

2012 CIPM Program: Expert Courseware Errata
23 January 2012

To be fair to all candidates, CFA Institute does not respond directly to individual candidates. If you have a question concerning CIPM Program content, please contact CFA Institute (info@cfainstitute.org) to have potential errata investigated. Corrections below are in **bold** and new corrections will be shown in **red**.

Study Session I – Ethical and Professional Standards

- *Reading 2*: In the second full paragraph at the top of p. 168 of the *Standards of Practice Handbook*, fee income of US\$200,000 should be for **Lewis Brothers** instead of Brady Securities.

Study Session V – Performance Evaluation: Attribution – Equities and Futures

- In Reading 2, *Practical Portfolio Performance Measurement and Attribution*, Exhibit 9.4 (p. 299) should show Japanese Equities as $30\% \times [(\mathbf{0.95/0.96}) - 1] \times (\mathbf{0.96/1.05})$. The solution of -0.29% is correct as given.

The *Global Investment Performance Standards* (pp. 487–560 of the curriculum) mistakenly show text as gray font and non-testable. All parts of the GIPS standards are assigned and are testable except those paragraphs dealing with Provision 8, “Wrap Fee/Separately Managed Account (SMA) Portfolios” (pp. 498, 514, 515, 536) and Sample Presentation 8 (pp. 553 and 554). All other pages of the GIPS standards are assigned and are testable.

Practice Questions and Solutions

- *Clarification*: In SS-II Practice Problem 4 (p. 680), the value of the equity portion of the portfolio (\$300 million) is independent of the price of the stock on which the fund owns options. The stocks owned by the portfolio and the stocks on which the fund has purchased options are not necessarily the same. This is faithful to the examples and the approach shown in the study session readings.
- In Exhibit 1 of the SS-IV practice problems (p. 698), change the Annualized Returns to **6.13%** (for Babbage) and **15.12%** (Index). In Problem 13, change **option B to 2.23** and **option C to 4.03**. The correct answer to 13 (p. 705) remains C, calculated as $\mathbf{6.13}/(-1.52) = \mathbf{4.03}$.
- **Delete Practice Problem 8 of SS-XI** on p. 808; this problem is no longer assigned.
- **When compiled for publication, the last page of solutions was omitted. The page that follows completes the solutions for Study Session XII, problems 4 through 9.**

(Continuation of Solutions to Study Session XII)

procedures to determine that the firm's classification of the portfolios as discretionary or non-discretionary is appropriate by referring to the portfolio's investment management agreement and/or investment guidelines and the firm's policies and procedures for determining investment discretion." C is incorrect because GIPS Provision IV.B.2.c.iii states, in part, "Verifiers must...determine that: The portfolio's investment mandate, objective, or strategy, as indicated by the portfolio's investment management agreement, investment guidelines, portfolio summary, and/or other appropriate documentation, is consistent with the composite definition."

5. The correct answer is B. The Guidance Statement on Verifier Independence states, "...a verification firm may participate in the process of implementing a new performance measurement system for a verification client, but the verification firm must be careful to not undertake management functions. The verifier must **not** have final responsibility for data conversion and reconciliation functions." A and C are not the best answers because drafting the RFP and evaluating vendors' solutions are not functions that place Maven in a decision-making role or in a position to verify its own work.

6. The correct answer is A. GIPS Provision III.B.8 states, "All advertisements that include a claim of compliance with the GIPS standards by following the GIPS Advertising Guidelines must disclose the following: The benchmark description."

7. The correct answer is C. GIPS Provision III.B.6 states, "All advertisements that include a claim of compliance with the GIPS standards by following the GIPS Advertising Guidelines must disclose the following: Whether returns are presented gross-of-fees and/or net-of-fees". A is incorrect because GIPS-compliant advertisements may show either five years of annual composite returns or period-to-date, one-, three-, and five-year cumulative annualized composite returns. Herrschaft's advertisement shows the latter. B is incorrect because the GIPS Advertising Guidelines do not require firms to present a measure of dispersion.

8. The correct answer is A. Answer A presents the prescribed wording of the GIPS Advertising Guidelines compliance statement.

9. The correct answer is B. Herrschaft's description of the composite strategy is uninformative. It would most likely be possible for Herrschaft to provide a more satisfactory description without revealing its trade secrets. A is incorrect because the description of the firm is adequate. C is incorrect because Herrschaft states that derivatives are used solely for the purpose of efficient management of cash flows. GIPS Provision III.B.11 states, "All advertisements that include a claim of compliance with the GIPS standards by following the GIPS Advertising Guidelines must disclose the following: The presence, use, and extent of leverage, derivatives, and short positions, if material, including a description of the frequency of use and characteristics of the instruments sufficient to identify risks". Consequently, a description of the use and extent of leverage or derivatives is not required in this case.