2023 CFA Program: Level II Errata

23 February 2022

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

Volume 1

Quant Learning Module 6

- In the Solution to Practice Problem 10 (page 273 of print), the first two sentences should read, "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."

Volume 2

Employee Compensation: Post-Employment and Share-Based (LM 2)

- In the information for Practice Problems 21-25 (page 109 of print), there should be a note under Exhibit 2 that reads, "**All transactions (including plan amendments) are assumed to occur at year-end**." In Practice Problem 22, Option B should be **530**.
- The last two sentences in the solution to Practice Problem 22 (page 117 of print) should read, "Here, the service costs are 320 (= 200 + 120) and the net interest expense is **210 [= (42,000 – 39,000) × 7%]**. Thus, the amount of periodic pension cost **that would be reported in P&L under IFRS** is equal to **530**."
- The last two sentences in the solution to Practice Problem 23 (pages 117 of print) should read, "Under US GAAP—assuming the company chooses not to immediately recognise the actuarial loss and assuming there is no amortisation 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 **2,948.4 [**= 7.0% × (42,000 **+120)]**, 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 **28**."

Multinational Operations (LM 3)

- In the solution to Practice Problem 11 (page 204 of print), the first sentence should read, "**C** is correct." The last sentence should read, "Thus, the translation adjustment for liabilities is **positive**."

Volume 4

Equity Learning Module 2

- [UPDATED:] The Solutions to Example 30 (page 156 of print) should read:

  Solution to 1:

  Calculate intrinsic value as (1.032 × $2.66)/(0.074 − 0.032) = $**65.36**.

  Solution to 2:

  Calculate a justified P/CF based on forecasted fundamentals as $**65.36**/$3.26 = **20.05**.

  Solution to 3:

  The justified P/FCFE is $**65.36**/$2.66 = **24.57**.

- The Solution to Example 34 (pages 164 of print) should read as follows:

  Solution:

  For EV, we first calculate the total value of CL's equity: 863 million shares outstanding times $66.48 price per share equals $57,372 million market capitalization.

  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 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.

  EV excludes cash, cash equivalents, and short-term investments. Per CL's balance sheet, the total of cash and cash equivalents is $726 million.

So, CL's EV is \$57,372 million + **\$8,623 million + \$299 million** − \$720 million = **\$65,568 million**.

For EBITDA, we use the trailing 12-month (TTM) data, which are shown in the table above for the year ending 31 December 2018. The EBITDA calculation is

EBITDA = Net income + Interest + Income taxes + Depreciation and amortization.

EBITDA = \$2,400 + \$143 + \$906 + \$511 = \$3,960 million.

CL does not have preferred equity. Companies that do have preferred equity typically present in their financial statement net income available to common shareholders. In those cases, the EBITDA calculation uses net income available to both preferred and common equity holders.

For CL, we conclude that EV/EBITDA = **(\$65,568 million**)/(\$3,960 million) = **16.6**.

- In the solution to Problem 6 (page 199 of print) should read, "Because investing looks to the future, analysts often favor forward P/E when earnings forecasts are available, as they are here. A specific reason to use forward P/Es is the fact given that RUF had some unusual items affecting EPS for **2020**. The data to make appropriate adjustments to RUF's **2020** EPS are not given. In summary, Stewart should use forward P/Es."

Equity Learning Module 3

- In Example 11 (page 233 of print), a bullet point should be added after the first bullet that reads, "Cost of equity equals 7.95%."

Fixed Income Learning Module 1

- In the paragraph before Equation 13 (page 363 of print), the second sentence should read, "Because the value of a swap at origination is set to zero, the swap rates must satisfy Equation **12**."

Fixed Income Learning Module 5

- In the fourth paragraph of the section Managing Credit Exposures (page 635 of print), the last sentence should read, "In buying protection without owning the underlying, the investor is taking a position that the entity's credit quality will **improve**."

Volume 5

Alternatives Learning Module 5

- In Example 20 (page 335 of print), Option B should read, "**typically can have an important contribution to total return in any single period but is relatively modest over multiple periods.**" The second sentence of the Solution should read, "**Historically, the roll return has been relatively modest compared with price return but can be meaningful in any single period.**"

Portfolio Management Learning Module 1

- Option B in Practice Problem 3 (page 398 of print) should read, "**by transacting shareholders**."