lease period is followed by an extended period to allow exhaustion of asset value by the lessee, called secondary lease period. As the renewal is at a token rental, this option is called bargain renewal option.</p>

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		<p>Alternatively, if the regulations permit, the lessee may be given a purchase option at a nominal price, called bargain buyout or purchase option.</p>
37.	<p>Chapter 13, Page 13-22 Item 2.4.1 (b), 3rd paragraph</p> <p>To replace “the value of the leased equipment at the end of the lease term.” with “the estimated value of the leased equipment at the end of the lease term mutually agreed between the lessor and lessee. The estimated residual value has a direct effect on the calculation of the lease rentals. The higher the residual value, the lower will be the lease rentals but the higher the risk for the lessor. Effectively, the residual value represents a deferred repayment of the lessor’s investment in the equipment purchased. Hence, the lease rentals during the lease will be lower, but the risk of the lessor as the repayment of the investment will be deferred.”</p>	<p>Put simply, “residual value” means the value of the leased equipment at the end of the lease term the estimated value of the leased equipment at the end of the lease term mutually agreed between the lessor and lessee. The estimated residual value has a direct effect on the calculation of the lease rentals. The higher the residual value, the lower will be the lease rentals but the higher the risk for the lessor. Effectively, the residual value represents a deferred repayment of the lessor’s investment in the equipment purchased. Hence, the lease rentals during the lease will be lower, but the risk of the lessor as the repayment of the investment will be deferred.</p>
38.	<p>Chapter 13, Page 13-19 Item 2.4.1</p> <p>To add as point (c)</p>	<p>(c) Formula for Financial Lease (whether for Full Payout or Non-Full Payout)</p> <p>The generic formula for lease rentals calculations for all financial lease is thus as follows:</p> $CP - SD = (PMT \times PVA_{i\%pm,n}) + [(RV - RSD) \times PV_{i\%pm,n}]$ <p>where CP = Cash Price SD = Security Deposit PVA_{i%pm,n} = Present Value Annuity Factor at i% per month for n months PV_{i%pm,n} = Present Value Factor at i% per month for n months</p>

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		<p>RV = Residual Value RSD= Refunded Security Deposit PMT= Monthly Lease Period</p> <p>If a financial calculator is used then the inputs are:</p> <p>PV = - (CP – SD) i = i% pm n = Number of Monthly Lease Rental FV = RV - RSD Then solve for PMT = Monthly Lease Rental</p> <p>Therefore for Full Payout Lease, SD = 0, RSD = 0 and RV = 0 while Non-Full Payout Lease is where either SD and/or RV are not equal to 0.</p>
39.	<p>Chapter 13, Page 13-23 Item 2.4.2</p> <p>To add as 1st paragraph, “It should be noted that financial institutions do not deal in operating leases which are the domain of specialist lessors, e.g. car rental company. The following notes are merely designed to make a basic comparison between a financial and operating lease.”</p> <p>1st paragraph, last sentence To delete, “The lessor relies on the residual value of the equipment to recover the balance net in investment and earn a profit.”</p>	<p>2.4.2 Operating Lease</p> <p>It should be noted that financial institutions do not deal in operating leases which are the domain of specialist lessors, e.g. car rental company. The following notes are merely designed to make a basic comparison between a financial and operating lease.</p> <p>Under an operating lease, the lessor does not wholly recover the cost of the equipment out of the rentals receivable under lease during the non-cancellable period, which is normally significantly shorter than the estimated useful life of the equipment. The lessor relies on the residual value of the equipment to recover the balance net in investment and earn a</p>

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	<p>To delete from 2nd paragraph beginning from “An example is car rentals...” till “...= 23.35% per annum” and replace with “To recover the investment cost and make a profit, the lessor depends on continuing demand for the rental of the assets. The lessee normally pays all lease rentals upfront and in advance for very short lease period such as renting a car for 7 days. For longer lease periods, such as for 6-month lease period for a tower crane, the lease rentals may be payable on a monthly basis.</p> <p>The lessee assures the lessor that the asset will be returned in a lease-able condition. If the asset is damaged, then the lessee is responsible for bearing the cost of repairs.”</p>	<p>profit.</p> <p>An example is car rentals where the cars are leased for one or two days. Computation of monthly rental</p> <p>In computing the monthly rental, payments under a leasing contract, the following formula is used:</p> $R = \frac{P + (P \times I \times N)}{N \times 12}$ <p>where, R = the monthly lease rental payment due to the lessor P = the total lease financing amount expected to be paid by the lessor I = the flat rate of interest charged on the lessee; and N = the number of years of the lease period</p> <p>Example: STAR Leasing Sdn Bhd has agreed to provide Nagol Sdn Bhd with a pure lease financing of RM100,000. The details are as follows:</p> <p>Equipment cost: RM100,000 Lease financing (P): RM100,000 Period of financing (N): 3 years Rate of interest (I): 12% flat rate</p> <p>By applying the above formula, the monthly lease rental is arrived at as follows:</p> <p>Rental = $\frac{100,000 + (RM100,000 \times 12\% \times 3)}{3 \times 12}$</p>

No	Description/Existing Contents	Amended Contents
		$\frac{\text{RM}100,000 + (\text{RM}100,000 \times 0.12 \times 3)}{3 \times 12}$ <p>_____ = _____ = RM3,777.78 per month</p> <p>It can be seen from the above lease quotation that the rate of interest charged is on a “Flat rate” basis. This however, does not reflect the real rate of interest earned by the lessor. In order to know the real rate of interest earned, known as the effective yield, it is necessary for the lessor to convert the flat rate of interest to the effective rate. This can be done by applying the following formula:</p> $\text{Effective yield (\%)} = \frac{\text{Annual stated rate} \times 2 \times \text{No of Instalments}}{\text{No of Instalments} + 1}$ <p>Therefore, using the rate of interest charged above, it could be seen that the effective yield of 12% flat per annum for a period of three years is equal to:</p> $\frac{12 \times 2 \times 36}{37}$ <p>= 23.35% per annum</p> <p>To recover the investment cost and make a profit, the lessor depends on continuing demand for the rental of the assets. The lessee normally pays all lease rentals upfront and in advance for very short lease period such as renting a car for 7 days. For longer lease periods, such as for 6-month lease period for a tower crane, the lease rentals</p>

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		<p>may be payable on a monthly basis.</p> <p>The lessee assures the lessor that the asset will be returned in a lease-able condition. If the asset is damaged, then the lessee is responsible for bearing the cost of repairs.</p>
40.	<p>Chapter 13, Page 13-27 Item 2.6</p> <p>To add as last paragraph.</p>	<p><u>Other Risks:</u></p> <ul style="list-style-type: none"> • For leases structured with high residual value such that at the end of the lease period, the asset may not be able to realise the full residual value and the lessee may not have the financial means to honour the residual value to the lessor. • Quality of the asset (including the risk of obsolescence) which can affect its cash-flow generating ability and realisation of the residual value at the end of the lease period • Failure of the asset to generate the cash-flow originally expected due to lack of demand for output produced by the asset.
41.	<p>Chapter 13, Page 13-27 Item 2.7, point no.1, 4th sentence</p> <p>To add “lease” after “...end of the”.</p> <p>Point No.2</p>	<p>2.7 Lease Structures</p> <p>There are three flexible and comfortable ways to pay the lease:</p> <ol style="list-style-type: none"> 1. The lease period is broken up into primary and secondary periods. For the primary period, monthly payments that include the cost of the assets and interest are paid. One may use the assets for a predetermined period. <u>At the end of the lease period</u>, the lessee may terminate the contract by returning the assets.

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	<p>To add as last 2 sentences, “It is the preferred structure if the lessee feels that interest rates are on the rising trend. The same implicit Rate of Return applies throughout the lease period.”</p> <p>Point No.3 To add as 2nd and 3rd sentences, “The common reference rate used by Financial Institutions is the Base Lending Rate. Hence, the lease rental will vary as the reference rate changes.”</p>	<p>2. Fixed rate lease: Under this concept, fixed amounts are paid throughout the lease period. It is the preferred structure if the lessee feels that interest rates are on the rising trend. The same implicit Rate of Return applies throughout the lease period.</p> <p>3. Floating rate lease: This payment mode allows the lease rental payments to vary according to the FI’s lending rate. The common reference rate used by Financial Institutions is the Base Lending Rate. Hence, the lease rental will vary as the reference rate changes. This method is ideal for the lessee in an economic scenario of declining interest rates.</p>
42.	<p>Chapter 13, Page 13-27 & 13-28 Item 2.7, Under subheader, “Margins in leases are taken as initial rental”</p> <p>To add as 3rd paragraph.</p> <p>Last paragraph To replace “intended to be refunded at the end of the lease contract” with “employed in a lease structure to determine the lease rental and may be refunded to the lessee at the lease contract, in the event there is a surplus to rental requirement”.</p>	<p>It should be noted that the various ways of taking the margins will invariably have a direct effect on the lease rentals.</p> <p>The security deposit is a proper deposit to secure against the lessee’s commitments under the contract – it is generally intended to be refunded at the end of the lease contract employed in a lease structure to determine the lease rental and may be refunded to the lessee at the lease contract, in the event there is a surplus to rental requirement.</p>
43.	<p>Chapter 13, Page 13-28 Item 2.8</p> <p>3rd paragraph To add “(a specialist company, not a financial institution)” after “The leasing</p>	<p>The leasing company (a specialist company, not a financial institution) cannot call back the asset unless the lessee fails to pay.</p>

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	<p>company...”</p> <p>4th paragraph To delete “There is no fear of discontinuance of business by the lessee with the lessor. Unlike the lessee with a supplier, default in payment may result non-supply of goods.” and replace with “Upon default of payment of lease rentals, lessor has the right to repossess the asset or call back the asset.”</p> <p>5th paragraph To delete “Getting credit information on a lessee may not be easy as the lessees come from various trades and industry.” and replace with “To obtain credit information, the lessor has the right to request for information from the lessee, who is effectively the borrower.”</p>	<p>There is no fear of discontinuance of business by the lessee with the lessor. Unlike the lessee with a supplier, default in payment may result non-supply of goods. Upon default of payment of lease rentals, lessor has the right to repossess the asset or call back the asset.</p> <p>Getting credit information on a lessee may not be easy as the lessees come from various trades and industry. To obtain credit information, the lessor has the right to request for information from the lessee, who is effectively the borrower.</p>
44.	<p>Chapter 13, Page 13-29 Item 2.9, header</p> <p>To add “Pre-disbursement Precautions and” after “Supervision and Control –...”</p>	<p>2.9 Supervision and Control – Pre-disbursement Precautions and Periodic Review</p>
45.	<p>Chapter 13, Page 13-29 & 13-30 Item 2.10, 2.10.1 & 2.10.2</p> <p>To delete 2.10, 2.10.1 and 2.10.2</p>	<p>2.10 End of term options</p> <p>The options allowed to the lessee at the end of the primary lease period are called end of term options.</p> <p>Essentially, one, or more, of the following options will be given to the lessee at the end of the lease term:</p> <ul style="list-style-type: none"> ● Option to buy (buyout option) at a bargain price or nominal value, called bargain buyout option ● Option to buy at a fair market value or fixed, but substantial value ● Option to renew the lease at

No	Description/Existing Contents	Amended Contents
		<p>nominal rentals, called bargain renewal option</p> <ul style="list-style-type: none"> • Option to renew the lease at fair market rentals or substantial rentals • Option to return the equipment <p>In any lease, which option will be suitable depends on the nature of the lease transaction, as also the applicable regulations. For example, in a full payout financial lease, the lessor would have recovered the whole or substantially the whole of his investment during the primary lease period. Therefore, it is quite natural that the lessee should be allowed to exhaust the whole of the remaining value of the equipment. Regulation permitting, the lessor provide the lessee a bargain purchase option to allow the lessee to complete the purchase of the equipment.</p> <p>2.10.1 Buyout option</p> <p>The buyout option may characterise the lease as hire purchase. However, in many jurisdictions, it is the existence of such a buyout option that demarcate between lease and hire-purchase transactions. If the lessor is interested to structure the lease as a lease and not hire-purchase, he would be advised not to provide any buyout option, but instead, to allow the lessee to renew the lease to continue the use of the</p>

No	Description/Existing Contents	Amended Contents
		<p>asset. In essence, a renewal option achieves the same purpose as a purchase, but the lessor retains his ownership as also his reversionary interest in the equipment.</p> <p>2.10.2 Fair market value options</p> <p>Fair market value options, either for purchase of equipment, or for renewal, are typical of operating leases, but are really speaking no more than assuring to the lessee a continued use of the equipment. If equipment has to be bought at its prevailing market value, it can be bought from the market rather than from the lessor therefore, the fair market value option carries no value for the lessee.</p>
46.	<p>Chapter 13, Page 13-35 Practice Questions</p> <p>Question 1 To add, “2 different” after “What are the...”</p> <p>Question 2 To replace “...different types of hire-purchase financing.” with “types of HP arrangement that an FI can have with dealers.”</p>	<ol style="list-style-type: none"> 1. What are the 2 different types of hire-purchase financing? 2. Explain the 4 types of HP arrangement that an FI can have with dealers.