

2024 CFA Program: Level II Errata

29 January 2024

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 2024 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.

Volume 1

Extensions of Multiple Regression (Quant LM4)

- In the Extensions of Multiple Regression section, please disregard the Cook's D formula as a means to identify data points and the associated content/questions.
- Equation 3 on page 87 should read:
 - $Y_i = b_0 + d_0D + b_1X_i + \varepsilon_i$.
- In the Question Set, page 93, the explanation for the Solution to Practice Problem 3 should include the following:
 - For answer A, 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, $0.2 \times \text{MKTSH}(\text{Regulated}) = 0.4 \times \text{MKTSH}(\text{Non-regulated})$, then the regulated firm has 0.5% less return.

For answer C, 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.

Time-Series Analysis (Quant LM5)

- There appears to be an error in the computation for the errors of the AR(1) model in Exhibit 15 and the mistake comes from the value of the intercept in Exhibit 13 (page 131) which should be 0.13346 instead of 1.3346.

Monetary and Fiscal Policies (Econ LM1)

- Exhibit 5's chart should read:
 - 1. Expansionary Monetary Policy + Expansionary Fiscal Policy, outcome should be Domestic Currency Depreciates
 - 2. Expansionary Monetary Policy + Restrictive Fiscal Policy, outcome should be indeterminate
 - 3. Restrictive Monetary Policy + Expansionary Fiscal Policy, outcome should be indeterminate
 - 4. Restrictive Monetary Policy + Restrictive Fiscal Policy, outcome should be Domestic Currency Appreciates

Economic Growth (Econ LM2)

- In Example 1, the second line from the bottom of solution 1 (page 465 of print) should read, "Singapore[$(\$66,189/\$4,299)^{1/68} - 1 = 4.1\%$."
- In Example 15, the first sentence in the fourth paragraph in the Solution to 1 (page 525 of print) should read, "The growth rate in total factor productivity (Exhibit 19) is calculated by using a geometric average of the growth rates for **2006–2015** and is equal to **-0.85%**." The calculation in the next paragraph should read:

$$\begin{aligned}\text{Growth in potential GDP} &= \alpha \Delta K/K + (1 - \alpha) \Delta L/L + \Delta A/A \\ &= (0.413)0.04 + (0.587)(-0.0127) + (-0.0085)\end{aligned}$$

The last line of this solution should read, "TFP = **-0.85%**."

- In Example 15, the second-to-last sentence before Exhibit 21 in the Solution to 3 (page 526 of print) should read, "In contrast to capital deepening, TFP made a negative contribution to growth; the average rate of growth for TFP from 2006 to 2015 was **-0.85%**."
- In Example 15, the second calculation in the Solution to 4 (page 527 of print) should read:

$$\text{Steady-state growth rate} = -0.85\% / (1 - 0.413) + (-1.27\%) = -2.7\%$$

Volume 2

Intercompany Investments (FSA LM1)

- In the lesson “Amortization of Excess Purchase Price, Fair Value Option, and Impairment,” the second-to-last paragraph of the lesson (page 19 of print) should read, “US GAAP prohibits the reversal of impairment losses even if the fair value later increases. However, IFRS permits the reversal of a previous impairment loss, in line with IAS 36, to the extent that the recoverable amount of the net investment subsequently increases. ~~Both IFRS and US GAAP prohibit the reversal of impairment losses even if the fair value later increases.~~”

Employee Compensation: Post-Employment and Share-Based (FSA LM2)

- In Practice Problem 3 of the Knowledge Check on page 75: 30,888 should be replaced with **33,888** and 23,160 should be replaced with **26,160**.
- In Example 4, the first calculation under **Solution** (page 80 of print) should read:

Basic shares outstanding	176,401,000
<u>Effect of dilutive securities:</u>	<u>1,456,333</u>
Diluted shares outstanding:	177,857,333

Under “RSUs:” (page 81 of print) it should read:

Unvested RSUs	3,028,000
<u>Minus: Assumed repurchases of</u>	<u>1,571,667**</u>
Dilutive shares:	1,456,333

**Assumed purchases are calculated as:

Assumed proceeds from cash exercise = 0

Assumed unrecognized share-based compensation expense $(0 + 13,202 \text{ million})/2$
= 6,601 million

$0 + 6,601 \text{ million} / \text{Average share price of } 4,200$

= **1,571,667** assumed repurchases

- In the lesson “Financial Reporting for Post-Employment Benefits,” the first sentence after Equation 1 (page 92 of print) should read, “If the funded status is negative, the plan is an **underfunded** plan and the funded status is reported on the balance sheet as a net pension liability.”
- In Practice Problem 9 on page 104, The solution under choice A should be changed from 28 to 20.

- In the Solution to Practice Problem 9 on page 111, the last two sentences 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 2,940 [= 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 Modeling (FSA LM7)

- In Example 5, the Solution to 2 (page 426 of print), the second sentence should read, “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%.”

Volume 3

Corporate Restructuring (Corporate Issuers LM4)

- In Exhibit 1 (page 158 of print), the second stage should read “Growth” instead of “Start-Up.”
- In Example 11, the first sentence in the Solution to 3 (page 198 of print) should read, “Hapalla AG’s offer of BRL45 billion to acquire a 25% interest in OHAA values OHAA at BRL180 billion (45/0.25) on an enterprise value basis, or **BRL147,539 million** in equity value after subtracting cash and cash equivalents at year-end 20X7.”
- In Exhibit 31 (page 198 of print), in the row Gain on Sale, the Transaction value should be **32,000**.

Volume 4

Residual Income Validation (Equity LM3)

- The table in the Solution to Practice Problem 2 on page 236 should be:

Current book value per share	15.000
Present value of 6 years' residual income	17.755
Terminal value	31.580
Present value of terminal value (at 7.95%)	<u>19.956</u>
Value per share	€52.711

The Term Structure and Interest Rate Dynamics (Fixed Income LM1)

- At the end of the lesson "Yield Curve Movement and the Forward Curve," the third-from-last calculation (page 360 of print) should read:

$$DF_1^{new} = \frac{DF_2}{DF_1} = \frac{0.9246}{0.9615} = \mathbf{0.9615}$$

The last calculation should read:

$$F_{2,1}^{new} = \frac{DF_2^{new}}{DF_1^{new}} = \frac{0.9246}{0.9615} = \mathbf{0.9615}$$

And the sentence following that calculation should read, "The price of the forward contract is **nearly** unchanged."

- Page 363 should be amended as below:

The 6% five-year bond purchased for 100 returns **117.67** in two years $[(6 \times 1.02) + 6 + \mathbf{105.55}]$, 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% $[\mathbf{105.55} = 6/1.04 + 6/(1.04)^2 + 106/(1.04)^3]$. 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 $[(7 \times 1.02) + 7 + \mathbf{107.09}]$ 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% $[\mathbf{107.09} = 7/1.05 + 7/(1.05)^2 + 7/(1.05)^3 + 107/(1.05)^4]$.

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Market-Based Valuation: Price and Enterprise Value Multiples (Fixed Income LM2)

- The table entries in Example 11 (page 124) should be as follows:

Company	Trailing P/E	Forward P/E	Five-Year EPS Growth Forecast	Forward PEG Ratio	Beta
AT&T	13.20	9.36	1.83%	5.11	0.56
Comcast Corporation	16.23	12.92	11.29	1.14	1.09
CenturyLink	NMF	8.89	8.52	1.04	0.81
China Telecom	13.14	10.31	6.90	1.49	0.81
Charter Communications	70.67	30.32	45.30	0.67	1.24
Verizon	15.03	11.99	2.51	4.78	0.50
Windstream Holdings	19.01	16.29	3.19	5.11	0.45
Mean	24.55	14.30	11.30	2.76	0.78
Median	15.03	11.99	6.90	1.49	0.78

- The opening sentence in the Solution on page 125 should be changed to:
 - “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.”
- The third sentence should be changed to:
 - “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.”

Private Company Valuation (Fixed Income LM4)

- In Example 12 on page 326, the section in the chart titled FLI’s Normalized Operating Income after Taxes labeled EBIT should be EBITDA as should the calculation that follows.

Volume 6

Guidance for Standards I-VII (Ethics LM2)

- In the lesson “Standard IV(A): Recommended Procedures,” part of the text under Incident-Reporting Procedures (page 266 of print) is not appearing. The full paragraph is as follows:

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.