2017 CFA Program: Level II Errata
1 May 2017

To be fair to all candidates, CFA Institute does not respond directly to individual candidate inquiries. If you have a question concerning CFA Program content, please contact CFA Institute (info@cfainstitute.org) to have potential errata investigated. The eBook for the 2017 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.

There are a variety ways of quoting **foreign exchange rates**: $ to or per £ = $/£ = £: $. The quote £:$ is equivalent to a quote of $/£. Authors use the two different methods of quoting currency exchange rates to ensure readers develop familiarity with both.

Volume 1

- *Reading 7*: In the first paragraph of Reading 7 (p. 245 of print), the second sentence should begin: "In ~~the most recent~~ **a 1996** enforcement action involving trade allocation practices …"
- *Reading 10*: There are a number of corrections in this reading:
  - In Table 3 (p. 328 of print), the **Total for SS should be 0.2067** (instead of 1.2067).
  - The last line of Example 4 Solution (p. 330) should read: (–0.129 × **65**) + (**0.021** × 30).
  - In Table 4 (p. 335 of print), corrections to the *t*-statistics should be: February **–0.5333**, June **–0.3095**, November **–1.6143**.
  - In Example 8, the calculation of the *t*-statistic above Table 6 (p. 343 of print) should have **subscript of 1** (instead of 2) for each of the three variables. In the paragraph that follows, we **can reject** at the 0.05 significance level.
  - In Table 9 (p. 351 of print), **Multiple *R*-squared should be 0.7996** (instead of 0.8084).
  - In Table 10 (p. 352 of print), the *t*-statistic for the S&P 500 Index should be **–1.6019**.
- *Reading 11*: In Example 14 (p. 441 of print), the sentence immediately above Table 12 should read: "Consequently, we fail to reject the null hypothesis that those autocorrelations, individually, **do not** differ significantly from 0."
- *Reading 13*: In the solution to Practice Problem 2 (p. 593 of print), the dealer is **posting a bid rate** to buy BRL … (instead of posting an offer rate).

Volume 2

- *Reading 16*: There are a number of corrections in this reading:
  - In Example 3 (p. 28 of print), in the paragraph immediately below the table, the difference between fair value and book value of the net identifiable assets is €50,000 **(€270,000 – 220,000)**.
  - In Exhibit 10 (p. 53 of print), the left-hand box should read "Sponsor **Company**" instead of Sponsor *Country*.
  - In Practice Problem #3 (p. 59) and its solution (p. 67), **insert "total"** before "shareholders' equity."

- *Reading 17*: In the first paragraph of Example 2 (p. 82 of print), the table calculation of Final year's estimated salary should use "Years until retirement **–1**" (i.e., insert –1).
- *Reading 18*: In Section 3.2.3, the tables above Exhibit 4 (p. 139 of print) should show the Dividends in FC being multiplied by the Exchange rate to obtain Dividends in PC; i.e., **move "Exchange rate when dividends declared" up one line in the tables**.
- *Reading 19*: In Section 3.2.1, calculation of the *M*-score (top of p. 211) should have **Accruals of 4.679** instead of 4.670. This carries over to Exhibit 5 (p. 212) and changes Accruals Calculations to 0.70**2**, the M-score to –1.23**0**, and Probability of Manipulation to 10.9**3**%. The probability of manipulation of 10.93% is also used in the Solution to 1. In the paragraph of text between Exhibits 21 and 22 (p. 240 of print), **delete the last sentence** beginning "In addition, …"

Volume 3

- *Reading 22*: Practice Problems 9 and 10 (p. 118 of text) are based on **Exhibit 1 only**. They are not based on Exhibit 2.

Volume 4

- *Reading 29*: The second sentence below Exhibit 23 should read: "If selling prices could be increased 10% … gross profit margin percentage would **be the same** but the absolute amount of gross profit would **increase**." In Exhibit 45 (p. 172 of print), Other Financial Expenses for 2010 should be **negative 3**.
- *Reading 30*: In Exhibits 8 and 9 of Example 18 (pp. 233 and 234 of text), the **Explanation of D_t should use 0.56** (instead of 0.564). The ending calculations are correct as shown. In Practice Problem #8 (p. 250 of text), insert the following clarification: "… The company had an EPS of $2 in 2008. **The earnings in the next year without the additional planned investments are expected to remain at $2.** …"
- *Reading 31*: Change Solution #3 of Example 19 (p. 315 of print) to **$15,883** million (instead of $15,833). Make the same edit in Solution #4; however, the final value per share of $51.34 does not change.
- *Reading 32*: In the second paragraph of Example 28 (p. 401 of print), Company B's **depreciation should be for 2010 and 2012** (instead of 2007 and 2009).

Volume 5

- *Reading 35*: In the sidebar "Using the Z-Spread in Valuation" immediately above Section 3.5 (p. 30 of print), the **implied** spot yield curve is given.
- *Reading 36*: There are a number of corrections in this reading:
  - In Section 3.1, the first sentence below the definitions of the time 2 values (p. 80 of print) should read "The middle rate will be close to the implied one-year forward rate **two years** from now…"
  - The information in Exhibits 3 and 4 for Practice Problems 1–6 (pps. 98–99 of print) may be placed into a tree similar to the exhibits within the reading. The node labels indicate placement in the tree.
  - Choice C for Practice Problem 3 (p. 99) should read "…one-year forward rate **two years** from now" and the solution to that question (p. 103) should read "…one-year forward rate **two years** from now…"
- *Reading 37*: In the information for practice problems 1-10 (p. 172), in the paragraph between Exhibits 2 and 3, the ~~market prices~~ **option-free value** of Pro Star's convertible bond is $1,060. Solution B is still correct; the conversion value of the bond is 31 × $37.50 or $1,162.50, which represents its minimum value.

- *Reading 38*: In the solution to Practice Problem 19 (p. 231 of print), calculation of the Total Yield Discount Factor and the Risk-free Discount Factor should show a minus sign (negative) before the superscripts.
- *Reading 40*: There are a number of corrections in this reading:
  - In the equation immediately before Example 8 (p. 294 of print), the **subscript on V** should be 30 (instead of 60): $\mathbf{V_{30}}$
  - The paragraph immediately *above* Exhibit 11 (p. 297 of print) provides a numerical example in which "… $FVCI_{0,T} = 0.0$ (meaning no ~~accrued interest~~ **coupon payments** over the life of the contract) …" In this same paragraph, "Note that the ~~full (spot)~~ **adjusted** price, ~~S_0~~ $\mathbf{F_0(T)}$, is 108 …"
  - Question 3 of Example 15 (p. 315 of print) should reference **quarterly payments** instead of annual.
  - In Exhibit 21 (p. 317 of print), the **cash flow for Step 3 at Time n′ should be positive** (+).
  - In Example 16 (p. 318), Solution C should be AD$**2,145,200**. The calculations for the solution should be as follows:

$$= 100,000,000\left[0.00692381\left(3.967683\right) + 0.986031\right] - 1.13\left(87,719,298\right)$$
$$\left[0.00062422\left(3.994841\right) + 0.998336\right]$$
$$= 2,145,203$$

  - In the **Practice Problems posted online**, information for Questions 1–7, delete the first bullet point of Exhibit 2: "~~TSI has historically paid dividends every six months~~." Practice Problem #1 is **based on Exhibit 1** instead of Exhibit 2.
- *Reading 41*: There are a number of corrections in this reading:
  - In the paragraph below Equation 4 (p. 333 of print), change "hedge" to "replicate" in the second and third sentences: "Hence, to **replicate** a long put position … would be **replicated** by trading h units …"
  - In Solution to 3 of Example 7 (p. 348 of print), the second paragraph should end with the sentence: "If there are no dividends, ~~a European~~ **an American**-style call will not be exercised early."
  - In Example 8 (p. 350), the final sentence of the question should be: "Assume the RN probability is 50% **and these options cash settle at Time 2 based on the observed rates.**
  - In the next-to-last paragraph above Example 15 (p. 366 of print), change the final sentence: "When the cap is in the money, the receive~~-floating~~-**fixed** counterparty will also pay …"
  - In the paragraph below Exhibit 18 (p. 378 of print), the second sentence should read: "Vega is high when options are at or near the money." (i.e., **delete "and are short dated"**).

Volume 6

- *Reading 48*: In the first paragraph following Equation 5 (top of p. 280 of print), the last two sentences should read as follows: "A company either participates in an industry or does not. Industry factor ~~sensitivities are typically modeled~~ **is represented** by 0–1 dummy variables. The ~~sensitivity~~ **value of the variable** is 1 if the stock belongs to the industry and 0 if it does not."
- *Reading 49*: The second paragraph following the equation for gamma (p. 325 of print) should read "Using delta and gamma, the estimated ~~change in the~~ **new** call price is …"
- *Reading 51*: There are a number of corrections in this reading:
  - In Exhibit 3 (p. 454 of print), Fidelity Magellan **Active return should be –1.4%** and **Information ratio should be –0.23** (instead of –1.5 and –0.23 respectively). These corrections carry over to the excerpt of Exhibit 3 contained in Example 3 (p. 458).

- Note that Equation 7 (p. 455 of print) is not practical for comparisons of investment skill involving negative IR, because the sign is lost in squaring.

Glossary:

- Trailing dividend yield: **The reciprocal of** current market price divided by the most recent annualized dividend.