Curriculum Errata Notice

2024 Level II CFA Program

UPDATED 22 APRIL 2024

This document outlines the errors submitted to CFA Institute that have been corrected.

Due to the nature of our publishing process, we may not be able to correct errors submitted after 1 September 2024 in time for the publication of the following year's print materials. However, we update all errors in the Learning Ecosystem (LES) and in this document at the end of each month.

We recommend checking either the LES or this document regularly for the most current information. Depending on when you purchase the print materials, they may or may not have the errors corrected.



All errors can be submitted via http://cfa.is/Errata



Table of Contents

Contents	
Quantitative Methods	4
Evaluating Regression Model Fit and Interpreting Model Results	4
Model Misspecification	5
Extensions of Multiple Regression	6
Time-Series Analysis	8
Machine Learning	9
Economics	
Currency Exchange Rates: Understanding Equilibrium Value	
Economic Growth	
Financial Statement Analysis	
Intercorporate Investments	
Employee Compensation: Post-Employment and Share-Based	
Financial Statement Modeling	
Corporate Issuers	
Cost of Capital: Advanced Topics	
Corporate Restructuring	
Equity Valuation	
Free Cash Flow Valuation	
Market-Based Valuation: Price and Enterprise Value Multiples	
Residual Income Valuation	
Private Company Valuation	
Fixed Income	24
The Term Structure and Interest Rate Dynamics	24
The Arbitrage-Free Valuation Framework	26
Valuation and Analysis of Bonds with Embedded Options	27
Credit Analysis Model	
	2



Alternative Investments	.29
Introduction to Commodities and Commodity Derivatives	. 29
thical and Professional Standards	.30
Guidance for Standards I-VII	.30
Application of the Code and Standards: Level II	. 30



Quantitative Methods

Basics of Multiple Regression and

Underlying Assumptions

Lesson	Location	PDF Pg	Revised	Correction	
Basics of Multiple Regression	Knowledge Check Solution 1	9	29 Jan 2024	Replace: If the market excess return, SMB, and HML are each zero, then we expect a return on the portfolio of 1.534%.	With: If the market excess return, SMB, and HML are each zero, then we expect a return on the portfolio of 1.5324% .

Evaluating Regression Model Fit and Interpreting Model Results

Lesson	Location	PDF Pg	Revised	Correction	
Goodness of Fit	Exhibit 1	28	29 Jan 2024	Replace cell in column "Coefficient" and row "Intercept": 2.1876	With: -2.1876
Goodness of Fit	Knowledge Check, Solution	31	29 Jan 2024	Replace: The lower adjusted R ² is consistent with the <i>t</i> -statistic for ADV's coefficient < 1.0 (i.e., 0.3302) and the coefficient not being different from zero at typical significance levels (P-value = 0.7429).	With: The lower adjusted R ² is consistent with the <i> t</i> -statistic <i> </i> for ADV's coefficient < 1.0 (i.e., -0.3320) and the coefficient not being different from zero at typical significance levels (P-value = 0.7429).



Lesson	Location	PDF Pg	Revised	Correction	
Testing Joint Hypotheses for Coefficients	Equation with heading: One-sided coefficient test, right side	34	29 Jan 2024	Replace: $H_0: b_j \ge B_j, H_a: b_j > B_j$	With: $H_0: b_j \leq B_{j\nu} H_0: b_j > B_j$

Quantitative Methods

Model Misspecification

Lesson	Location	PDF Pg	Revised	Correction	
Violations of Regression Assumptions: Multicollinearity	Practice Problems Exhibit 2	72	22 March 2024	Replace: Model B Durbin-Watson 5.088 4.387 No	With: Model B Durbin-Watson 3.088 2.387 No



Quantitative Methods

Extensions of Multiple Regression

Lesson	Location	PDF Pg	Revised	Correction	
Dummy Variables in a Multiple Linear Regression	Equation 3	87	29 Jan 2024	Replace: $Y_i = b_0 + d_0Db_i + b_1X_i + \varepsilon_i.$	With: $Y_i = b_0 + \mathbf{d}_0 \mathbf{D} \mathbf{b}_i + b_1 X_i + \varepsilon_i.$
Dummy Variables in a Multiple Linear Regression	Equation 5	89	22 March 2024	Replace: $Y_i - b_0 + d_0D_1 + b_1X_i + d_1D_iX_i + \varepsilon_i.$	With: $Y_i = b_0 + d_0D_1 + b_1X_i + d_1D_iX_i + \varepsilon_i.$
Dummy Variables in a Multiple Linear Regression	Question Set, Question 3	93	29 Jan 2024	Replace Option A: The average return for a regulated firm is 0.5% lower than for a non-regulated firm, holding the market share constant. Replace Option C: For each increase in market share, a regulated firm has a 0.3 lower return on assets than a non-regulated firm.	With: The average return for a regulated firm is at least 0.5% lower than for a non-regulated firm, holding the market share constant. With: For each increase in market share, a regulated firm will have an increasingly lower ROA than an unregulated firm .



Lesson	Location	PDF Pg	Revised	Correction	
Dummy Variables in a Multiple Linear Regression	Question Set, Solution to 3	93	29 Jan 2024	Replace: A is correct because the coefficient on REG is –0.5.	With: A is correct because the coefficient on REG is –0.5. As MKTSH approaches 0, we see that the regulated firm has 0.5% less return. Or, if the Market Share Contribution to return is the same, that is, 0.2*MKTSH(Regulated) = 0.4*MKTSH(Non- regulated), then the regulated firm has 0.5% less return.
				C is correct because the sum of coefficients is –0.3 = –0.5REG + 0.4MKTSH –0.2REG_MKTSH).	C is correct because the sum of coefficients is $-0.3 = -0.5$ REG + 0.4MKTSH -0.2 REG_MKTSH). If MKTSH increases by 1%, for both regulated and non-regulated, the regulated firm will have a return that is 0.2% less, 0.2(1%) - 0.4(1%) = -0.2%. The 0.5% return of the non-regulated does not get included, since we are looking at the change in the return, based on a 1% increase in MKTSH.
Multiple Linear Regression with Qualitative Dependent Variables	Knowledge Check, Solution 2	99	22 March 2024	Replace: Therefore, the marginal impact of increasing the NPM variable by 1%, rounded to two decimal places, is a decrease in the probability of a share buyback of 29.00% – 29.06% = –0.07%; differently put, it increases the probability of a share buyback.	With: Therefore, the marginal impact of increasing the DE variable by 1%, rounded to two decimal places, is a decrease in the probability of a share buyback of 29.00% – 29.06% = –0.07%; differently put, it decreases the probability of a share buyback.
Multiple Linear Regression with Qualitative Dependent Variables	Practice Problem 9	109	22 March 2024	Replace: $P = \frac{1}{1 + \exp\left\{-\begin{bmatrix} -2.0350 + (-0.7667)(0.2911) + (-0.0089)(92.9093) + \\ (-0.1113)(2.3068) + (0.0292)(15.1743) + (0.0390)(2.0711) + \\ (0.3432)(1.6060) + (-0.0502)(7.6489) \end{bmatrix}\right\}}$	With $P = \frac{1}{\left(-0.0350 + (-0.7667)(0.2911) + (-0.0089)(92.9093) + (-0.1113)(2.3068) + (0.0292)(15.1743) + (-0.0390)(2.0711) + (-0.3432)(1.6060) + (-0.0502)(7.6489)\right)}$
Multiple Linear Regression with Qualitative Dependent Variables	Solution 13	110	22 March 2024	Replace: Probability of being a winning fund = $0.3595 = \frac{1}{1 + \exp[-(-1.9589) + (0.3453)(4.0)]}$.	With: Probability of being a winning fund = $0.3595 = \frac{1}{1 + \exp[-(-1.9589) + (0.3453)(4.0)]}$



Time-Series Analysis

Lesson	Location	PDF Pg	Revised	Correction	
Trend Models and Testing for Correlated Errors	Second paragraph	124	29 Jan 2024	Replace: Because the value of the Durbin–Watson statistic (1.09) is below this critical value, we can reject the hypothesis of no positive serial correlation in the errors.	With: Because the value of the Durbin–Watson statistic (1.2145) is below this critical value, we can reject the hypothesis of no positive serial correlation in the errors.
Mean Reversion and Multiperiod Forecasts	Exhibit 13	131	22 March 2024	Replace:CoefficientStandard Errort-StatisticIntercept1.33460.21346.2540	With: Coefficient Standard Error t-Statistic Intercept 0.13346 0.2134 0.6254
Seasonality in Time-Series Models	Example 15 last paragraph	154	22 March 2024	Replace: If sales grew by 1% last quarter and by 2% four quarters ago, then the model would predict that sales growth this quarter will be 0.0107 – 0.0154(0.01) + 0.7549(0.02) = 0.0256, or 2.56%.	With: If sales grew by 1% last quarter and by 2% four quarters ago, then the model would predict that sales growth this quarter will be 0.0107 – 0.1540(0.01) + 0.7549(0.02) = 0.0243, or 2.43% .
Other Issues in Time Series	Solution 10	191	22 March 2024	Replace: To see whether this result is significantly less than 2.0, refer to the Durbin–Watson table in Appendix E at the end of this volume, in the column marked $k = 1$ (one independent variable) and the row corresponding to 80 observations. We see that $dl = 1.61$.	With: To see whether this result is significantly less than 2.0, refer to the Durbin–Watson table in Appendix E at the end of this volume, in the column marked $k = 1$ (one independent variable) and the row corresponding to 80 observations. We see that $dl = 1.55$.



Quantitative Methods

Machine Learning

Lesson	Location	PDF Pg	Revised	Correction	
Hierarchical Clustering	LOS	241	29 Jan 2024	Replace: describe neural networks, deep learning nets, and reinforcement learning	With: describe unsupervised machine learning algorithms—including principal components analysis, k-means clustering, and hierarchical clustering—and determine the problems for which they are best suited
Case Study: Clustering Stocks Based on Co- Movement Similarity	LOS	245	29 Jan 2024	Replace: describe neural networks, deep learning nets, and reinforcement learning	With: describe unsupervised machine learning algorithms—including principal components analysis, k-means clustering, and hierarchical clustering—and determine the problems for which they are best suited
Deep Neural Networks	LOS	254	29 Jan 2024	Add as the LOS statement: describe neural networks, deep learning nets, and reinforcement learning	
Case Study: Deep Neural Network– Based Equity Factor Model	LOS	256	29 Jan 2024	Add as the LOS statement: describe neural networks, deep learning nets, and reinforcement learning	
Choosing an Appropriate ML Algorithm	LOS	265	29 Jan 2024	Add as the LOS statement: describe supervised machine learning algorithms—including penalized regression, support vector machine, k-nearest neighbor, classification and regression tree, ensemble learning, and random forest—and determine the problems for which they are best suited" and "describe unsupervised machine learning algorithms—including principal components analysis, k-means clustering, and hierarchical clustering—and determine the problems for which they are best suited	



Lesson	Location	PDF Pg	Revised	Correction	
Practice Problems	Problem 6, Option C	273	29 Jan 2024	Replace: Statements 1, 3 and 3.	With: Statements 1, 2, and 3.
Practice Problems	Solution to 10	276	29 Jan 2024	Replace: A is correct. It is the least accurate answer because neural networks with many hidden layers—at least 3, but often more than 20 hidden layers—are known as deep learning nets.	With: A is correct. It is the least accurate answer because neural networks with many hidden layers—at least 2 , but often more than 20 hidden layers—are known as deep learning nets.



Economics

Currency Exchange Rates: Understanding

Equilibrium Value

Lesson	Location	PDF Pg	Revised	Correction	
Purchasing Power Parity	Second sentence at top of page	407	22 March 2024	Replace: Each chart plots the inflation differential (horizontal axis) against the percentage change in the exchange rate (vertical axis).	With: Each chart plots the inflation differential (vertical axis) against the percentage change in the exchange rate (horizontal axis).
Purchasing Power Parity	Last paragraph of the page	407	22 March 2024	Replace: Note that the Brazilian Real-USD exchange rate changes rapidly in the period 1990-1993, mirroring the very large differences in relative inflation between hyperinflationary Brazil and low infla- tion rate United States.	With: Note that the Brazilian Real-USD exchange rate changes rapidly in the period 1980-1993 , mirroring the very large differences in relative inflation between hyperinflationary Brazil and low infla- tion rate United States.
Purchasing Power Parity	Exhibit 3 Title	408	22 March 2024	Replace axis headings: DEM/USD and US less German Real Interest Rates	With: REAL/USD and Differences in Inflation Rates
Monetary and Fiscal Policies	Second paragraph	425	22 March 2024	Replace: With floating exchange rates and high capital mobility, a domestic currency will appreciate given a restrictive domestic monetary policy and/or an expansionary fiscal policy. Similarly, a domestic currency will depreciate given an expansionary domestic monetary policy and/or a restrictive fiscal policy. In Exhibit 4, we show that the combination of a restrictive monetary policy and an expansionary fiscal policy is extremely bullish for a currency when capital mobility is high; likewise, the combination of an expansionary monetary policy and a restrictive fiscal policy is bearish for a currency.	With: With floating exchange rates and high capital mobility, a domestic currency will appreciate given a restrictive domestic monetary policy and/or an expansionary fiscal policy that results in higher real interest rates. Similarly, a domestic currency will depreciate given an expansionary domestic monetary policy and/or a restrictive fiscal policy that results in lower real interest rates. In Exhibit 4, we show that the combination of a restrictive monetary policy and an expansionary fiscal policy (high real rates) is extremely bullish for a currency when capital mobility is high; likewise, the combination of an expansionary monetary policy and a restrictive fiscal policy (lower real rates) is bearish for a currency.



Lesson	Location	PDF Pg	Revised	Correction							
Monetary and Fiscal Policies	Exhibit 5	426	29 Jan 2024	Replace:	Expansionary Monetary Policy	Restrictive Monetary Policy	With:	/ith: Expansionary Monetary Policy			
				Expansionary Fiscal Policy	Indeterminate	Domestic currency appreciates	Expansionary Fiscal Policy	Domestic currency depreciates	Indeterminate		
				Restrictive Fiscal Policy	Domestic currency depreciates	Indeterminate Restrictive Fiscal Policy		Indeterminate	Domestic currency appreciates		

Economics

Economic Growth

Lesson	Location	PDF Pg	Revised	Correction			
Factors Favoring and Limiting Economic Growth	Example 1 Question 1	466	29 Jan 2024	Replace: Singapore	[(\$66,189/\$4,299) ^{1/68}] – 1 = 4.6%	With: Singapore	[(\$66,189/\$4,299) ^{1/68}] – 1 = 4.1%



Financial Statement Analysis

Intercorporate Investments

Lesson	Location	PDF Pg	Revised	Correction	
Amortization of Excess Purchase Price, Fair Value Option, and Impairment	2 nd to last paragraph	19	29 Jan 2024	Replace: Both IFRS and US GAAP prohibit the reversal of impairment losses even if the fair value later increases.	With: Both IFRS and US GAAP prohibit the reversal of impairment losses even if the fair value later increases.
Practice Problems	Question 17 and Solution	51, 59		Remove the following Question 17: Compared to accounting principles currently in use, the pooling method BetterCare used for its Statewide Medical acquisition has most likely caused its reported: A. revenue to be higher. B. total equity to be lower. C. total assets to be higher. Remove the following Solution to 17: B is correct. Statewide Medical was accounted for under the pooling of interest method, which causes all of Statewide's assets and liabilities to be reported at historical book value. The excess of assets over liabilities generally is lower using the historical book value method than using the fair value method (this latter method must be used under currently required acquisition accounting). It would have no effect on revenue.	



Financial Statement Analysis

Employee Compensation: Post-Employment and Share-Based

Lesson	Location	PDF Pg	Revised	Correction						
Financial Reporting for Share-Based Compensation	Knowledge Check Solution 3	75	22 March 2024	Replace: Share-based compensation reserve ((equity) +30,888. Cash inflow from financing activities	equity) -7,728. Paid in capital of JPY 23,160 million.	With: Share-based compensation reserve (equity) -7,728. Paid in capital (equity) +33,888 . Cash inflow from financing activities of JPY 26,160 million.				
Share-Based Compensation Tax and Share Count Effects, Note	Example 4 Solution	80-81	29 Jan 2024	Replace: Basic shares outstanding Effect of dilutive securities: Diluted shares outstanding:	176,401,000 1,571,667 177,972,667	With: Basic shares outstanding Effect of dilutive securities: Diluted shares outstanding:	176,401,000 1,456,333 177,857,333			
Disclosures				Replace: RSUs: Unvested RSUs	3,028,000	With: RSUs: Unvested RSUs	3,028,000			
				Minus: Assumed repurchases of Dilutive shares:	1,456,333** 1,571.667	Minus: Assumed repurchases of Dilutive shares:	1,571,667** 1,456,333			
				Replace: = 1,456,333 assumed repurchases		With: = 1,571,667 assumed repurchases				
Share-Based Compensation and Financial Statement Modeling	Example 8	85	22 March 2024	Replace table row: Total operating expenses 33,26	50 20,561 1,330	With: Total operating expenses 33,26	50 20,561 13,330			



Lesson	Location	PDF Pg	Revised	Correction	
Financial Reporting for Post- Employment Benefits	Example 10 Question 2	95	29 Jan 2024	 Replace: Benefit obligation at the beginning of the year of 97 Fair value of plan assets at the beginning of the year of 1,010 	 With: Benefit obligation at the beginning of the year of JPY 97 million Fair value of plan assets at the beginning of the year of JPY 1,010 million
Financial Modeling and Valuation Considerations for Post- Employment Benefits	Practice Problem 9	104	22 March 2024	Replace choice A: 9. If XYZ prepared its financial statements under US GAAP, the total amount recognized by XYZ on the income statement related to its DB plan for fiscal year 2024 (assuming the company chooses not to immediately recognize the actuarial loss and assuming there is no amortization of past service costs or actuarial gains and losses) would be closest to: A. 28.	Replace choice A: 9. If XYZ prepared its financial statements under US GAAP, the total amount recognized by XYZ on the income statement related to its DB plan for fiscal year 2024 (assuming the company chooses not to immediately recognize the actuarial loss and assuming there is no amortization of past service costs or actuarial gains and losses) would be closest to: A. 20.
Financial Modeling and Valuation Considerations for Post- Employment Benefits	Solution 9	111	22 March 2024	Replace: A is correct. Under US GAAP—assuming the company chooses not to immediately recognize the actuarial loss and assuming there is no amortization of past service costs or actuarial gains and losses—the components of periodic pension cost that would be reported in P&L include the current service cost of 200, the interest expense on the pension obligation at the beginning of the period of 2,940 [= $7.0\% \times (42,000 + 120)$], and the expected return on plan assets, which is a reduction of the cost of 3,120 (= $8.0\% \times 39,000$). Summing these three components gives 28.	With: A is correct. Under US GAAP—assuming the company chooses not to immediately recognize the actuarial loss and assuming there is no amortization of past service costs or actuarial gains and losses—the components of periodic pension cost that would be reported in P& L include the current service cost of 200, the interest expense on the pension obligation at the beginning of the period of 2,940 [= 7.0% × 42,000], and the expected return on plan assets, which is a reduction of the cost of 3,120 (= 8.0% × 39,000). Summing these three components gives 20.



Financial Statement Analysis

Financial Statement Modeling

Lesson	Location	PDF Pg	Revised	Correction	
Modeling Operating Costs: Cost of Goods Sold and SG&A	Example 5 Solution 2	426	22 March 2024	Replace: The projected beauty EBIT is EUR2,689 million, while the projected mass market EBIT is EUR5,937 million, assuming mass market sales of EUR14,937 million, gross margin of 60.75%, A&P % of 15.4%, and SG&A/Other % of 23.6%.	With: The projected beauty EBIT is EUR2,689 million, while the projected mass market EBIT is EUR 3,249 million, assuming mass market sales of EUR14,937 million, gross margin of 60.75%, A&P % of 15.4%, and SG&A/Other % of 23.6%.

Corporate Issuers

Cost of Capital: Advanced Topics

Lesson	Location	PDF Pg	Revised	Correction
Mini-Case 2	Question and Answers	150	22 March 2024	Missing question and answer content can be found here: Link to PDF

Corporate Restructuring

Lesson	Location	PDF Pg	Revised	Correction	
Corporate Evolution, Actions, and Motivations	Exhibit 1 table headers	158	22 March 2024	Replace: Stage in Life Cycle Start-Up Start-Up Maturity Decline	With: Stage in Life Cycle Start-Up Growth Maturity Decline



Lesson	Location	PDF Pg	Revised	Correction							
Evaluating Investment Actions	Example 11 Solution 3	198	22 March 2024	Replace: Hapalla AG's offer of BR OHAA values OHAA at E value basis, or BRL147,3 subtracting cash and ca	RL45 billion t BRL180 billio 359 million i Ish equivaler	to acquire on (45/0.25 in equity v nts at year	a 25% interest in 5) on an enterprise alue after ⁻ -end 20X7.	With: Hapalla AG's offe OHAA values OH/ value basis, or BF subtracting cash a	r of BRL45 I AA at BRL18 R L147,539 r and cash ec	billion to acquire a 30 billion (45/0.25 nillion in equity va quivalents at year-	25% interest in) on an enterprise Ilue after end 20X7.
Evaluating Investment Actions	Exhibit 31 table	198	22 March 2024	Replace: Gain on sale 0	-	_	32,000	With: Gain on sale	0	32,000	32,000

Equity Valuation

Free Cash Flow Valuation

Lesson	Location	PDF Pg	Revised	Correction	
Non-operating Assets and Firm Value	Solution 4	81	22 March 2024	Replace: Firm value = <u>1.1559(1.04)</u> = \$24.583. 0.0889 – 0.04	With: Firm value = <u>1.1559(1.04)</u> = \$24.583 billion 0.0889 – 0.04



Equity Valuation

Market-Based Valuation: Price and Enterprise Value Multiples

Lesson	Location	PDF Pg	Revised	Correction	
Price/Earnings: Valuation based on Forecasted Fundamentals	Example 8 Solution 1	117- 118	22 March 2024	Replace: Value of the stock derived from FCFE = ¥6,980. Forecasted 2014 EPS = ¥720. ¥6,980/¥720 = 9.7 is the justified forward P/E.	With: Value of the stock derived from FCFE = ¥6,980. Forecasted 2020 EPS = ¥720. ¥6,980/¥720 = 9.7 is the justified forward P/E.
Price/Earnings: Using the P/E in Valuation	Example 11	124	22 March 2024	Replace: These data are reported in Exhibit 6, which lists companies in order of descending earnings growth forecast.	With: These data are reported in Exhibit 6 , which lists companies in order of descending earnings growth forecast .
Price/Earnings: Using the P/E in Valuation	Example 11 Solution 1	125	29 Jan 2024	Replace: Among the three companies identified as underpriced (based on their low trailing P/Es), CenturyLink has the highest five- year EPS growth forecast and the lowest PEG ratio.	With: Among the three companies identified as underpriced (based on their low forward P/Es), CenturyLink has the highest five-year EPS growth forecast and the lowest PEG ratio.
Price/Earnings: Using the P/E in Valuation	Example 11 Solution 1	125	29 Jan 2024	Replace: Among the other companies in Exhibit 6, Comcast and Charter Communications had the highest EPS growth forecasts and the second and third lowest PEG ratios.	With: Among the other companies in Exhibit 5 , Comcast and Charter Communications had the highest EPS growth forecasts and the third lowest and lowest PEG ratios.



Lesson	Location	PDF Pg	Revised	Correction											
Price/Earnings: Using the P/E in Valuation	Example 11	124	29 Jan 2024	Replace: Company	Traili ng P/E	Forwar d P/E	Five-Year EPS Growth Forecast	Forward PEG Ratio	Beta	With: Company	Trailing P/E	Forward P/E	Five-Year EPS Growth Forecast	Forward PEG Ratio	Beta
				AT&T	13.20	9.36	1.83%	7.20	0.56	AT&T	13.20	9.36	1.83%	5.11	0.56
				Comcast Corporation	16.23	12.92	11.20	1.45	1.09	Comcast Corporation	16.23	12.92	11.29	1.14	1.09
				CenturyLink	NMF	8.89	8.52	1.04	0.81	CenturyLink	NMF	8.89	8.52	1.04	0.81
				China Telecom	13.14	10.31	6.90	1.90	0.81	China Telecom	13.14	10.31	6.90	1.49	0.81
				Charter Communica tions	70.67	30.32	45.30	1.56	1.24	Charter Communicat ions	70.67	30.32	45.30	0.67	1.24
				Verizon	15.03	11.99	2.51	5.99	0.50	Verizon	15.03	11.99	2.51	4.78	0.50
				Windstrea m Holdings	19.01	16.29	3.19	5.96	0.45	Windstream Holdings	19.01	16.29	3.19	5.11	0.45
				Mean	24.55	14.30	11.30	3.59	0.78	Mean	24.55	14.30	11.30	2.76	0.78
				Median	15.03	11.99	6.90	1.90	0.78	Median	15.03	11.99	6.90	1.49	0.78



Lesson	Location	PDF Pg	Revised	Correction	
Enterprise Value/EBITDA	Example 34 Solution	164- 165	22 March 2024	Replace: CL has only one class of common stock, no preferred shares, and no minority interest. For companies that have multiple classes of common stock, market capitalization includes the total value of all classes of common stock. Similarly, for companies that have preferred stock and/or minority interest, the market value of preferred stock and the amount of minority interest are added to market capitalization. EV also includes the value of long-term debt obligations. Per CL's balance sheet, this is the sum of long-term debt (\$6,354 million), the current portion of long-term debt (\$0 million), and other non-current liabilities (\$2,034 million), or \$8,388 million. Typically, the book value of long-term debt is used in EV. If, however, the market value of the debt is readily available and materially different from the book value, the market value should be used. So, CL's EV is \$57,372 million + \$8,388 million - \$720 million = \$65,040	 With: CL has only one class of common stock, no preferred shares, but has minority interest. For companies that have multiple classes of common stock, market capitalization includes the total value of all classes of common stock. Similarly, for companies that have preferred stock and/or minority interest, the market value of preferred stock and the amount of minority interest are added to market capitalization. EV also includes the value of long-term debt obligations. Per CL's balance sheet, this is the sum of long-term debt (\$6,354 million), the current portion of long-term debt (\$0 million), and other non-current liabilities (\$2,269 million), or \$8,623 million. Typically, the book value of long-term debt is readily available and materially different from the book value, the market value should be used. So, CL's EV is \$57,372 million + \$8,623 million + \$299 million - \$720
					million = \$65,568 million .
				million) = 16.4.	For CL, we conclude that EV/EBITDA = (\$65,568 million)/(\$3,960 million) = 16.6 .



Lesson	Location	PDF Pg	Revised	Correction	
Valuation Indicators: Issues in Practice	Practice Problem 22 and solution	195 and 207	10 April 2024	Replace: 22. Based on Exhibits 1 and 2, the normalized earnings per share for Centralino as calculated by Risso should be closest to: A. $\notin 2.94$. B. $\notin 3.21$. C. $\notin 5.07$. Replace: Average ROE × BVPS = 0.131 × $\notin 22.48 = \notin 2.94$.	With: 22. Based on Exhibits 1 and 2, the normalized earnings per share for Centralino as calculated by Risso should be closest to: A. €2.96. B. €3.21. C. €5.07. With: Average ROE × BVPS = 0.131 × €22.48 = €2.96 .
Valuation Indicators: Issues in Practice	Practice Problem 30-31, Exhibit 2	199	22 March 2024	Replace: Required rate of ROE	With: Required rate of return
Valuation Indicators: Issues in Practice	Solution 22	207	22 March 2024	 Replace: The book value of (common) equity, or simply book value, is the value of shareholders' equity less any value attributable to the preferred stock: €1,027 million – €84 million = €943 million. Current book value per share (BVPS) is calculated as €943 million/41.94 million = €22.48. So, normalized EPS is calculated as Average ROE × BVPS = 0.131 × €22.48 = €2.94. 	 With: The book value of (common) equity, or simply book value, is the value of shareholders' equity less any value attributable to the preferred stock: €1,027 million – €80 million = €947 million. Current book value per share (BVPS) is calculated as €947 million/41.94 million = €22.58. So, normalized EPS is calculated as Average ROE × BVPS = 0.131 × €22.48 = €2.96.



Residual Income Valuation

Lesson	Location	PDF Pg	Revised	Correction			
Single-Stage and Multistage Residual Income Valuation	Example 11 Solution 2	236	29 Jan 2024	Replace: Current book value per share Present value of 6 years' residual income Terminal value [PT – BT = (1.8 × BT) – BT] Present value of terminal value (at 7.95%) Value per share	15.000 17.755 31.580 <u>18,856</u> €52.711	With: Current book value per share Present value of 6 years' residual income Terminal value [PT – BT = (1.8 × BT) – BT] Present value of terminal value (at 7.95%) Value per share	15.000 17.755 31.580 <u>19,956</u> €52.711



Equity Valuation

Private Company Valuation

Lesson	Location	PDF Pg	Revised	Correction			
Private Company Valuation:	Example 12	326	29 Jan 2024	Replace: FLI's Normalized Operating Income a	after Taxes	With: FLI's Normalized Operating Income aft	er Taxes
Approach				As of 31 December (in SGD)	As Adjusted	As of 31 December (in SGD)	As Adjusted
				Revenues Cost of goods sold Gross profit SG&A expenses EBIT Depreciation and amortization Earnings before interest and taxes Using FLI's tax rate of 17% and addition expenditures of SGD 1,200,000 and increa over the period, Khan solves for a base-ye FCFF = EBIT(1 – Tax rate) + Depreciat Capital SGD 11,982,000	50,000,000 30,000,000 20,000,000 3,700,000 16,300,000 900,000 15,400,000 tal information that FLI had capital used working capital by SGD 500,000 ear FCFF of SGD 11,982,000: tion(Tax rate) – ΔLT Assets – ΔWorking	Revenues Cost of goods sold Gross profit SG&A expenses EBITDA Depreciation and amortization Earnings before interest and taxes Using FLI's tax rate of 17% and additional expenditures of SGD 1,200,000 and increase over the period, Khan solves for a base-year FCFF = EBITDA(1 – Tax rate) Depreciation Capital SGD 11,982,000	50,000,000 30,000,000 20,000,000 3,700,000 16,300,000 900,000 15,400,000 information that FLI had capital d working capital by SGD 500,000 FCFF of SGD 11,982,000: n(Tax rate) – ΔLT Assets – ΔWorking
				= 16,300,000×(1 – 0.17) + 900,000×0.1	7 - 1,200,000 - 500,000	= 16,300,000×(1 - 0.17) + 900,000×0.17	- 1,200,000 - 500,000



Fixed Income

The Term Structure and Interest Rate Dynamics

Lesson	Location	PDF Pg	Revised	Correction	
Spot Rates, Forward Rates, and the Forward Rate Model	Example 1 Solution 3 & 4	348	22 March 2024	 Replace: 3. Calculate the forward price of a two-year bond to be issued in one year: <i>F_{A,B-A}</i> = <i>F</i>_{1,3}. 4. Interpret your answer to Problem 3. Solution: The forward contract price of <i>DF</i>_{1,2} = 0.8262 is the price agreed on today 	 With: 3. Calculate the forward price of a two-year bond to be issued in one year: <i>F</i>_{A,B-A} = <i>F</i>_{1,2}. 4. Interpret your answer to Problem 3. Solution: The forward contract price of <i>F</i>_{1,2} = 0.8262 is the price agreed on today
YTM in Relation to Spot and Forward Rates	Equations	360	29 Jan 2024	Replace: $DF_1^{new} = \frac{DF_2}{DF_1} = \frac{0.9246}{0.9615} = 0.9616$ $DF_2^{new} = \frac{DF_3}{DF_1} = \frac{0.8890}{0.9615} = 0.9246$ Using Equation 10, the price of the forward contract one year from today is $F_{2,1}^{new} = \frac{DF_2^{new}}{DF_1^{new}} = \frac{0.9246}{0.9615} = 0.9616.$	With: $DF_1^{new} = \frac{DF_2}{DF_1} = \frac{0.9246}{0.9615} = 0.9615$ $DF_2^{new} = \frac{DF_3}{DF_1} = \frac{0.8890}{0.9615} = 0.9246$ Using Equation 10, the price of the forward contract one year from today is $F_{2,1}^{new} = \frac{DF_2^{new}}{DF_1^{new}} = \frac{0.9246}{0.9615} = 0.9615$
YTM in Relation to Spot and Forward Rates	Third paragraph	360	29 Jan 2024	Replace: The price of the forward contract is nearly unchanged.	With: The price of the forward contract is unchanged.



Lesson	Location	PDF Pg	Revised	Correction	
Active Bond Portfolio Management	3 rd and 4 th paragraphs	363	29 Jan 2024	Replace: The 6% five-year bond purchased for 100 returns 120.61 in two years [(6 × 1.02) + 6 + 108.49], which consists of the first year's coupon reinvested at the one-year rate, the second annual coupon, and the capital gain on the sale of the 6% bond with three years to maturity at an unchanged three-year yield of 4% [108.49 = 6/1.04 + 6/(1.04) ² + 106/(1.04) ³]. The annualized rate of return is 9.823% [solve for r, where (120.61/100) = (1 + r) ²]. The 7% six-year bond purchased at par returns 125.03 in two years [(7 × 1.02) + 7 + 110.89] with an annualized return of 11.817%. The excess return of nearly 2% results from both higher coupon income than the five-year matched maturity bond as well as a larger capital gain on the sale of the 7% bond with four years to maturity at an unchanged four-year yield of 5% [110.89 = 7/1.05 + 7/(1.05) ² + + 7/(1.05) ³ + 107/(1.05) ⁴].	With: The 6% five-year bond purchased for 100 returns 117.67 in two years $[(6 \times 1.02) + 6 + 105.55]$, which consists of the first year's coupon reinvested at the one-year rate, the second annual coupon, and the capital gain on the sale of the 6% bond with three years to maturity at an unchanged three-year yield of 4% $[105.55 = 6/1.04 + 6/(1.04)^2 + 106/(1.04)^3]$. The annualized rate of return is 8.476% [solve for r, where (117.67 /100) = (1 + r) ²]. The 7% six-year bond purchased at par returns 121.23 in two years $[(7 \times 1.02) + 7 + 107.09]$ with an annualized return of 10.10% . The excess return of nearly 2% results from both higher coupon income than the five-year matched maturity bond as well as a larger capital gain on the sale of the 7% bond with four years to maturity at an unchanged four-year yield of 5% [107.09 = $7/1.05 + 7/(1.05)^2 + + 7/(1.05)^3 + 107/(1.05)^4$].
The Maturity Structure of Yield Curve Volatilities	Equation 15	382	22 March 2024	Replace: Delete extra minus symbol at the end of equation $3.3333\Delta z_{10}$	With: - 3.3333Δz ₁₀



Fixed Income

The Arbitrage-Free Valuation Framework

Lesson	Location	PDF Pg	Revised	Correction	
Term Structure Models	First sentence under The Kalotay- Williams- Fabozzi model subheader	441	22 March 2024	Replace: The Kalotay–Williams–Fabozzi (KWF) model is analogous to the Ho–Lee model in that it assumes constant drift, no mean reversion, and constant volatility.	With: The Kalotay–Williams–Fabozzi (KWF) model is analogous to the Ho–Lee model in that it assumes constant drift , no mean reversion, and constant volatility.
Term Structure Models	Practice Problems 11-19	452	22 March 2024	Replace: Statement 1: Increasing the number of paths increases the estimate's statistical accuracy. Statement 2: The bond value derived from a Monte Carlo simulation will be closer to the bond's true fundamental value.	 With: Statement 4: Increasing the number of paths increases the estimate's statistical accuracy. Statement 5: The bond value derived from a Monte Carlo simulation will be closer to the bond's true fundamental value.



Fixed Income

Valuation and Analysis of Bonds with Embedded

Options

Lesson	Location	PDF Pg	Revised	Correction	
Comparison of Risk-Return Characteristics	Exhibit 2	531	22 March 2024	Replace: Exhibit 2: Binomial Interest Rate Trees Interest Rates Shift Down by 30 bps Year 0 Year 1 Year 2 7.0037% 3.7000% 4.2548% 4.6947%	With: Exhibit 2: Binomial Interest Rate Trees Interest Rates Shift Down by 30 bps Year 0 Year 1 Year 2 7.1432% 3.8395% 4.3943% 4.3943% 4.3943% 4.3943%
				Interest Rates Shift Up by 30 bps Year 0 Year 1 Year 2	Interest Rates Shift Up by 30 bps Year 0 Year 1 Year 2



Fixed Income

Credit Analysis Model

Lesson	Location	PDF Pg	Revised	Correction	
Modeling Credit Risk and the Credit Valuation Adjustment	Fifth paragraph	545	22 March 2024	Replace: Column 7 gives the expected loss for each date. This is the LGD times the POD. For example, if default occurs on Date 3, the expected loss is 0.6894 per 100 of par value. The exposure is 94.2596. At 40% recovery, the LGD is 56.5558. Assuming no prior default, the POD for that date is 1.2189%. The expected loss of 0.6894 is calculated as 56.5558 times 1.2189%.	With: Column 7 gives the expected loss for each date. This is the LGD times the POD. For example, if default occurs on Date 3, the expected loss is 0.6894 per 100 of par value. The exposure is 94.2596. At 40% recovery, the LGD is 56.5558. Assuming no prior default, the POD for that date is 1.2189%. The expected loss of 0.6894 is calculated as 56.5558 times 1.2189%.
Credit Analysis for Securitized Debt	Exhibit 3	597	22 March 2024	Add tree graphic to Exhibit 3:	-0.2500% 2.1180% 2.9493% 1.4197% 1.9770% 2.4338%
Credit Analysis for Securitized Debt	Question 21	599	22 March 2024	Replace: Based on the research department assumption about the probability of default in Question 10 and her own assumption in Question 11, which action does Ibarra most likely expect from the credit rating agencies?	With: Based on the research department assumption about the probability of default in Question 18 and her own assumption in Question 19 , which action does Ibarra most likely expect from the credit rating agencies?



Lesson	Location	PDF Pg	Revised	Correction	
Credit Analysis for Securitized Debt	Solution 17	609	29 Jan 2024	Replace: Valuation of a four-year, 6% coupon bond under no default is computed in the solution to Question 8 as 1,144.63.	With: Valuation of a four-year, 6% coupon bond under no default is computed in the solution to Question 16 as 1,144.63.

Alternative Investments

Introduction to Commodities and Commodity

Derivatives

Lesson	Location	PDF Pg	Revised	Correction	
Commodity Indexes	Practice Problems relates to questions 16-22	211- 212		Replace: Statement 1 Roll returns are generally negative when a futures market is in contango. Statement 2 Roll returns are generally positive when a futures market is in backwardation.	With:Statement 4Roll returns are generally negative when a futuresmarket is in contango.Statement 5Roll returns are generally positive when a futuresmarket is in backwardation.



Ethical and Professional Standards

Guidance for Standards I-VII

Lesson	Location	PDF Pg	Revised	Correction	
Standard IV(A): Recommended Procedures	Text under Incident- Reporting Procedures header	266	29 Jan 2024	Replace: Report potentially unethical and illegal activities in the firm.	With: Members and candidates should be aware of their firm's policies related to whistleblowing and encourage their firm to adopt industry best practices in this area. Many firms are required by regulatory mandates to establish confidential and anonymous reporting procedures that allow employees to report potentially unethical and illegal activities in the firm.

Application of the Code and Standards: Level II

Lesson	Location	PDF Pg	Revised	Correction	
JR and Associates	Second to last sentence on page	398	29 Jan 2024	Replace: Ode now has three and a half years of experience in the investment industry.	With: Ode now has two and a half years of experience in the investment industry.
JR and Associates	Case Questions Solution 9	403	29 Jan 2024	Replace: B is incorrect. To be a CFA charterholder, Ode needs to have completed the required four years of work experience.	With: B is incorrect. To be a CFA charterholder, Ode needs to have completed the required three years of work experience.
JR and Associates	Case Questions Solution 9	403	29 Jan 2024	Replace: C is incorrect. The fact that she has completed all three levels of the CFA Program does not make Ode a CFA charterholder. To be a CFA charterholder, she must also have the required four years of work experience.	With: C is incorrect. The fact that she has completed all three levels of the CFA Program does not make Ode a CFA charterholder. To be a CFA charterholder, she must also have the required three years of work experience.