2020 CFA Program: Level II Errata

8 August 2019

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

- The eBook for the 2020 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

Volume 2

Reading 13

- In the information for questions 29-36 (page 56 of print), the paragraph after Exhibit 2 should be deleted.
- Practice problem 33 (page 57 of print) should read "**Using only the information from Exhibit 2**, the carrying value of Topmaker's investment in Rainer at the end of 2018 is *closest* to:"

Reading 14

- Practice problem 30 (page 108 of print) and its solution should be deleted.

Reading 16

- The solution to practice problem 4 (page 276 of print) should be **C**. The explanation is correct.

Reading 17

- In the information for questions 5-12 (page 359 of print), the paragraph after Statement 5 and Exhibit 1 should be deleted.
- Practice problem 9 (page 360 of print) and its solution should be deleted.

Volume 3

Volume 4

Reading 27

- The solution to practice problem 11A (pages 269-270 of print) should read as follows: "Let *r* be the required rate of return. Also let *t* = 0 indicate the middle of 2008. Because the dividend growth rate becomes constant from the middle of 2011 (*t* = 3), **this can be solved using the two-stage dividend discount model as follows:**
  $D_1 = 0.27(1.10) = 0.2970$
  $D_2 = 0.27(1.10)^2 = 0.3267$
  $D_3 = 0.27(1.10)^3 = 0.3594$
  $V_3 = 0.27(1.10)^3(1.08)/(0.12 – 0.08) = 9.7030$
  V_0 can be expressed as

$$V_0 = \frac{D_1}{1+r} + \frac{D_2}{(1+r)^2} + \frac{D_3}{(1+r)^3} + \frac{V_3}{(1+r)^3}$$
$$= \frac{0.2970}{1+0.12} + \frac{0.3267}{(1+0.12)^2} + \frac{0.3594}{(1+0.12)^3} + \frac{9.7030}{(1+0.12)^3}$$
$$= 0.2652 + 0.2604 + 0.2558 + 6.9064$$
$$= \text{A\$}7.69$$

Reading 28

- In the information for questions 31-36 (page 356 of print), Statement 1 should read as follows: "Changes in leverage do not impact free cash flow **to equity**."
- The solution to practice problem 36 (page 376 of print) should have calculations as follows:
  $TV_3 = 3{,}398.66/(0.0770 – 0.0075) =$ **€48,901.58 million**.
  The total value of operating assets = (3,040.37 + 2,865.42 + 2,700.53) + **48,901.58**/$(1 + 0.0770)^3$ = 8,606.32 + **39,144.95** = **47,751.27**
  Value of Bern's common stock = Value of operating assets + Value of non-operating assets – Market value of debt – Preferred stock = **47,751.27** + 50.00 – 15,400 – 4,000 = **€28,401.27**

Volume 5

Reading 33

- In the solution to 4 (page 113 of print), the number in the numerator should be **101.5168** (not 101.5816).

Reading 35

- In Example 2 (page 209 of print), the last full paragraph of the solution, second sentence should read "If this **3**-year, 5% bond were default-free, its price would be 107.1401."

Reading 36"

- In Example 10 (page 302 of print), the last sentence of the first paragraph should read as follows: "**The investor can borrow at Libor, which is currently 2.5%.**"

Reading 37

- In the information for questions 1-7 (page 374 of print), Position 2 should have "(Euro-JGB Forward Contract)" in the heading. The text should read "One month ago, Troubadour **took a long position in Euro-Japanese government bond (JGB)** forward contracts with …"
- The solution to practice problem 3 (page 380 of print) should read "A is correct. The value of Troubadour's **euro-JGB** forward position is calculated as …"

Reading 38

- The paragraph after Example 2 (page 394 of print) should read as follows: "What we have shown to this point is the no-arbitrage approach. Before turning to the expectations approach, we mention, for the sake of completeness, that the transactions **for replicating the payoffs** for writing options are the reverse for those of buying them. Thus, for writing a call option, the writer will be selling stock short and *i*nvesting proceeds **(i.e., lending)**, whereas for a put, the writer will be purchasing stock on margin **(i.e., buying)**. Once again, we see the powerful result that the same basic conceptual structure is used for puts and calls, whether written or purchased. Only the exercise and expiration conditions vary."

Volume 6

Reading 41

- In section 3 (page 171 of print), first paragraph, second sentence should read as indicated: "Because there is considerable risk involved in a typical venture capital deal, venture capitalists usually apply a very high discount **rate** "to compensate for the risk.""

Reading 45

- In the practice problem information for questions 1–5 (page 385 of print), under the heading "Trust Department's Equity Fund", item b, the first sentence should read as indicated: "The Index Plus Fund has a value at risk (VaR) of $6.5 million **at 5% for one day**."
- In the solution to practice problem 10 (page 395 of print), the line for σ_p should have **0.00501** for the first number (not 0.0051).