Clarification on Changes in SFM Study Material (New Syllabus) uploaded on www.icai.org in October, 2019

Following are the changes:-

1. **Deletion of 3 Chapters** - "Indian Financial System", "International Financial Centre", "Small & Medium Enterprises" *[These chapters were already deleted in earlier Announcements by ICAI]*

2. **Mutual Fund** Chapter - Concept of **Tracking Error** & its Formula has been added

"Tracking error can be defined as the divergence or deviation of a fund's return from the benchmarks return it is following.

The passive fund managers closely follow or track the benchmark index. Although they design their investment strategy on the same index but often it may not exactly replicate the index return. In such situation, there is possibility of deviation between the returns.

The tracking error can be calculated on the basis of corresponding benchmark return vis a vis quarterly or monthly average NAVs.

Higher the tracking error higher is the risk profile of the fund. Whether the funds outperform or underperform their benchmark indices; it clearly indicates that of fund managers are not following the benchmark indices properly. In addition to the same other reason for tracking error are as follows:

- Transaction cost
- Fees charged by AMCs
- Fund expenses
- Cash holdings
- Sampling biasness

Thus from above it can be said that to replicate the return to any benchmark index the tracking error should be near to zero.

The Tracking Error is calculated as follows:

$$TE = \sqrt{\frac{\sum(d - \overline{d})}{n-1}}$$

d = Differential return

$\overline{d}$ = Average differential return

n = No. of observation

3. **Risk Management** Chapter - Under "Financial Risk" - Liquidity Risk has also been named. [Earlier "Financial Risk" comprised of (a) Counter Party Risk (b) Political Risk (c) Interest Rate Risk (d) Currency Risk. & Now the list also includes **(e) Liquidity Risk**

(e) Liquidity Risk - Broadly liquidity risk can be defined as inability of organization to meet it liabilities whenever they become due.

This risk mainly arises when organization is unable to generate adequate cash or there may be some mismatch in period of cash flow generation.

This type of risk is more prevalent in banking business where there may be mismatch in maturities and receiving fresh deposits pattern.

4. Security Analysis - **Technical Analysis** - A small theoretical portion of **"Difference between Fundamental Analysis & Technical Analysis"** has also been added. *Please mark it down as it could be a 5 Marks Question in exam*

Although a successful investor uses both Fundamental and Technical Analysis but following are some major differences between them:

S. No.	Basis	*Fundamental Analysis*	*Technical Analysis*
1	Method	Prospects are measured by analyzing economy's macro factors such as Country's GDP, Inflation Rate, Interest Rate, Growth Rate etc. and company's micro factors like its Sales, Profitability, Solvency, Asset & Liabilities and Cash position etc.	Predicts future prices and their direction using purely historical market data and information such as their Price Movements, Volume, Open Interest etc.
2	Rule	Prices of a share discounts everything.	Price captures everything
3	Usefulness	For Long-Term Investing	For Short-term Investing

5. Security Analysis - **Technical Analysis** - Alternative Formula to calculate **EMA** (Exponential Moving Average) has been added by ICAI in Study Material. *There is no need to worry about this change as this new formula was already taught us in the Class itself.*

Apart from above changes there is no change in Study Material as compared to immediate previous version ***(100% of the Concepts remain same and 100% of Questions remain same)***