2022 CFA Program: Level I Errata

21 October 2021

If you find something in the curriculum that you think is in error, please submit full details via the form at http://cfa.is/Errata.

- The eBook for the 2022 curriculum is formatted for continuous flow, so the text will fit all screen sizes. Therefore, eBook page numbering—which is linked to section heads—does not match page numbering in the print curriculum.
- Corrections below are in bold, and new corrections will be shown in red; page numbers shown are for the print volumes.
- The short scale method of numeration is used in the CFA Program curriculum. A billion is 10^9 and a trillion is 10^{12}. This is in contrast to the long scale method where a billion is 1 million squared and a trillion is 1 million cubed. The short scale method of numeration is the prevalent method internationally and in the finance industry.

Glossary

- The second sentence in the definition for Embedded option should read, "These options are ~~**not**~~ part of the security and cannot be traded separately."
- The second sentence in the definition for Embedded options should read, "These options are ~~**not**~~ part of the security and cannot be traded separately."

Volume 1

Reading 3

- Practice Problem 14 (page 226 of print) should read, "Which of the following *best* describes how an analyst would estimate the expected value of a firm **using** the scenarios of bankruptcy and **non-bankruptcy**?..."

Reading 4

- In Section 8, in the second paragraph after the numbered list (page 286 of print), the first sentence should read, "It is a remarkable that random observations from any distribution can be produced using the uniform **distribution** with endpoints 0 and 1."

Reading 5

- The first sentence of the eighth bullet point of the Summary (page 345 of print) should read, "An estimator is a formula for **computing a sample statistic used to estimate a population parameter."**

Reading 7

- In Section 4.2, in the equations after "For simple linear regression, these hypotheses simplify to…" (page 452 of print) the superscript a should be italicized.

Volume 2

Reading 9

- In the first paragraph of Section 15, the last sentence (page 105 of print) should read, "Interestingly, not every consumer is worse off in this case, because some consumers may be charged a price that is below that of **monopoly**, as long as the marginal revenue exceeds the marginal cost."

Reading 12

- The first sentence in the second-to-last paragraph of Section 12.2 (page 325 of print) should read, "For example, if the tax rate is 20 percent, or 0.2, and the marginal propensity to **consume** is 90 percent, or 0.9, then the fiscal multiplier will be: …"
- The first sentence of the second paragraph of Section 12.3 (page 325 of print) should read, "It is because the marginal propensity to **consume** out of disposable income is less than 1, and hence for…"

Reading 18

Volume 3

Reading 17

- The second sentence in the fourth bullet point in the Summary (page 53 of print) should read, "Recognition of revenue when earned is a fundamental **principle** of accrual accounting."

Reading 18

- In Example 17 (page 108 of print), Solution to 2 should read, "**A, B, and C** are correct. The ratios are shown in the table below. The **cash ratio,** quick ratio, and current ratio are lower in 2017 than in 2016." In the table, in the Cash row, under 2017 € in millions should read, "**(**€4,011 **+ €990) ÷ €10,210 = 0.49**" and under 2016 € in millions should read, "**(**€3,702 **+ €1,124) ÷ €9,674 = 0.50**."

Reading 21

- In Exhibit 4 (pages 303-304 of print), all the dates in the Date column should be 2018, not 2009.

Reading 25

- In the fourth paragraph of Section 7.1 (page 511 of print), the second sentence should read, “Examples of regulatory bodies in South America include the Comisión Nacional de Valores in Argentina, Comissão de Valores Mobiliários in Brazil, and **Comisión para el Mercado Financiero** in Chile.”

Reading 26

- In the third paragraph of Section 5 (page 579 of print), the second-to-last sentence should read, “Exhibit 3 presents a hypothetical example of a simple stock screen based on the following criteria: a valuation ratio (P/E) less than a specified value, a solvency ratio measuring financial leverage (**calculated as** total liabilities/total assets) not exceeding a specified value…”

Reading 27

- In the fourth paragraph of Section 10.2 (page 633 of print), the last sentence should read, “For example, environmental factors, such as carbon emissions and water usage, will likely be material for utilities or mining ~~companies yet are relatively inconsequential for financial institutions~~.”

Volume 4

Reading 41

- In Section 3.2, the fifth paragraph after Exhibit 4 (page 534 of print), the first sentence should begin, “Matrix pricing ~~also~~ is **also** used in underwriting…”

Volume 5

Reading 43

- In Section 8, the first equation after Equation 13 (page 35 of print), the solution should be 10**0**.594327
- In Example 12 (page 36 of print), the third sentence should read, “The total market value of the position, including accrued interest, is USD10,495,447, or **104.95447** per 100 of par value.”

Reading 44

- In the solution to Practice Problem 36 (page 142 of print), the second sentence should read, “Credit analysts can make judgements about management’s character by evaluating the use of aggressive accounting policies, such as **using a significant amount of off-balance-sheet finance**."

Reading 45

- In Section 3.1.1, the last sentence in the seventh paragraph (page 160 of print) should read, "The gain on owning the underlying, which is $S_T - S_0$ = 1,275.90 – 1,207.40 = \$68.**5**0, differs from the gain (–\$37.00) on the forward contract."
- In the fourth paragraph of Section 8 (page 183 of print), the first two sentences should read, "CMOs partition the **prepayment risk from** these mortgages into difference **sequential-pay** tranches, which are typically called A, B, and C. **Without any support, the Class A tranche** bears the first wave of prepayments until that tranche has been completely repaid its full principal investment." The fourth sentence should read, "The Class **C** tranche holders then bear the next wave of prepayments."
- In Section 8, the third sentence of Footnote 11 (page 183 of print) should read, "Our discussion of the three classes is for illustrative purposes only and serves to emphasize **the sequential-pay structure and differential prepayment risk common to many CMOs**."
- Practice Problem 29 (page 207 of print) should read, "In a declining interest rate environment, compared with a **sequential-pay** CMO's Class A tranche, its Class C tranche will be repaid…"
- The solution to Practice Problem 29 (page 215 of print) should read, "**C** is correct. Lower interest rates entice homeowners to pay off their mortgages early because they can refinance at lower rates. **With a sequential-pay structure, the A** tranche in a CMO will bear the first wave of prepayments until that tranche has been completely repaid its full principal investment. At that point, the next tranche **(B)** will bear prepayments until that tranche has been fully repaid**, and so on**. Therefore, the Class C tranche of a CMO will be repaid **last, after the Class A and B tranches**.
  B is incorrect because the tranches, which have different **rules for the distribution of** principal payments made by the underlying mortgages, will see prepayments allocated to the **A tranche first and to the C tranche last**…."
- In the solutions to Practice Problems 46–55 (page 219 of print), the *C* and *P* variables should be *c* and *p*, respectively.

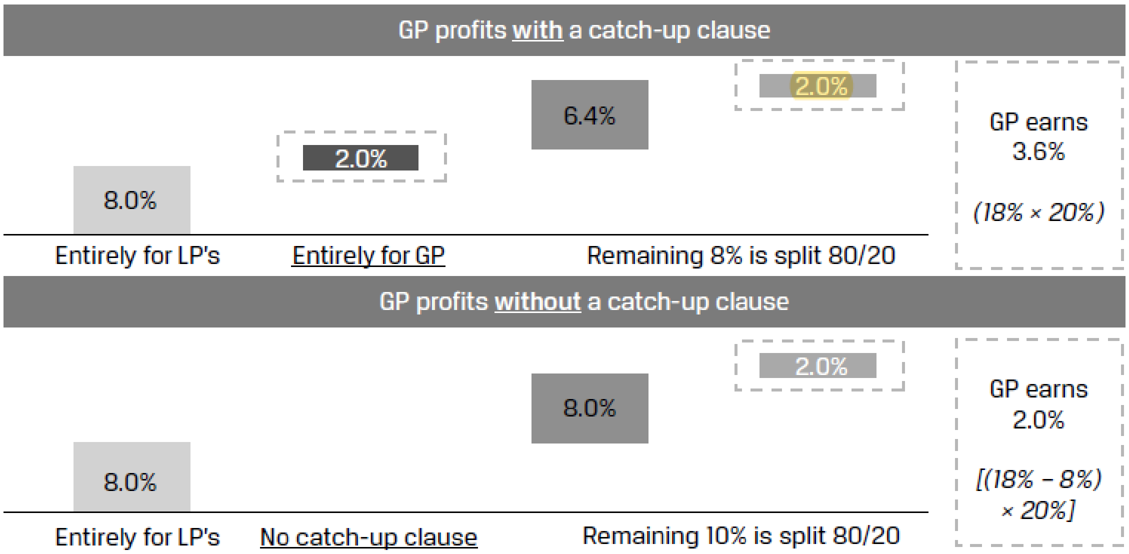
Reading 46

- In the solution to Practice Problem 32 (page 282 of print), the second sentence should read, "The value of a European put option can be either directly or **inversely** related to time to expiration."

Reading 47

- In Exhibit 6 (page 307 of print), under GP profits <u>with</u> a catch-up clause, the righter-most gray box that says 2.0% (highlighted below) should say **1.6%**"

Exhibit 6 Simple Catch-Up Clause Illustration



- In Section 9.3, the first sentence in the third-to-last paragraph (page 381 of print) should read, "Real estate managers are also often judged by the **cap rate** being earned on their properties, which is simply the annual **net operating income divided by the price originally paid for the property**."

Reading 49

- The last sentence of the first paragraph in Section 14.3 (page 488 of print) should read, "Similarly, the correlation between T-bills and stocks is close to zero ~~and is negative for international stocks~~."
- Practice Problem 35 (page 511 of print) and its solution (page 517) should be deleted.

Reading 50

- In Practice Problems 33 and 35 (page 569 of print), the A option should be $\boldsymbol{M^2}$.

Volume 6

Reading 51

- In the first paragraph after Exhibit 2 (page 11 of print), the last sentence should read, "For two random samples drawn from the faculty and staff of large US universities (n **=** 406), the mean score was 12.86 with a standard deviation of 3.01 and a **median score (i.e., middle score)** of 13."

Reading 52

- The first sentence of Section 3 (page 50 of print) should read, “We classify cognitive errors into two categories: “believe perseverance **biases**” and “processing errors.”
- The last sentence of the first paragraph of Section 5.3 (page 74 of print) should read, “Exhibit **2** illustrates the residential property boom in the United Kingdom.”
- The first sentence of the third paragraph of Section 5.3 (page 74 of print) should read, “Investors’ behavior and incentives during bubbles are illustrated in **Example 16**.”

Reading 53

- In Section 7.2, the second sentence of the eighth paragraph (page 104 of print) should read, “Operational risk is the risk that arises **from** inadequate or failed people, systems, and internal policies, procedures, and processes, as well as from external events that are beyond the control of the organization but that affect its operations.”
- In Section 11.1, the fourth sentence of the sixth paragraph (page 121 of print), “In both types of markets, these dealers assume the risk **of** being transferred from parties who originate the transactions.”