

2020 CFA Program: Level III 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

Reading 3

- In question 2 (page 195 of print), the last paragraph should be replaced with the following text: “C is incorrect. The research team develops their recommendations for management of all BankGlobal’s client accounts. These clients pay BankGlobal for its research. If other investors would like to access BankGlobal research, they can do so by becoming clients of the bank. The Guidance to Standard II(A) Material Nonpublic Information states: “information is material if it would significantly alter the total mix of information currently available about a security.” To be considered material there would need to be a clear indication that the general investing public relies on the information of BankGlobal. There is no indication in the material that BankGlobal recommendations are distributed to, or highly valued by, the general investing public.”

Reading 6

- In the third paragraph of section 4 (page 361 of print), the fourth sentence should refer to II.3 and II.4.

Volume 2

Volume 3

Reading 13

- In the paragraph under Exhibit 30 (page 109 of print), the third sentence should read as follows: “Bonds are **positively** correlated with changes in the present value of the frozen liability cash flows (because the liabilities indicate negative cash flows).”
- In Exhibit 36 (page 124 of print), the line for 95% in the last segment should have column E (not F) boxed.
- In the numbered list after Example 11 (page 125 of print), the last sentence should read: “Discounting their current expenses with the same assumption over the 25 years starting

in Year 6 with a 6.1% rate points to an initially required capital of **US\$6,275,000**, representing **25.1%** of the Smiths' wealth."

- In Exhibit 37 (page 126 of print), for the last two rows of the table, column F should have **6,275** (for "In currency") and **25.1%** (for As a % of total).

Reading 14

- In the paragraph before Exhibit 2 (page 178 of print), the third sentence should read as follows: "If the plan sponsor were to **maintain the 70/30 asset mix, but** shift to longer-duration bonds ..."

Volume 4

Reading 19

- In the numbered list before Example 9 (page 94 of print), list item 3 should read as follows: "The time period is then multiplied by the vertex's proportionate share of the index. (The first cash flow at 6 months is equal to 1; the second cash flow at 12 months is equal to 2; the third cash flow at 18 months is equal to 3, etc.) Because each cash flow represents an effective zero-coupon payment in the corresponding period, the time period reflects the duration of the cash flow. For example, if the third vertex represents 3% of all cash flows, the third period's contribution to duration might be 1.5 years x 3.0%, or 0.045."

Reading 20

- In Example 5, the calculation for CM yield change (page 185 of print) should equal **-1.07%**.
- In the paragraph before Exhibit 74 (page 208 of print), the following sentences should be **deleted**: "Together, they account for 98% of the weekly changes in these yields. Each of the curves reflects a ~~"positive"~~ one standard deviation move of that type. A ~~"negative"~~ one standard deviation move is just the mirror image.³⁸ The positive (negative) "shift" factor is a non-parallel increase (decrease) in all yields. A positive (negative) "twist" is a flattening (steepening) of the curve, while in a positive (negative) "butterfly," the two ends of the curve move downward (upward) and the middle of the curve moves upward (downward). These three empirically derived movements correspond well with the more stylized movements emphasized in the earlier discussion of trading strategies.³⁹"
- In the information for questions 23-32 (page 220-221 of print), the paragraph before Exhibit 1, Exhibit 1, the paragraph before Exhibit 2, and Exhibit 2 should all be **deleted**. Questions 29-32 (page 222 of print) and their solutions should be **deleted** as well.
- In the solution to practice problem 20 (page 234 of print), the formula should read as follows: "Predicted change = Portfolio par amount x partial PVBP x (-curve shift in bps)/100"
- In the solution to practice problem 27 (page 235 of print), the first sentence of the second paragraph should read as follows: "Because yields are projected to remain unchanged in the US, UK, Euro, and Greek markets, the 5-year **Greek** bonds will still be priced at par in six months **and the US, UK, and Euro bonds will realize a negligible price appreciation** when they have 4.5 years to maturity."

Reading 21

- In section 4.1.4 (page 265 of print), the first bullet point, last sentence should read: “As another example, callable debt often has a larger **z-spread** than otherwise comparable non-callable debt.”
- The second paragraph after Exhibit 9 (page 271 of print) should be rewritten as follows: “In summary, using arithmetic weighting to assess a portfolio’s average credit quality is likely to overestimate its credit quality and underestimate its credit risk when the bonds in the portfolio span a broad range of the credit spectrum. To illustrate this point, consider a portfolio consisting of only Baa2/BBB bonds. It has a Moody’s rating factor of 360. Compare this to a portfolio consisting equally of Baa1/BBB+ and Baa3/BBB bonds. Using the arithmetic rating approach, this portfolio would also have a Moody’s rating factor of 360. Using the non-arithmetic weighting approach, however, results in a Moody’s rating factor of $435 = (50\% \times 260) + (50\% \times 610)$. While both portfolios have the same credit risk under the arithmetic approach, the non-arithmetic approach highlights the greater credit risk of the second portfolio.”
- In the information for practice problems 10–15 (page 299 of print), Comment 1 should say “Callable debt has a smaller **z-spread** than comparable non-callable debt.”

Reading 25

- In Section 5.1 (page 502 of print), the second bullet in the second list should read as indicated: “The portfolio must have a weighted average capitalization of **no** less than 75% of that of the index.”
- In Example 7 (page 514 of print), “Size coefficient” row of the table, the “First Five Years” column should be **0.30**, and the “Last Five Years” column should be **-0.10**.
- In the information for questions 9-15, the last paragraph (page 536 of print) should read as follows: “Chen and Garcia then turn their attention to portfolio management approaches. **Chen prefers an approach that emphasizes security-specific factors, engages in factor timing, and typically leads to portfolios that are generally more concentrated than those built using a systematic approach.**”
- Practice problem 12 (page 537 of print) should read as indicated: “**Based on Exhibit 1, the contribution of Asset 2 to Manager C’s portfolio variance is closest to**”
- In the solution to practice problem 15 (page 541 of print), the second sentence should read as follows: “Chen prefers an approach that emphasizes security-specific factors, engages in factor timing, and typically leads to portfolios that are generally more concentrated than those built using a systematic approach.”

Volume 5

Volume 6