

# Curriculum Errata Notice

## 2024 Level II CFA Program

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***UPDATED 5 August 2025***

This document outlines the errors submitted to CFA Institute that have been corrected.

Due to the nature of our publishing process, we may not be able to correct errors submitted after 1 September 2024 in time for the publication of the following year's print materials. However, we update all errors in the Learning Ecosystem (LES) and in this document at the end of each month.

We recommend checking either the LES or this document regularly for the most current information. Depending on when you purchase the print materials, they may or may not have the errors corrected.



All errors can be submitted via <https://cfainst.is/errata>

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# Quantitative Methods

## Basics of Multiple Regression and Underlying Assumptions

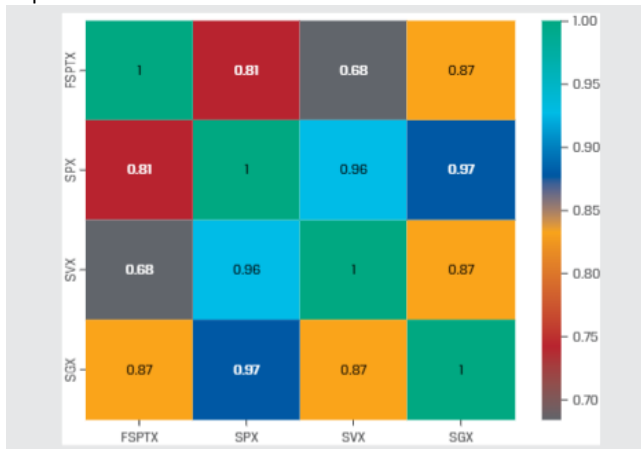
| Lesson                        | Location                        | PDF Pg | Revised     | Correction                                                                                                                                                                                                                                                             |
|-------------------------------|---------------------------------|--------|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Basics of Multiple Regression | Knowledge Check - Solution to 1 | 9      | 29 Jan 2024 | <p>Replace:<br/>If the market excess return, SMB, and HML are each zero, then we expect a return on the portfolio of 1.534%.</p> <p>With:<br/>If the market excess return, SMB, and HML are each zero, then we expect a return on the portfolio of <b>1.5324%</b>.</p> |

## Evaluating Regression Model Fit and Interpreting Model Results

| Lesson          | Location                        | PDF Pg | Revised      | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------|---------------------------------|--------|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Goodness of Fit | Paragraph below the bullets     | 27     | 11 July 2024 | <p>Replace:<br/>Note that a t-statistic with an absolute value of 1.0 does not indicate the independent variable is different from zero at typical levels of significance, 5% and 1%.</p> <p>With:<br/>Note that a t-statistic with an absolute value of 1.0 does not indicate <b>the coefficient of the independent variable</b> is different from zero at typical levels of significance, 5% and 1%.</p>                                                                                                                                                            |
| Goodness of Fit | Exhibit 1                       | 28     | 29 Jan 2024  | <p>Replace cell in column "Coefficient" and row "Intercept":<br/>2.1876</p> <p>With:<br/><b>-2.1876</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Goodness of Fit | Knowledge Check - Solution to 1 | 31     | 29 Jan 2024  | <p>Replace:<br/>The lower adjusted <math>R^2</math> is consistent with the <math> t\text{-statistic} </math> for ADV's coefficient <math>&lt; 1.0</math> (i.e., 0.3302) and the coefficient not being different from zero at typical significance levels (P-value = 0.7429).</p> <p>With:<br/>The lower adjusted <math>R^2</math> is consistent with the <math> t\text{-statistic} </math> for ADV's coefficient <math>&lt; 1.0</math> (i.e., <b>0.3320</b>) and the coefficient not being different from zero at typical significance levels (P-value = 0.7429).</p> |

| Lesson                                    | Location                                                      | PDF Pg | Revised     | Correction                                                                                          |
|-------------------------------------------|---------------------------------------------------------------|--------|-------------|-----------------------------------------------------------------------------------------------------|
| Testing Joint Hypotheses for Coefficients | Equation with heading: One-sided coefficient test, right side | 34     | 29 Jan 2024 | Replace:<br>$H_0: b_j \geq B_j, H_a: b_j > B_j$<br><br>With:<br>$H_0: b_j \leq B_j, H_a: b_j > B_j$ |

## Model Misspecification

| Lesson                                                  | Location                                   | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
|---------------------------------------------------------|--------------------------------------------|--------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------------|-------|-------|-----|---------|---------------|-------|-------|------|-----|------|---|------|------|-----|------|------|---|------|-----|------|------|------|---|
| Violations of Regression Assumptions: Multicollinearity | Identifying Multicollinearity as a Problem | 68     | 26 July 2024  | <div>Replace:</div> <div>This situation represents classic multicollinearity. We can visualize this in Panel B, with the correlogram representing the pairwise correlations between the variables.</div> <div>With:</div> <div>This situation represents classic multicollinearity. We can visualize this in Panel B, with the <b>correlation matrix</b> representing the pairwise correlations between the variables.</div>                                                                                                                                                   |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
| Violations of Regression Assumptions: Multicollinearity | Panel B Correlogram of variables           | 69     | 26 July 2024  | <div>Replace:</div> <div></div> <div>With:</div> <div><div>Panel B Correlation Matrix of Variables</div><table><tr><th></th><th>FSPTX</th><th>SPX</th><th>SVX</th><th>SGX</th></tr><tr><th>FSPTX</th><td>1</td><td>0.81</td><td>0.68</td><td>0.87</td></tr><tr><th>SPX</th><td>0.81</td><td>1</td><td>0.96</td><td>0.97</td></tr><tr><th>SVX</th><td>0.68</td><td>0.96</td><td>1</td><td>0.87</td></tr><tr><th>SGX</th><td>0.87</td><td>0.97</td><td>0.87</td><td>1</td></tr></table></div> |         | FSPTX         | SPX   | SVX   | SGX | FSPTX   | 1             | 0.81  | 0.68  | 0.87 | SPX | 0.81 | 1 | 0.96 | 0.97 | SVX | 0.68 | 0.96 | 1 | 0.87 | SGX | 0.87 | 0.97 | 0.87 | 1 |
|                                                         | FSPTX                                      | SPX    | SVX           | SGX                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
| FSPTX                                                   | 1                                          | 0.81   | 0.68          | 0.87                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
| SPX                                                     | 0.81                                       | 1      | 0.96          | 0.97                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
| SVX                                                     | 0.68                                       | 0.96   | 1             | 0.87                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
| SGX                                                     | 0.87                                       | 0.97   | 0.87          | 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
| Practice Problems                                       | Exhibit 2                                  | 72     | 22 March 2024 | <div>Replace:</div> <div><table><tr><td>Model B</td><td>Durbin-Watson</td><td>5.088</td><td>4.387</td><td>No</td></tr></table></div> <div>With:</div> <div><table><tr><td>Model B</td><td>Durbin-Watson</td><td>3.088</td><td>2.387</td><td>No</td></tr></table></div>                                                                                                                                                                                                                                                                                                         | Model B | Durbin-Watson | 5.088 | 4.387 | No  | Model B | Durbin-Watson | 3.088 | 2.387 | No   |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
| Model B                                                 | Durbin-Watson                              | 5.088  | 4.387         | No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |
| Model B                                                 | Durbin-Watson                              | 3.088  | 2.387         | No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |         |               |       |       |     |         |               |       |       |      |     |      |   |      |      |     |      |      |   |      |     |      |      |      |   |

## Extensions of Multiple Regression

| Lesson                                          | Location                | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------|-------------------------|--------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dummy Variables in a Multiple Linear Regression | Equation 3              | 87     | 29 Jan 2024   | <div> <div>Replace:</div> <div> <math display="block">Y_i = b_0 + d_0Db_i + b_1X_i + \epsilon_i.</math> </div> </div> <div> <div>With:</div> <div> <math display="block">Y_i = b_0 + \mathbf{d_0Db_i} + b_1X_i + \epsilon_i.</math> </div> </div>                                                                                                             |
| Dummy Variables in a Multiple Linear Regression | Exhibit 11 Panel C      | 88     | 24 July 2024  | <div> <div>Replace:</div> <div> <math display="block">Y = (b_0 + d_0) (d_1 + b_1) X</math> </div> </div> <div> <div>With:</div> <div> <math display="block">Y = (b_0 + d_0) + (d_1 + b_1) X</math> </div> </div>                                                                                                                                              |
| Dummy Variables in a Multiple Linear Regression | Equation 5              | 89     | 22 March 2024 | <div> <div>Replace:</div> <div> <math display="block">Y_i = b_0 + d_0D_1 + b_1X_i + d_1D_iX_i + \epsilon_i.</math> </div> </div> <div> <div>With:</div> <div> <math display="block">Y_i = b_0 + d_0D_1 + b_1X_i + d_1D_iX_i + \epsilon_i.</math> </div> </div>                                                                                                |
| Dummy Variables in a Multiple Linear Regression | Question Set Question 3 | 93     | 29 Jan 2024   | <div> <div>Replace Option A:</div> <div>The average return for a regulated firm is 0.5% lower than for a non-regulated firm, holding the market share constant.</div> </div> <div> <div>With:</div> <div>The average return for a regulated firm is <b>at least 0.5% lower</b> than for a non-regulated firm, holding the market share constant.</div> </div> |
|                                                 |                         |        |               | <div> <div>Replace Option C:</div> <div>For each increase in market share, a regulated firm has a 0.3 lower return on assets than a non-regulated firm.</div> </div> <div> <div>With:</div> <div>For each increase in market share, <b>a regulated firm will have an increasingly lower ROA than an unregulated firm.</b></div> </div>                        |

| Lesson                                                          | Location                        | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------|---------------------------------|--------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dummy Variables in a Multiple Linear Regression                 | Question Set - Solution to 3    | 93     | 29 Jan 2024   | <p>Replace:<br/>A is correct because the coefficient on REG is <math>-0.5</math>.</p> <p>With:<br/>A is correct because the coefficient on REG is <math>-0.5</math>. <b>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, <math>0.2 \times \text{MKTSH}(\text{Regulated}) = 0.4 \times \text{MKTSH}(\text{Non-regulated})</math>, then the regulated firm has 0.5% less return.</b></p> <p>C is correct because the sum of coefficients is <math>-0.3 = -0.5\text{REG} + 0.4\text{MKTSH} - 0.2\text{REG\_MKTSH}</math>.</p> <p>C is correct because the sum of coefficients is <math>-0.3 = -0.5\text{REG} + 0.4\text{MKTSH} - 0.2\text{REG\_MKTSH}</math>. <b>If MKTSH increases by 1%, for both regulated and non-regulated, the regulated firm will have a return that is 0.2% less, <math>0.2(1\%) - 0.4(1\%) = -0.2\%</math>. 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.</b></p> |
| Multiple Linear Regression with Qualitative Dependent Variables | Knowledge Check - Solution to 2 | 99     | 22 March 2024 | <p>Replace:<br/>Therefore, the marginal impact of increasing the NPM variable by 1%, rounded to two decimal places, is a decrease in the probability of a share buyback of <math>29.00\% - 29.06\% = -0.07\%</math>; differently put, it increases the probability of a share buyback.</p> <p>With:<br/>Therefore, the marginal impact of increasing the <b>DE variable</b> by 1%, rounded to two decimal places, is a decrease in the probability of a share buyback of <math>29.00\% - 29.06\% = -0.07\%</math>; differently put, it <b>decreases</b> the probability of a share buyback.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Solutions                                                       | Solution to 9                   | 109    | 22 March 2024 | <p>Replace:</p> $P = \frac{1}{1 + \exp \left\{ - \left[ \frac{-2.0350 + (-0.7667)(0.2911) + (-0.0089)(92.9093) + (-0.1113)(2.3068) + (0.0292)(15.1743) + (0.0390)(2.0711) + (0.3432)(1.6060) + (-0.0502)(7.6489)}{1} \right] \right\}}$ <p>With</p> $P = \frac{1}{1 + \exp \left\{ - \left[ \frac{-2.0350 + (-0.7667)(0.2911) + (-0.0089)(92.9093) + (-0.1113)(2.3068) + (0.0292)(15.1743) + (-0.0390)(2.0711) + (0.3432)(1.6060) + (-0.0502)(7.6489)}{1} \right] \right\}}$                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Solutions                                                       | Solution to 13                  | 110    | 22 March 2024 | <p>Replace:</p> <p>Probability of being a winning fund = <math>0.3595 = \frac{1}{1 + \exp[-(-1.9589) + (0.3453)(4.0)]}</math>.</p> <p>With:</p> <p>Probability of being a winning fund = <math>0.3595 = \frac{1}{1 + \exp[-(-1.9589) + (0.3453)(4.0)]}</math>.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

## Time-Series Analysis

| Lesson                                         | Location         | PDF Pg         | Revised        | Correction                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                        |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
|------------------------------------------------|------------------|----------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----------------|-------------|-----------|--------|--------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------|----------------|-------------|-----------|----------------|--------|---------------|
| Linear Trend Models                            | Example 1        | 116            | 9 October 2024 | Replace:<br>The data include 228 months from January 1995 through June 2019, and the model to be estimated is $yt = b0 + b1t + \epsilon t, t = 1, 2, \dots, 294$ .                                                                                                               | With:<br>The data include <b>294</b> months from January 1995 through June 2019, and the model to be estimated is $yt = b0 + b1t + \epsilon t, t = 1, 2, \dots, 294$ .                                                                                                                 |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Trend Models and Testing for Correlated Errors | Second paragraph | 124            | 29 Jan 2024    | Replace:<br>Because the value of the Durbin–Watson statistic (1.09) is below this critical value, we can reject the hypothesis of no positive serial correlation in the errors.                                                                                                  | With:<br>Because the value of the Durbin–Watson statistic ( <b>1.2145</b> ) is below this critical value, we can reject the hypothesis of no positive serial correlation in the errors.                                                                                                |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Trend Models and Testing for Correlated Errors | Third paragraph  | 124            | 24 July 2024   | Replace:<br>The value of the Durbin–Watson statistic (0.12) is below this critical value, so we can reject the null hypothesis of no positive serial correlation in the errors.                                                                                                  | With:<br>The value of the Durbin–Watson statistic ( <b>0.26</b> ) is below this critical value, so we can reject the null hypothesis of no positive serial correlation in the errors.                                                                                                  |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Mean Reversion and Multiperiod Forecasts       | Exhibit 13       | 131            | 22 March 2024  | Replace:<br><table><tr><td></td><td>Coefficient</td><td>Standard Error</td><td>t-Statistic</td></tr><tr><td>Intercept</td><td>1.3346</td><td>0.2134</td><td>6.2540</td></tr></table>                                                                                             |                                                                                                                                                                                                                                                                                        | Coefficient | Standard Error | t-Statistic | Intercept | 1.3346 | 0.2134 | 6.2540 | With:<br><table><tr><td></td><td>Coefficient</td><td>Standard Error</td><td>t-Statistic</td></tr><tr><td>Intercept</td><td><b>0.13346</b></td><td>0.2134</td><td><b>0.6254</b></td></tr></table> |  | Coefficient | Standard Error | t-Statistic | Intercept | <b>0.13346</b> | 0.2134 | <b>0.6254</b> |
|                                                | Coefficient      | Standard Error | t-Statistic    |                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                        |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Intercept                                      | 1.3346           | 0.2134         | 6.2540         |                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                        |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
|                                                | Coefficient      | Standard Error | t-Statistic    |                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                        |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Intercept                                      | <b>0.13346</b>   | 0.2134         | <b>0.6254</b>  |                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                        |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Seasonality in Time-Series Models              | Exhibit 27       | 154            | 11 July 2024   | Replace:<br>Exhibit 27: Log Differenced Sales: AR(1) Model with Seasonal Lag – Starbucks, Quarterly Observations, 2005-2019                                                                                                                                                      | With:<br>Exhibit 27: Log Differenced Sales: AR(1) Model with Seasonal Lag – Starbucks, Quarterly Observations, <b>2002-2019</b>                                                                                                                                                        |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Seasonality in Time-Series Models              | Exhibit 27       | 154            | 22 March 2024  | Replace:<br>If sales grew by 1% last quarter and by 2% four quarters ago, then the model would predict that sales growth this quarter will be $0.0107 - 0.0154(0.01) + 0.7549(0.02) = 0.0256$ , or 2.56%.                                                                        | With:<br>If sales grew by 1% last quarter and by 2% four quarters ago, then the model would predict that sales growth this quarter will be $0.0107 - \mathbf{0.1540(0.01)} + 0.7549(0.02) = \mathbf{0.0243}$ , or <b>2.43%</b> .                                                       |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Solutions                                      | Solution to 9    | 191            | 26 July 2024   | Replace:<br>The estimated forecasting equation is $UER_t = 5.5098 - 0.0294(t)$ .                                                                                                                                                                                                 | With:<br>The estimated forecasting equation is $UER_t = \mathbf{7.2237 - 0.0510(t)}$ .                                                                                                                                                                                                 |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |
| Solutions                                      | Solution to 10   | 191            | 22 March 2024  | Replace:<br>To see whether this result is significantly less than 2.0, refer to the Durbin–Watson table in Appendix E at the end of this volume, in the column marked $k = 1$ (one independent variable) and the row corresponding to 80 observations. We see that $dI = 1.61$ . | With:<br>To see whether this result is significantly less than 2.0, refer to the Durbin–Watson table in Appendix E at the end of this volume, in the column marked $k = 1$ (one independent variable) and the row corresponding to 80 observations. We see that $dI = \mathbf{1.55}$ . |             |                |             |           |        |        |        |                                                                                                                                                                                                  |  |             |                |             |           |                |        |               |

## Machine Learning

| Lesson                                                        | Location           | PDF Pg | Revised     | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------|--------------------|--------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Hierarchical Clustering                                       | LOS                | 241    | 29 Jan 2024 | <p>Replace:<br/>describe neural networks, deep learning nets, and reinforcement learning</p> <p>With:<br/><b>describe unsupervised machine learning algorithms—including principal components analysis, k-means clustering, and hierarchical clustering—and determine the problems for which they are best suited</b></p>                                                                                                                                                                                      |
| Case Study: Clustering Stocks Based on Co-Movement Similarity | LOS                | 245    | 29 Jan 2024 | <p>Replace:<br/>describe neural networks, deep learning nets, and reinforcement learning</p> <p>With:<br/><b>describe unsupervised machine learning algorithms—including principal components analysis, k-means clustering, and hierarchical clustering—and determine the problems for which they are best suited</b></p>                                                                                                                                                                                      |
| Deep Neural Networks                                          | LOS                | 254    | 29 Jan 2024 | <p>Add as the LOS statement:<br/>describe neural networks, deep learning nets, and reinforcement learning</p>                                                                                                                                                                                                                                                                                                                                                                                                  |
| Case Study: Deep Neural Network–Based Equity Factor Model     | LOS                | 256    | 29 Jan 2024 | <p>Add as the LOS statement:<br/>describe neural networks, deep learning nets, and reinforcement learning</p>                                                                                                                                                                                                                                                                                                                                                                                                  |
| Choosing an Appropriate ML Algorithm                          | LOS                | 265    | 29 Jan 2024 | <p>Add as the LOS statement:<br/>describe supervised machine learning algorithms—including penalized regression, support vector machine, k-nearest neighbor, classification and regression tree, ensemble learning, and random forest—and determine the problems for which they are best suited” and “describe unsupervised machine learning algorithms—including principal components analysis, k-means clustering, and hierarchical clustering—and determine the problems for which they are best suited</p> |
| Practice Problems                                             | Problem 6 Option C | 273    | 29 Jan 2024 | <p>Replace:<br/>Statements 1, 3 and 3.</p> <p>With:<br/>Statements 1, <b>2</b>, and 3.</p>                                                                                                                                                                                                                                                                                                                                                                                                                     |

| Lesson    | Location       | PDF Pg | Revised     | Correction                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------|----------------|--------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Solutions | Solution to 10 | 276    | 29 Jan 2024 | <p>Replace:</p> <p>A is correct. It is the least accurate answer because neural networks with many hidden layers—at least 3, but often more than 20 hidden layers—are known as deep learning nets.</p> <p>With:</p> <p>A is correct. It is the least accurate answer because neural networks with many hidden layers—at least <b>2</b>, but often more than 20 hidden layers—are known as deep learning nets.</p> |

## Economics

### Currency Exchange Rates: Understanding Equilibrium Value

| Lesson                  | Location                       | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------|--------------------------------|--------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purchasing Power Parity | Second sentence at top of page | 407    | 22 March 2024 | <p>Replace:</p> <p>Each chart plots the inflation differential (horizontal axis) against the percentage change in the exchange rate (vertical axis).</p> <p>With:</p> <p>Each chart plots the inflation differential (<b>vertical</b> axis) against the percentage change in the exchange rate (<b>horizontal</b> axis).</p>                                                                                                                                                                          |
| Purchasing Power Parity | Last paragraph of the page     | 407    | 22 March 2024 | <p>Replace:</p> <p>Note that the Brazilian Real-USD exchange rate changes rapidly in the period 1990-1993, mirroring the very large differences in relative inflation between hyperinflationary Brazil and low inflation rate United States.</p> <p>With:</p> <p>Note that the Brazilian Real-USD exchange rate changes rapidly in the period <b>1980-1993</b>, mirroring the very large differences in relative inflation between hyperinflationary Brazil and low inflation rate United States.</p> |
| Purchasing Power Parity | Exhibit 3                      | 408    | 22 March 2024 | <p>Replace axis headings:</p> <p>DEM/USD and US less German Real Interest Rates</p> <p>With:</p> <p><b>REAL/USD</b> and <b>Differences in Inflation Rates</b></p>                                                                                                                                                                                                                                                                                                                                     |

| Lesson                       | Location                             | PDF Pg                               | Revised          | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |
|------------------------------|--------------------------------------|--------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------------------------|-----------------------------|----------------------------|---------------|-------------------------------|---------------------------|-------------------------------|---------------|--|------------------------------|-----------------------------|----------------------------|--------------------------------------|----------------------|---------------------------|----------------------|--------------------------------------|
| Monetary and Fiscal Policies | Third paragraph                      | 425                                  | 22 March 2024    | <div>Replace:<br/>With floating exchange rates and high capital mobility, a domestic currency will appreciate given a restrictive domestic monetary policy and/or an expansionary fiscal policy. Similarly, a domestic currency will depreciate given an expansionary domestic monetary policy and/or a restrictive fiscal policy. In Exhibit 4, we show that the combination of a restrictive monetary policy and an expansionary fiscal policy is extremely bullish for a currency when capital mobility is high; likewise, the combination of an expansionary monetary policy and a restrictive fiscal policy is bearish for a currency.</div> <div>With:<br/>With floating exchange rates and high capital mobility, a domestic currency will appreciate given a restrictive domestic monetary policy and/or an expansionary fiscal policy <b>that results in higher real interest rates</b>. Similarly, a domestic currency will depreciate given an expansionary domestic monetary policy and/or a restrictive fiscal policy <b>that results in lower real interest rates</b>. In Exhibit 4, we show that the combination of a restrictive monetary policy and an expansionary fiscal policy (<b>high real rates</b>) is extremely bullish for a currency when capital mobility is high; likewise, the combination of an expansionary monetary policy and a restrictive fiscal policy (<b>lower real rates</b>) is bearish for a currency.</div> |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |
| Monetary and Fiscal Policies | Exhibit 5                            | 426                                  | 29 Jan 2024      | <div>Replace:<table><tr><td></td><td>Expansionary Monetary Policy</td><td>Restrictive Monetary Policy</td></tr><tr><td>Expansionary Fiscal Policy</td><td>Indeterminate</td><td>Domestic currency appreciates</td></tr><tr><td>Restrictive Fiscal Policy</td><td>Domestic currency depreciates</td><td>Indeterminate</td></tr></table></div> <div>With:<table><tr><td></td><td>Expansionary Monetary Policy</td><td>Restrictive Monetary Policy</td></tr><tr><td>Expansionary Fiscal Policy</td><td><b>Domestic currency depreciates</b></td><td><b>Indeterminate</b></td></tr><tr><td>Restrictive Fiscal Policy</td><td><b>Indeterminate</b></td><td><b>Domestic currency appreciates</b></td></tr></table></div>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |  | Expansionary Monetary Policy | Restrictive Monetary Policy | Expansionary Fiscal Policy | Indeterminate | Domestic currency appreciates | Restrictive Fiscal Policy | Domestic currency depreciates | Indeterminate |  | Expansionary Monetary Policy | Restrictive Monetary Policy | Expansionary Fiscal Policy | <b>Domestic currency depreciates</b> | <b>Indeterminate</b> | Restrictive Fiscal Policy | <b>Indeterminate</b> | <b>Domestic currency appreciates</b> |
|                              | Expansionary Monetary Policy         | Restrictive Monetary Policy          |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |
| Expansionary Fiscal Policy   | Indeterminate                        | Domestic currency appreciates        |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |
| Restrictive Fiscal Policy    | Domestic currency depreciates        | Indeterminate                        |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |
|                              | Expansionary Monetary Policy         | Restrictive Monetary Policy          |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |
| Expansionary Fiscal Policy   | <b>Domestic currency depreciates</b> | <b>Indeterminate</b>                 |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |
| Restrictive Fiscal Policy    | <b>Indeterminate</b>                 | <b>Domestic currency appreciates</b> |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |
| Practice Problems            | Exhibit 2 – Interbank Market Quotes  | 445                                  | 11 November 2024 | <div>Replace:<br/>BRL/USD<br/>4.1699/4.1701</div> <div>With:<br/>BRL/USD<br/>4.1698/4.1702</div>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |  |                              |                             |                            |               |                               |                           |                               |               |  |                              |                             |                            |                                      |                      |                           |                      |                                      |

## Economic Growth

| Lesson                                        | Location                  | PDF Pg | Revised     | Correction                                                                                                                                                                      |
|-----------------------------------------------|---------------------------|--------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Factors Favoring and Limiting Economic Growth | Example 1 - Solution to 1 | 466    | 29 Jan 2024 | <p>Replace:<br/>Singapore <math>[(\\$66,189/\\$4,299)^{1/68}] - 1 = 4.6\%</math></p> <p>With:<br/>Singapore <math>[(\\$66,189/\\$4,299)^{1/68}] - 1 = \mathbf{4.1\%}</math></p> |

## Financial Statement Analysis

### Intercompany Investments

| Lesson                                                                   | Location                              | PDF Pg | Revised      | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------|---------------------------------------|--------|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investments in Associates and Joint Ventures                             | Exhibit 4 - 5 <sup>th</sup> paragraph | 13     | 24 July 2024 | <p>Replace:<br/>An impairment loss recognized in prior periods is only reversed if there has been a change in the estimates used to determine the in-vestment's recoverable amount since the last impairment loss was recognized.</p> <p>With:<br/>An impairment loss recognized in prior periods is only reversed if there has been a change in the estimates used to determine the <b>investment's</b> recoverable amount since the last impairment loss was recognized.</p> |
| Amortization of Excess Purchase Price, Fair Value Option, and Impairment | 2 <sup>nd</sup> to last paragraph     | 19     | 29 Jan 2024  | <p>Replace:<br/>Both IFRS and US GAAP prohibit the reversal of impairment losses even if the fair value later increases.</p> <p>With:<br/><del>Both IFRS and US GAAP prohibit the reversal of impairment losses even if the fair value later increases.</del></p>                                                                                                                                                                                                              |
| Financial Statement Presentation                                         | 2 <sup>nd</sup> sentence              | 37     | 24 July 2024 | <p>Replace:<br/>In addition, during 2017 GlaxoSmithKline made cash investment of £15,000,000 in Associates and disposed of two associated for a cash consideration of £198,000,000.</p> <p>With:<br/>In addition, during 2017 GlaxoSmithKline made cash investment of £15,000,000 in <b>associates</b> and disposed of two <b>associates</b> for a cash consideration of £198,000,000.</p>                                                                                     |
| Financial Statement Presentation                                         | 6 <sup>th</sup> sentence              | 37     | 24 July 2024 | <p>Replace:<br/>The remaining contingent consideration relates to the acquisition of the Shionogi-ViiV Healthcare joint venture and Novartis Vaccines are expected to be paid over a number of years.</p> <p>With:<br/>The remaining contingent consideration <b>related</b> to the acquisition of the Shionogi-ViiV Healthcare joint venture and Novartis Vaccines are expected to be paid over a number of years.</p>                                                        |

| Lesson                                                               | Location                 | PDF Pg | Revised      | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------|--------------------------|--------|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Additional Issues in Business Combinations That impair Comparability | Last bullet              | 45     | 24 July 2024 | <p>Replace:<br/>Special purpose (SPEs) and variable interest entities (VIEs) are required to be consolidated by the entity which is expected to absorb the majority of the expected losses or receive the majority of expected residual benefits.</p> <p>With:<br/><b>Special purpose entities</b> (SPEs) and variable interest entities (VIEs) are required to be consolidated by the entity which is expected to absorb the majority of the expected losses or receive the majority of expected residual benefits.</p>                                                                                                                                                                                                                                                                                                                                                      |
| Practice Problems                                                    | Question 27              | 54     | 24 July 2024 | <p>Replace:<br/>Using only the information from Exhibit 2, the carrying value of Topmaker's investment in Rainer at the end of 2018 is closest to:</p> <p>With:<br/>Using only the information from Exhibit 2, the carrying value of Topmaker's investment in Rainer at the end of <b>2016</b> is closest to:</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Practice Problems/Solutions                                          | Question 17 and Solution | 51, 59 | 24 July 2024 | <p>Remove the following Question 17:<br/>Compared to accounting principles currently in use, the pooling method BetterCare used for its Statewide Medical acquisition has <i>most</i> likely caused its reported:</p> <ul style="list-style-type: none"> <li>A. revenue to be higher.</li> <li>B. total equity to be lower.</li> <li>C. total assets to be higher.</li> </ul> <p>Remove the following Solution to 17:<br/>B is correct. Statewide Medical was accounted for under the pooling of interest method, which causes all of Statewide's assets and liabilities to be reported at historical book value. The excess of assets over liabilities generally is lower using the historical book value method than using the fair value method (this latter method must be used under currently required acquisition accounting). It would have no effect on revenue.</p> |
| Solutions                                                            | Solution to 27           | 61     | 24 July 2024 | <p>Replace:<br/>Investment in associate (Rainer) at the end of 2018</p> <p>With:<br/>Investment in associate (Rainer) at the end of <b>2016</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## Employee Compensation: Post-Employment and Share-Based

| Lesson                                                                 | Location                                                                    | PDF Pg                        | Revised            | Correction                                                                                                                                                      |                                                                                                                                                                             |                                |                    |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------|
| Financial Reporting for Share-Based Compensation                       | Last Table under Restricted Stock, Knowledge Check, under the December 20x3 | 72                            | 24 July 2024       | Replace:<br>Transfer 33,254 from share-based compensation reserve to paid-in capital account upon settlement                                                    | With:<br>Transfer <b>19,803</b> from share-based compensation reserve to paid-in capital account upon settlement                                                            |                                |                    |
| Financial Reporting for Share-Based Compensation                       | Knowledge Check - Solution to 3                                             | 75                            | 22 March 2024      | Replace:<br>Share-based compensation reserve (equity) -7,728. Paid in capital (equity) +30,888.<br>Cash inflow from financing activities of JPY 23,160 million. | With:<br>Share-based compensation reserve (equity) -7,728. Paid in capital (equity) <b>+33,888</b> .<br>Cash inflow from financing activities of JPY <b>26,160</b> million. |                                |                    |
| Share-Based Compensation Tax and Share Count Effects, Note Disclosures | Example 4 – Solution to 1                                                   | 80-81                         | 29 Jan 2024        | Replace:                                                                                                                                                        | With:                                                                                                                                                                       |                                |                    |
|                                                                        |                                                                             |                               |                    | Basic shares outstanding                                                                                                                                        | 176,401,000                                                                                                                                                                 | Basic shares outstanding       | 176,401,000        |
|                                                                        |                                                                             |                               |                    | Effect of dilutive securities:                                                                                                                                  | 1,571,667                                                                                                                                                                   | Effect of dilutive securities: | <b>1,456,333</b>   |
|                                                                        |                                                                             |                               |                    | Diluted shares outstanding:                                                                                                                                     | 177,972,667                                                                                                                                                                 | Diluted shares outstanding:    | <b>177,857,333</b> |
|                                                                        |                                                                             |                               |                    | _____                                                                                                                                                           |                                                                                                                                                                             | _____                          |                    |
|                                                                        |                                                                             |                               |                    | Replace:                                                                                                                                                        | With:                                                                                                                                                                       |                                |                    |
|                                                                        |                                                                             |                               |                    | RSUs:                                                                                                                                                           | RSUs:                                                                                                                                                                       |                                |                    |
| Unvested RSUs                                                          | 3,028,000                                                                   | Unvested RSUs                 | 3,028,000          |                                                                                                                                                                 |                                                                                                                                                                             |                                |                    |
| Minus: Assumed repurchases of                                          | 1,456,333**                                                                 | Minus: Assumed repurchases of | <b>1,571,667**</b> |                                                                                                                                                                 |                                                                                                                                                                             |                                |                    |
| Dilutive shares:                                                       | 1,571,667                                                                   | Dilutive shares:              | <b>1,456,333</b>   |                                                                                                                                                                 |                                                                                                                                                                             |                                |                    |
| _____                                                                  |                                                                             | _____                         |                    |                                                                                                                                                                 |                                                                                                                                                                             |                                |                    |
| Replace:                                                               | With:                                                                       |                               |                    |                                                                                                                                                                 |                                                                                                                                                                             |                                |                    |
| = 1,456,333 assumed repurchases                                        | = <b>1,571,667</b> assumed repurchases                                      |                               |                    |                                                                                                                                                                 |                                                                                                                                                                             |                                |                    |

| Lesson                                                                 | Location                   | PDF Pg | Revised         | Correction                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------|----------------------------|--------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Share-Based Compensation Tax and Share Count Effects, Note Disclosures | Example 4 – Solution to 1  | 81     | 7 November 2024 | Replace:<br>JPY 109,000 + 10,734 million / Average share price of 4,200<br>= 28,508,905 million assumed repurchases                                                                                                                                                                                                                                                                                | With:<br>JPY <b>(109,000 + 10,734)</b> million / Average share price of 4,200<br>= <b>28,508,095</b> million assumed repurchases                                                                                                                                                                                                                                                                          |
| Share-Based Compensation and Financial Statement Modeling              | Example 8                  | 85     | 22 March 2024   | Replace table row:<br>Total operating expenses      33,260      20,561      1,330                                                                                                                                                                                                                                                                                                                  | With:<br>Total operating expenses      33,260      20,561 <b>13,330</b>                                                                                                                                                                                                                                                                                                                                   |
| Financial Reporting for Post-Employment Benefits                       | First sentence             | 92     | 24 July 2024    | Replace:<br>If the funded status is negative, the plan is an overfunded plan and the funded status is reported on the balance sheet as a net pension liability.                                                                                                                                                                                                                                    | With:<br>If the funded status is negative, the plan is an <b>underfunded</b> plan and the funded status is reported on the balance sheet as a net pension liability.                                                                                                                                                                                                                                      |
| Financial Reporting for Post-Employment Benefits                       | Example 10 - Question 2    | 95     | 29 Jan 2024     | Replace:<br><ul style="list-style-type: none"> <li>Benefit obligation at the beginning of the year of 97</li> <li>Fair value of plan assets at the beginning of the year of 1,010</li> </ul>                                                                                                                                                                                                       | With:<br><ul style="list-style-type: none"> <li>Benefit obligation at the beginning of the year of <b>JPY 97 million</b></li> <li>Fair value of plan assets at the beginning of the year of <b>JPY 1,010 million</b></li> </ul>                                                                                                                                                                           |
| Financial Reporting for Post-Employment Benefits                       | Example 10 - Solution to 2 | 95     | 24 July 2024    | Replace:<br>Remeasurements of 32.24 million                                                                                                                                                                                                                                                                                                                                                        | With<br>Remeasurements of <b>30.30 million</b>                                                                                                                                                                                                                                                                                                                                                            |
| Practice Problems                                                      | Question 9                 | 104    | 22 March 2024   | Replace choice A:<br>9. If XYZ prepared its financial statements under US GAAP, the total amount recognized by XYZ on the income statement related to its DB plan for fiscal year 2024 (assuming the company chooses not to immediately recognize the actuarial loss and assuming there is no amortization of past service costs or actuarial gains and losses) would be closest to:<br><br>A. 28. | Replace choice A:<br>9. If XYZ prepared its financial statements under US GAAP, the total amount recognized by XYZ on the income statement related to its DB plan for fiscal year 2024 (assuming the company chooses not to immediately recognize the actuarial loss and assuming there is no amortization of past service costs or actuarial gains and losses) would be closest to:<br><br><b>A. 20.</b> |

| Lesson    | Location       | PDF Pg | Revised          | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------|----------------|--------|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Solutions | Solution to 9  | 111    | 22 March 2024    | <p>Replace:</p> <p>A is correct. Under US GAAP—assuming the company chooses not to immediately recognize the actuarial loss and assuming there is no amortization of past service costs or actuarial gains and losses—the components of periodic pension cost that would be reported in P&amp;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 +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.</p> | <p>With:</p> <p>A is correct. <b>Under US GAAP—assuming the company chooses not to immediately recognize the actuarial loss and assuming there is no amortization of past service costs or actuarial gains and losses—the components of periodic pension cost that would be reported in P&amp; 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.</b></p> |
| Solutions | Solution to 10 | 112    | 24 July 2024     | <p>Replace:</p> <p>Net interest expense/income is the product of the discount rate and the net pension liability/asset at the beginning of FY2025, or the end of FY2024, [(41,270-38,700) × 0.07] = 211. Summing these two components gives 531.</p>                                                                                                                                                                                                                                                                                                                                                        | <p>With:</p> <p>Net interest expense/income is the product of the discount rate and the net pension liability/asset at the beginning of FY2025, or the end of FY2024, [(<b>41,720</b>-38,700) × 0.07] = 211. Summing these two components gives 531.</p>                                                                                                                                                                                                                                                                                                                                                  |
| Solutions | Solution to 17 | 112    | 9 September 2024 | <p>Replace:</p> <p>Basic shares outstanding:     270,4000,000</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>Replace:</p> <p>Basic shares outstanding:     <b>270,400,000</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

## Financial Statement Modeling

| Lesson                                                | Location                  | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------|---------------------------|--------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Modeling Operating Costs: Cost of Goods Sold and SG&A | Example 5 - Solution to 2 | 426    | 22 March 2024 | <p>Replace:</p> <p>The projected beauty EBIT is EUR2,689 million, while the projected mass market EBIT is EUR5,937 million, assuming mass market sales of EUR14,937 million, gross margin of 60.75%, A&amp;P % of 15.4%, and SG&amp;A/Other % of 23.6%.</p> | <p>With:</p> <p>The projected beauty EBIT is EUR2,689 million, while the projected mass market EBIT is <b>EUR 3,249 million</b>, assuming mass market sales of EUR14,937 million, gross margin of 60.75%, A&amp;P % of 15.4%, and SG&amp;A/Other % of 23.6%.</p> |

# Corporate Issuers

## Cost of Capital: Advanced Topics

| Lesson      | Location                  | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                    |
|-------------|---------------------------|--------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The ERP     | Example 8 - Solution to 2 | 128    | 24 July 2024  | <div> <div>Replace:</div> <div> <math display="block">\text{ERP} = \{2.2 + 0 + [1.6 + 3.0 - (0.7)]\} - 2.5 = 5.0\%</math> </div> </div> <div> <div>With:</div> <div> <math display="block">\text{ERP} = \{2.2 + 0 + [1.6 + 3.0 - (-0.7)]\} - 2.5 = 5.0\%</math> </div> </div> |
| Mini-Case 2 | Question and Answers      | 150    | 22 March 2024 | <div>Missing question and answer content can be found here:</div> <div><a href="#">Link to PDF</a></div>                                                                                                                                                                      |

## Corporate Restructuring

| Lesson                                        | Location                   | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------------------------|----------------------------|--------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Corporate Evolution, Actions, and Motivations | Exhibit 1 table headers    | 158    | 22 March 2024 | <div> <div>Replace:</div> <div>Stage in Life Cycle   Start-Up   Start-Up   Maturity   Decline</div> </div> <div> <div>With:</div> <div>Stage in Life Cycle   Start-Up   <b>Growth</b>   Maturity   Decline</div> </div>                                                                                                                                                                                                                                                                                                                                                                     |
| Evaluating Investment Actions                 | Example 10 - Solution to 3 | 194    | 24 July 2024  | <div> <div>Replace:</div> <div>The equity investment by Dilmun valued Spina Ltd. at USD4,000 billion, or an EV/Sales (trailing twelve months, or TTM) multiple of 6.7 (4,000/600million in net revenues in 20X3).</div> </div> <div> <div>With:</div> <div>The equity investment by Dilmun valued Spina Ltd. at USD4,000 <b>million</b>, or an EV/Sales (trailing twelve months, or TTM) multiple of 6.7 (4,000/600million in net revenues in 20X3).</div> </div>                                                                                                                           |
| Evaluating Investment Actions                 | Example 11 – Solution to 3 | 198    | 22 March 2024 | <div> <div>Replace:</div> <div>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 BRL147,359 million in equity value after subtracting cash and cash equivalents at year-end 20X7.</div> </div> <div> <div>With:</div> <div>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 <b>BRL147,539 million</b> in equity value after subtracting cash and cash equivalents at year-end 20X7.</div> </div> |

| Lesson                        | Location                   | PDF Pg | Revised         | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------|----------------------------|--------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evaluating Investment Actions | Example 11 - Solution to 4 | 198    | 4 November 2024 | <p>Replace:</p> <p>First, Opone SA would de-recognize half of its interest (BRL13 billion) from its balance sheet and recognize BRL45 billion in cash proceeds from the sale and a gain of (45 - 13 =) BRL32 billion.</p> <p>With: (add minus sign)</p> <p>First, Opone SA would de-recognize half of its interest (BRL13 billion) from its balance sheet and recognize BRL45 billion in cash proceeds from the sale and a gain of <b>(45 - 13 =)</b> BRL32 billion.</p> |
| Evaluating Investment Actions | Exhibit 31 table           | 198    | 22 March 2024   | <p>Replace:</p> <p>Gain on sale            0                      –                      32,000</p> <p>With:</p> <p>Gain on sale            0                      <b>32,000</b>                      32,000</p>                                                                                                                                                                                                                                                         |

## Equity Valuation

### Free Cash Flow Valuation

| Lesson    | Location       | PDF Pg | Revised        | Correction                                                                                                                                                                                                                                        |
|-----------|----------------|--------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Solutions | Solution to 2  | 81     | 9 January 2025 | <p>Replace:</p> $PV = \frac{FCFE_1}{r-g} = \frac{FCFE_0(1+g)}{r-g} = \frac{1.3(1.07)}{0.13-0.075} = \frac{1.3975}{0.055}$ <p>With:</p> $PV = \frac{FCFE_1}{r-g} = \frac{FCFE_0(1+g)}{r-g} = \frac{1.3(1.075)}{0.13-0.075} = \frac{1.3975}{0.055}$ |
| Solutions | Solution to 4  | 81     | 22 March 2024  | <p>Replace:</p> <p>Firm value = <math>\frac{1.1559(1.04)}{0.0889 - 0.04} = \\$24.583</math>.</p> <p>With:</p> <p>Firm value = <math>\frac{1.1559(1.04)}{0.0889 - 0.04} = \\$24.583 \text{ billion}</math></p>                                     |
| Solutions | Solution to 45 | 95     | 24 July 2024   | <p>Replace:</p> <p>= \$37.01</p> <p>With:</p> <p><b>= £37.01</b></p>                                                                                                                                                                              |

## Market-Based Valuation: Price and Enterprise Value Multiples

| Lesson                                                        | Location                  | PDF Pg | Revised       | Correction                                                                                                                                   |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|---------------------------------------------------------------|---------------------------|--------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|--|--------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|--|
| Price/ Earnings: Valuation based on Forecast ed Fundame ntals | Example 8 – Solution to 1 | 117    | 22 March 2024 | Replace:<br>Value of the stock derived from FCFE = ¥6,980.<br>Forecasted 2014 EPS = ¥720.<br>¥6,980/¥720 = 9.7 is the justified forward P/E. |  |  |  |  |  | With:<br>Value of the stock derived from FCFE = ¥6,980.<br>Forecasted <b>2020</b> EPS = ¥720.<br>¥6,980/¥720 = 9.7 is the justified forward P/E. |  |  |  |  |  |
| Price/ Earnings: Using the P/E in Valuation                   | Example 11                | 124    | 22 March 2024 | Replace:<br>These data are reported in Exhibit 6, which lists companies in order of descending earnings growth forecast.                     |  |  |  |  |  | With:<br>These data are reported in Exhibit 6, <del>which lists companies in order of descending earnings growth forecast.</del>                 |  |  |  |  |  |
| Price/ Earnings: Using the P/E in Valuation                   | Example 11                | 124    | 29 Jan 2024   | Replace:                                                                                                                                     |  |  |  |  |  | With:                                                                                                                                            |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |
|                                                               |                           |        |               |                                                                                                                                              |  |  |  |  |  |                                                                                                                                                  |  |  |  |  |  |

| Lesson                                                  | Location                                                       | PDF Pg | Revised                 | Correction                                                                                                                                                                              |                                                                                                                                                                                            |       |       |      |             |      |
|---------------------------------------------------------|----------------------------------------------------------------|--------|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|------|-------------|------|
|                                                         |                                                                |        |                         |                                                                                                                                                                                         | Median                                                                                                                                                                                     | 15.03 | 11.99 | 6.90 | <b>1.49</b> | 0.78 |
| Price/<br>Earnings:<br>Using the<br>P/E in<br>Valuation | Example 11 -<br>Solution to 1                                  | 125    | 29 Jan<br>2024          | Replace:<br>Among the three companies identified as underpriced (based on their low trailing P/Es), CenturyLink has the highest five-year EPS growth forecast and the lowest PEG ratio. | With:<br>Among the three companies identified as underpriced (based on their low <b>forward</b> P/Es), CenturyLink has the highest five-year EPS growth forecast and the lowest PEG ratio. |       |       |      |             |      |
| Price/<br>Earnings:<br>Using the<br>P/E in<br>Valuation | Example 11 -<br>Solution to 1                                  | 125    | 29 Jan<br>2024          | Replace:<br>Among the other companies in Exhibit 6, Comcast and Charter Communications had the highest EPS growth forecasts and the second and third lowest PEG ratios.                 | With:<br>Among the other companies in <b>Exhibit 5</b> , Comcast and Charter Communications had the highest EPS growth forecasts and the <b>third lowest and lowest</b> PEG ratios.        |       |       |      |             |      |
| Enterpris<br>e<br>Value/EB<br>ITDA                      | Example 34 -<br>Solution to 1                                  | 165    | 22 March<br>2024        | Replace:<br>So, CL's EV is \$57,372 million + \$8,388 million – \$720 million = \$65,040 million.                                                                                       | With:<br>So, CL's EV is \$57,372 million + <b>\$8,623 million + \$299 million – \$726 million = \$65,568 million.</b>                                                                      |       |       |      |             |      |
| Practice<br>Problems                                    | Question 28                                                    | 197    | 17<br>September<br>2024 | Replace:<br>28. Based on Exhibit 4, Gesticular's EV/EBITDA multiple is closest to:                                                                                                      | With:<br>28. Based on <b>Exhibit 3</b> , Gesticular's EV/EBITDA multiple is closest to:                                                                                                    |       |       |      |             |      |
| Practice<br>Problems                                    | Exhibit 2                                                      | 199    | 22 March<br>2024        | Replace:<br>Required rate of ROE                                                                                                                                                        | With:<br>Required rate of <b>return</b>                                                                                                                                                    |       |       |      |             |      |
| Practice<br>Problems                                    | Following<br>Information<br>Relates to<br>Questions 36 -<br>37 | 200    | 8<br>November<br>2024   | Replace:<br>GN Growing AG (GG) is currently selling for €240, with TTM EPS and dividends per share of €1.5 and €0.9, respectively.                                                      | With:<br>GN Growing AG (GG) is currently selling for <b>€24</b> , with TTM EPS and dividends per share of €1.5 and €0.9, respectively.                                                     |       |       |      |             |      |
| Solutions                                               | Solution to 22                                                 | 207    | 20<br>September<br>2024 | Replace:<br>Average ROE × BVPS = 0.131 × €22.48 = €2.94.                                                                                                                                | With:<br>Average ROE × BVPS = 0.131 × <b>€22.58 = €2.96.</b>                                                                                                                               |       |       |      |             |      |

## Residual Income Valuation

| Lesson                                                | Location                   | PDF Pg | Revised           | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
|-------------------------------------------------------|----------------------------|--------|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-------------------------------------------|--------|---------------------------------------------------|--------|--------------------------------------------|---------------|-----------------|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|--------|-------------------------------------------|--------|---------------------------------------------------|--------|--------------------------------------------|----------------------|-----------------|---------|
| Single-Stage and Multistage Residual Income Valuation | Example 10                 | 235    | 26 July 2024      | <p>Replace:</p> <p>Rosato extends her analysis to consider the possibility that ROE will slowly decay toward <math>r</math> in 2040 and beyond, rather than using a perpetuity of Year 2037 residual income. Rosato estimates a persistence parameter of 0.60. The present value of the terminal value is determined as</p> <p>with <math>T</math> equal to 20 and 2037 residual income equal to 23.8664, in which the 1.12 growth factor reflects a 12% growth rate calculated as the retention ratio multiplied by ROE, or <math>(0.60)(20\%) = 0.12</math>.</p> | <p>With:</p> <p>Rosato extends her analysis to consider the possibility that ROE will slowly decay toward <math>r</math> in 2040 and beyond, rather than using a perpetuity of Year <b>2039</b> residual income. Rosato estimates a persistence parameter of 0.60. The present value of the terminal value is determined as</p> <p>with <math>T</math> equal to 20 and <b>2039</b> residual income equal to 23.8664, in which the 1.12 growth factor reflects a 12% growth rate calculated as the retention ratio multiplied by ROE, or <math>(0.60)(20\%) = 0.12</math>.</p> |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Single-Stage and Multistage Residual Income Valuation | Example 11 - Solution to 2 | 236    | 20 September 2024 | <p>Replace:</p> <table><tr><td>Current book value per share</td><td>15.000</td></tr><tr><td>Present value of 6 years' residual income</td><td>17.755</td></tr><tr><td>Terminal value <math>[PT - BT = (1.8 \times BT) - BT]</math></td><td>31.580</td></tr><tr><td>Present value of terminal value (at 7.95%)</td><td><u>18,856</u></td></tr><tr><td>Value per share</td><td>€52.711</td></tr></table>                                                                                                                                                             | Current book value per share                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 15.000 | Present value of 6 years' residual income | 17.755 | Terminal value $[PT - BT = (1.8 \times BT) - BT]$ | 31.580 | Present value of terminal value (at 7.95%) | <u>18,856</u> | Value per share | €52.711 | <p>With:</p> <table><tr><td>Current book value per share</td><td>15.000</td></tr><tr><td>Present value of 6 years' residual income</td><td>17.755</td></tr><tr><td>Terminal value <math>[PT - BT = (1.8 \times BT) - BT]</math></td><td>31.580</td></tr><tr><td>Present value of terminal value (at 7.95%)</td><td><u><b>19.956</b></u></td></tr><tr><td>Value per share</td><td>€52.711</td></tr></table> | Current book value per share | 15.000 | Present value of 6 years' residual income | 17.755 | Terminal value $[PT - BT = (1.8 \times BT) - BT]$ | 31.580 | Present value of terminal value (at 7.95%) | <u><b>19.956</b></u> | Value per share | €52.711 |
| Current book value per share                          | 15.000                     |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Present value of 6 years' residual income             | 17.755                     |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Terminal value $[PT - BT = (1.8 \times BT) - BT]$     | 31.580                     |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Present value of terminal value (at 7.95%)            | <u>18,856</u>              |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Value per share                                       | €52.711                    |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Current book value per share                          | 15.000                     |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Present value of 6 years' residual income             | 17.755                     |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Terminal value $[PT - BT = (1.8 \times BT) - BT]$     | 31.580                     |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Present value of terminal value (at 7.95%)            | <u><b>19.956</b></u>       |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |
| Value per share                                       | €52.711                    |        |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |                                           |        |                                                   |        |                                            |               |                 |         |                                                                                                                                                                                                                                                                                                                                                                                                            |                              |        |                                           |        |                                                   |        |                                            |                      |                 |         |

## Discounted Dividend Valuation

| Lesson                                   | Location   | PDF Pg | Revised         | Correction                        |
|------------------------------------------|------------|--------|-----------------|-----------------------------------|
| The Gordon Growth Model:<br>Other Issues | Example 11 | 301    | 4 November 2024 | Replace:                          |
|                                          |            |        |                 | With: (remove repeating equation) |

|                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The justified leading P/E (based on next year's earnings) is</p> $\frac{P_0}{E_1} = \frac{1-b}{r-g} = \frac{0.5438}{0.056-0.0425} = 40.28.$ $\frac{P_0}{E_1} = \frac{1-b}{r-g} = \frac{0.5438}{0.056-0.0425} = 40.28$ | <p>The justified leading P/E (based on next year's earnings) is</p> $\frac{P_0}{E_1} = \frac{1-b}{r-g} = \frac{0.5438}{0.056-0.0425} = 40.28.$ <del><math display="block">\frac{P_0}{E_1} = \frac{1-b}{r-g} = \frac{0.5438}{0.056-0.0425} = 40.28</math></del> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

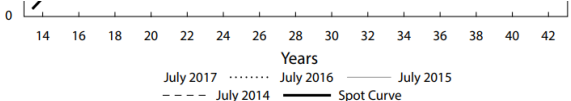
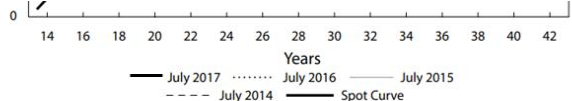
## Private Company Valuation

| Lesson                                           | Location    | PDF Pg | Revised     | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
|--------------------------------------------------|-------------|--------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--|----------------------------|-------------|----------|------------|--------------------|------------|--------------|------------|---------------|-----------|------|------------|-------------------------------|---------|------------------------------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--|----------------------------|-------------|----------|------------|--------------------|------------|--------------|------------|---------------|-----------|---------------|------------|-------------------------------|---------|------------------------------------|------------|
| Private Company Valuation: Income-Based Approach | Example 12  | 326    | 29 Jan 2024 | Replace: <div><table><tr><th colspan="2">FLI's Normalized Operating Income after Taxes</th></tr><tr><th>As of 31 December (in SGD)</th><th>As Adjusted</th></tr><tr><td>Revenues</td><td>50,000,000</td></tr><tr><td>Cost of goods sold</td><td>30,000,000</td></tr><tr><td>Gross profit</td><td>20,000,000</td></tr><tr><td>SG&amp;A expenses</td><td>3,700,000</td></tr><tr><td>EBIT</td><td>16,300,000</td></tr><tr><td>Depreciation and amortization</td><td>900,000</td></tr><tr><td>Earnings before interest and taxes</td><td>15,400,000</td></tr></table><p>Using FLI's tax rate of 17% and additional information that FLI had capital expenditures of SGD 1,200,000 and increased working capital by SGD 500,000 over the period, Khan solves for a base-year FCFF of SGD 11,982,000:</p><math display="block">\text{FCFF} = \text{EBIT}(1 - \text{Tax rate}) + \text{Depreciation}(\text{Tax rate}) - \Delta\text{LT Assets} - \Delta\text{Working Capital}</math><math display="block">\text{SGD } 11,982,000 = 16,300,000 \times (1 - 0.17) + 900,000 \times 0.17 - 1,200,000 - 500,000</math></div> | FLI's Normalized Operating Income after Taxes |  | As of 31 December (in SGD) | As Adjusted | Revenues | 50,000,000 | Cost of goods sold | 30,000,000 | Gross profit | 20,000,000 | SG&A expenses | 3,700,000 | EBIT | 16,300,000 | Depreciation and amortization | 900,000 | Earnings before interest and taxes | 15,400,000 | With: <div><table><tr><th colspan="2">FLI's Normalized Operating Income after Taxes</th></tr><tr><th>As of 31 December (in SGD)</th><th>As Adjusted</th></tr><tr><td>Revenues</td><td>50,000,000</td></tr><tr><td>Cost of goods sold</td><td>30,000,000</td></tr><tr><td>Gross profit</td><td>20,000,000</td></tr><tr><td>SG&amp;A expenses</td><td>3,700,000</td></tr><tr><td><b>EBITDA</b></td><td>16,300,000</td></tr><tr><td>Depreciation and amortization</td><td>900,000</td></tr><tr><td>Earnings before interest and taxes</td><td>15,400,000</td></tr></table><p>Using FLI's tax rate of 17% and additional information that FLI had capital expenditures of SGD 1,200,000 and increased working capital by SGD 500,000 over the period, Khan solves for a base-year FCFF of SGD 11,982,000:</p><math display="block">\text{FCFF} = \text{EBITDA}(1 - \text{Tax rate}) - \text{Depreciation}(\text{Tax rate}) - \Delta\text{LT Assets} - \Delta\text{Working Capital}</math><math display="block">\text{SGD } 11,982,000 = 16,300,000 \times (1 - 0.17) + 900,000 \times 0.17 - 1,200,000 - 500,000</math></div> | FLI's Normalized Operating Income after Taxes |  | As of 31 December (in SGD) | As Adjusted | Revenues | 50,000,000 | Cost of goods sold | 30,000,000 | Gross profit | 20,000,000 | SG&A expenses | 3,700,000 | <b>EBITDA</b> | 16,300,000 | Depreciation and amortization | 900,000 | Earnings before interest and taxes | 15,400,000 |
|                                                  |             |        |             | FLI's Normalized Operating Income after Taxes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| As of 31 December (in SGD)                       | As Adjusted |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Revenues                                         | 50,000,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Cost of goods sold                               | 30,000,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Gross profit                                     | 20,000,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| SG&A expenses                                    | 3,700,000   |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| EBIT                                             | 16,300,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Depreciation and amortization                    | 900,000     |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Earnings before interest and taxes               | 15,400,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| FLI's Normalized Operating Income after Taxes    |             |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| As of 31 December (in SGD)                       | As Adjusted |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Revenues                                         | 50,000,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Cost of goods sold                               | 30,000,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Gross profit                                     | 20,000,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| SG&A expenses                                    | 3,700,000   |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| <b>EBITDA</b>                                    | 16,300,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Depreciation and amortization                    | 900,000     |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |
| Earnings before interest and taxes               | 15,400,000  |        |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                               |  |                            |             |          |            |                    |            |              |            |               |           |      |            |                               |         |                                    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                               |  |                            |             |          |            |                    |            |              |            |               |           |               |            |                               |         |                                    |            |

## Fixed Income

## The Term Structure and Interest Rate Dynamics

| Lesson                                                | Location                     | PDF Pg | Revised      | Correction                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------|------------------------------|--------|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Spot Rates, Forward Rates, and the Forward Rate Model | Spot Rates and Forward Rates | 346    | 26 July 2024 | <p>Replace:</p> <p>The price of a risk-free single-unit payment (e.g., \$1, €1, or £1) after N periods is called the discount factor with maturity N, denoted by <math>PV_N</math>.</p> <p>With:</p> <p>The price of a risk-free single-unit payment (e.g., \$1, €1, or £1) after N periods is called the discount factor with maturity N, denoted by <math>DF_N</math>.</p> |

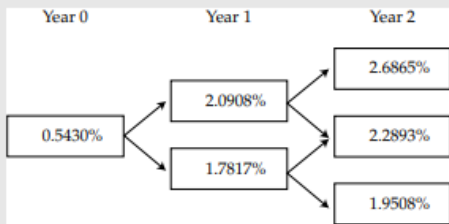
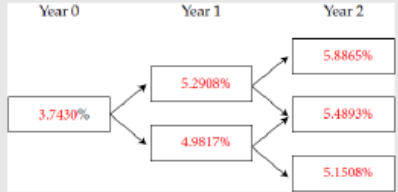
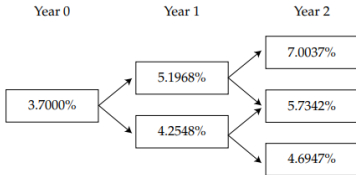
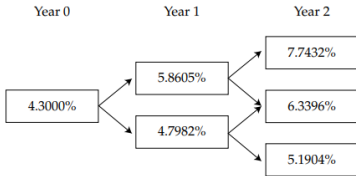
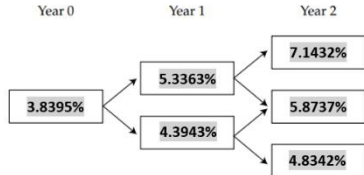
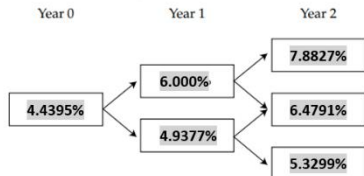
| Lesson                                                | Location                          | PDF Pg | Revised          | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------|-----------------------------------|--------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Spot Rates, Forward Rates, and the Forward Rate Model | Example 1 - Solution to 3 & 4     | 348    | 22 March 2024    | <p>Replace:</p> <p>3. Calculate the forward price of a two-year bond to be issued in one year:<br/> <math>F_{A,B-A} = F_{1,3}</math>.</p> <p>4. Interpret your answer to Problem 3.<br/> Solution:<br/> The forward contract price of <math>DF_{1,2} = 0.8262</math> is the price agreed on today ...</p> <p>With:</p> <p>3. Calculate the forward price of a two-year bond to be issued in one year:<br/> <math>F_{A,B-A} = F_{1,2}</math>.</p> <p>4. Interpret your answer to Problem 3.<br/> Solution:<br/> The forward contract price of <math>F_{1,2} = 0.8262</math> is the price agreed on today ...</p>                                                 |
| Spot Rates, Forward Rates, and the Forward Rate Model | Exhibit 2 - Key                   | 353    | 18 November 2024 | <p>Replace:</p>  <p>With: (add line before July 2017)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| YTM in Relation to Spot and Forward Rates             | Equations                         | 360    | 29 Jan 2024      | <p>Replace:</p> $DF_1^{new} = \frac{DF_2}{DF_1} = \frac{0.9246}{0.9615} = 0.9616$ $DF_2^{new} = \frac{DF_3}{DF_1} = \frac{0.8890}{0.9615} = 0.9246$ <p>Using Equation 10, the price of the forward contract one year from today is</p> $F_{2,1}^{new} = \frac{DF_2^{new}}{DF_1^{new}} = \frac{0.9246}{0.9615} = 0.9616.$ <p>With:</p> $DF_1^{new} = \frac{DF_2}{DF_1} = \frac{0.9246}{0.9615} = \mathbf{0.9615}$ $DF_2^{new} = \frac{DF_3}{DF_1} = \frac{0.8890}{0.9615} = 0.9246$ <p>Using Equation 10, the price of the forward contract one year from today is</p> $F_{2,1}^{new} = \frac{DF_2^{new}}{DF_1^{new}} = \frac{0.9246}{0.9615} = \mathbf{0.9615}$ |
| YTM in Relation to Spot and Forward Rates             | Paragraph following last equation | 360    | 29 Jan 2024      | <p>Replace:</p> <p>The price of the forward contract is nearly unchanged.</p> <p>With:</p> <p>The price of the forward contract <b>is</b> unchanged.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

| Lesson                                                       | Location                                       | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------|------------------------------------------------|--------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Active Bond Portfolio Management                             | 3 <sup>rd</sup> and 4 <sup>th</sup> paragraphs | 363    | 29 Jan 2024   | <p>Replace:</p> <p>The 6% five-year bond purchased for 100 returns 120.61 in two years <math>[(6 \times 1.02) + 6 + 108.49]</math>, 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% <math>[108.49 = 6/1.04 + 6/(1.04)^2 + 106/(1.04)^3]</math>. The annualized rate of return is 9.823% [solve for <math>r</math>, where <math>(120.61/100) = (1 + r)^2</math>].</p> <p>The 7% six-year bond purchased at par returns 125.03 in two years <math>[(7 \times 1.02) + 7 + 110.89]</math> with an annualized return of 11.817%. 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% <math>[110.89 = 7/1.05 + 7/(1.05)^2 + 7/(1.05)^3 + 107/(1.05)^4]</math>.</p> | <p>With:</p> <p>The 6% five-year bond purchased for 100 returns <b>117.67</b> in two years <math>[(6 \times 1.02) + 6 + \mathbf{105.55}]</math>, 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% <math>[\mathbf{105.55} = 6/1.04 + 6/(1.04)^2 + 106/(1.04)^3]</math>. The annualized rate of return is <b>8.476%</b> [solve for <math>r</math>, where <math>(\mathbf{117.67}/100) = (1 + r)^2</math>].</p> <p>The 7% six-year bond purchased at par returns <b>121.23</b> in two years <math>[(7 \times 1.02) + 7 + \mathbf{107.09}]</math> with an annualized return of <b>10.10%</b>. 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% <math>[\mathbf{107.09} = 7/1.05 + 7/(1.05)^2 + 7/(1.05)^3 + 107/(1.05)^4]</math>.</p> |
| The Swap Spread and Spreads as a Price Quotation Convention  | Paragraph under Exhibit 7                      | 372    | 1 August 2025 | <p>Replace:</p> <p>As market participants transition away from survey-based Libor to alternative benchmarks based on actual transaction data, the secured overnight financing rate (SOFR), or overnight cash borrowing rate collateralized by US Treasuries, has gained prominence and is expected to replace Libor in the future.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <p>With:</p> <p>As market participants transition away from survey-based Libor to alternative benchmarks based on actual transaction data, the secured overnight financing rate (SOFR), or overnight cash borrowing rate collateralized by US Treasuries, has gained prominence and <b>has replaced</b> Libor <del>in the future</del>.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| The Maturity Structure of Yield Curve Volatilities           | Equation 15                                    | 382    | 22 March 2024 | <p>Replace:</p> <p>Delete extra minus symbol at the end of equation</p> <p>-- <math>3.3333\Delta z_{10}</math></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <p>With:</p> <p>-- <math>\mathbf{3.3333\Delta z_{10}}</math></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Developing Interest Rate Views Using Macroeconomic Variables | 5 <sup>th</sup> paragraph                      | 385    | 26 July 2024  | <p>Replace:</p> <p>Research shows that although inflation, GDP, and monetary policy explain most of the variance of bond yields, short- and intermediate-term bond yields are driven mostly by monetary policy, whereas other factors such as inflation are key drivers of long-term yields.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <p>With:</p> <p>Research shows that although inflation, GDP, and monetary policy explain most of the variance of bond yields, short- and intermediate-term bond yields are driven mostly by monetary policy, whereas <b>long-term rate volatility is mostly linked to uncertainty regarding the real economy and inflation</b>.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

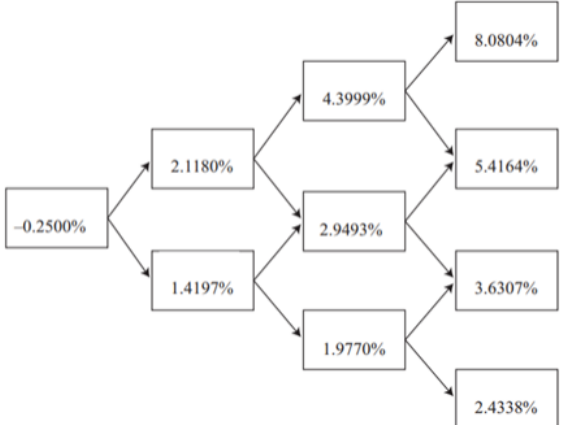
## The Arbitrage-Free Valuation Framework

| Lesson                | Location                                                          | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------|-------------------------------------------------------------------|--------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Term Structure Models | First sentence under The Kalotay-Williams-Fabozzi model subheader | 441    | 22 March 2024 | <p>Replace:<br/>The Kalotay–Williams–Fabozzi (KWF) model is analogous to the Ho–Lee model in that it assumes constant drift, no mean reversion, and constant volatility.</p> <p>With:<br/>The Kalotay–Williams–Fabozzi (KWF) model is analogous to the Ho–Lee model in that it assumes <del>constant drift</del>, no mean reversion, and constant volatility.</p>                                                                                                                                    |
| Practice Problems     | Practice Problems 11-19                                           | 452    | 22 March 2024 | <p>Replace:<br/>Statement 1: Increasing the number of paths increases the estimate’s statistical accuracy.</p> <p>Statement 2: The bond value derived from a Monte Carlo simulation will be closer to the bond’s true fundamental value.</p> <p>With:<br/><b>Statement 4:</b> Increasing the number of paths increases the estimate’s statistical accuracy.</p> <p><b>Statement 5:</b> The bond value derived from a Monte Carlo simulation will be closer to the bond’s true fundamental value.</p> |

# Valuation and Analysis of Bonds with Embedded Options

| Lesson                                    | Location               | PDF Pg | Revised           | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------|------------------------|--------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Capped and Floored Floating-Rate Bonds    | Example 8 – Question 3 | 507    | 10 September 2024 | <p>Replace:</p>  <p>The value of the capped floater is <i>closest to</i>:</p> <p>A. 92.929.<br/>B. 99.916.<br/>C. 109.265.</p> <p>With:</p>  <p>at 5.50%. Assuming an interest rate volatility of 8%, the advisers have constructed the following binomial interest rate tree:</p> <p>The value of the capped floater is <i>closest to</i>:</p> <p>A. 92.929.<br/>B. 99.916.<br/>C. 109.265.</p>                                                                                                                              |
| Comparison of Risk-Return Characteristics | Exhibit 2              | 531    | 22 March 2024     | <p>Replace:</p> <p><b>Exhibit 2: Binomial Interest Rate Trees</b></p> <p><b>Interest Rates Shift Down by 30 bps</b></p>  <p><b>Interest Rates Shift Up by 30 bps</b></p>  <p>With:</p> <p><b>Exhibit 2: Binomial Interest Rate Trees</b></p> <p><b>Interest Rates Shift Down by 30 bps</b></p>  <p><b>Interest Rates Shift Up by 30 bps</b></p>  |

## Credit Analysis Model

| Lesson                                                   | Location        | PDF Pg | Revised       | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------|-----------------|--------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Modeling Credit Risk and the Credit Valuation Adjustment | Fifth paragraph | 545    | 22 March 2024 | <p>Replace:</p> <p>Column 7 gives the expected loss for each date. This is the LGD times the POD. For example, if default occurs on Date 3, the expected loss is 0.6894 per 100 of par value. The exposure is 94.2596. At 40% recovery, the LGD is 56.5558. Assuming no prior default, the POD for that date is 1.2189%. The expected loss of 0.6894 is calculated as 56.5558 times 1.2189%.</p> <p>With:</p> <p>Column 7 gives the expected loss for each date. This is the LGD times the POD. For example, <del>if default occurs</del> on Date 3, the expected loss is 0.6894 per 100 of par value. The exposure is 94.2596. At 40% recovery, the LGD is 56.5558. Assuming no prior default, the POD for that date is 1.2189%. The expected loss of 0.6894 is calculated as 56.5558 times 1.2189%.</p> |
| Credit Analysis for Securitized Debt                     | Exhibit 3       | 597    | 22 March 2024 | <p>Add tree graphic to Exhibit 3:</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Practice Problems                                        | Question 21     | 599    | 22 March 2024 | <p>Replace:</p> <p>Based on the research department assumption about the probability of default in Question 10 and her own assumption in Question 11, which action does Ibarra most likely expect from the credit rating agencies?</p> <p>With:</p> <p>Based on the research department assumption about the probability of default in <b>Question 18</b> and her own assumption in <b>Question 19</b>, which action does Ibarra most likely expect from the credit rating agencies?</p>                                                                                                                                                                                                                                                                                                                  |
| Solutions                                                | Solution to 17  | 609    | 29 Jan 2024   | <p>Replace:</p> <p>Valuation of a four-year, 6% coupon bond under no default is computed in the solution to Question 8 as 1,144.63.</p> <p>With:</p> <p>Valuation of a four-year, 6% coupon bond under no default is computed in the solution to <b>Question 16</b> as 1,144.63.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

## Credit Default Swaps

| Lesson                                  | Location | PDF Pg | Revised      | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------|----------|--------|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation Differences and Basis Trading | Summary  | 642    | 26 July 2024 | <p>Replace:</p> <p>If the present value of the payment leg is greater than the present value of the protection leg, the protection buyer pays an upfront premium to the seller. If the present value of the protection leg is greater than the present value of the payment leg, the seller pays an upfront premium to the buyer.</p> <p>With:</p> <p>If the present value of the payment leg is greater than the present value of the protection leg, the protection <b>seller</b> pays an upfront premium to the <b>buyer</b>. If the present value of the protection leg is greater than the present value of the payment leg, the <b>buyer</b> pays an upfront premium to the <b>seller</b>.</p> |

## Derivatives

### The Term Structure and Interest Rate Dynamics

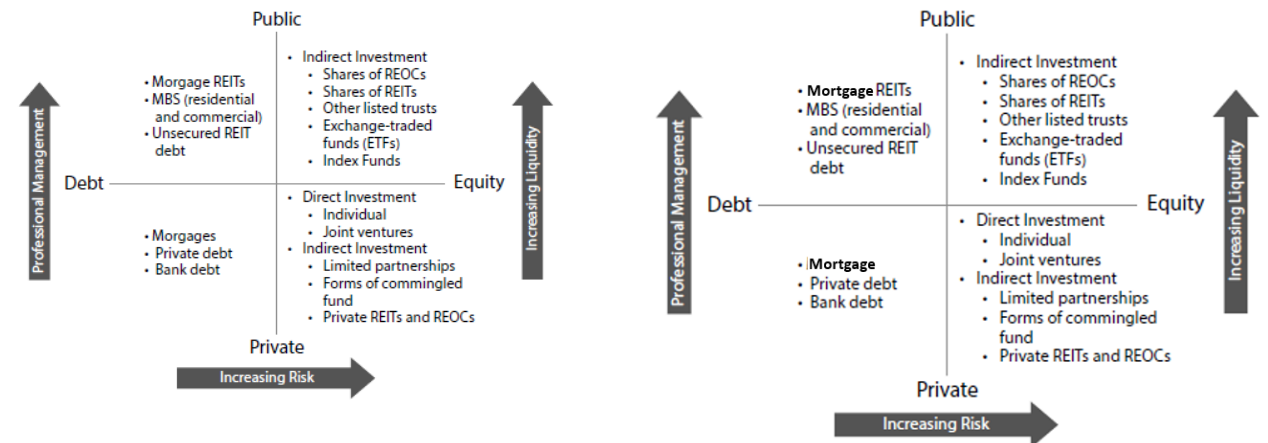
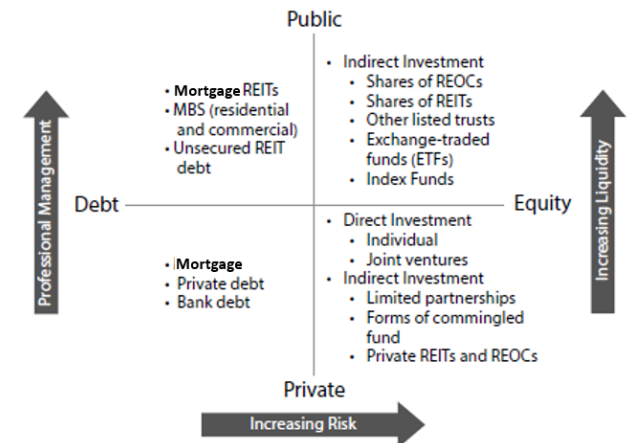
| Lesson       | Location       | PDF Pg | Revised          | Correction                                                                                                                                                                                                                                                                                                                                    |
|--------------|----------------|--------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Introduction | Last paragraph | 7      | 4 September 2024 | <p>Replace:</p> <p>Exhibit 2 shows the convergence property for a stock index futures/forward contract under continuous compounding and varying dividend yields.</p> <p>With:</p> <p>Exhibit 2 shows the convergence property for a stock index futures/forward <b>contract</b> under continuous compounding and varying dividend yields.</p> |

# Alternative Investments

## Introduction to Commodities and Commodity Derivatives

| Lesson                                       | Location                                     | PDF Pg  | Revised          | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------|----------------------------------------------|---------|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Commodity Sectors                            | Exhibit 1                                    | 163     | 31 July 2025     | <p>Replace:</p> <p>Flows: Speed of maturation to slaughter weight, economic (GDP) growth/consumer income, disease, adverse weather</p> <p>With:</p> <p>Flows: Speed of maturation to <b>harvest</b> weight, economic (GDP) growth/consumer income, disease, adverse weather</p>                                                                                                                                                           |
| Contango, Backwardation, and the Roll Return | Paragraph under Exhibit 14                   | 194     | 5 August 2025    | <p>Replace:</p> <p>However, since 2010, the emergence of shale oil production in the United States has increased oil's convenience yield to the point that historical scarcity risk is much lower than before.</p> <p>With:</p> <p>However, since 2010, the emergence of shale oil production in the United States has <b>decreased</b> oil's convenience yield to the point that historical scarcity risk is much lower than before.</p> |
| Practice Problems                            | Practice Problems relates to questions 16-22 | 211-212 | 10 December 2024 | <p>Replace:</p> <p>Statement 1 Roll returns are generally negative when a futures market is in contango.</p> <p>Statement 2 Roll returns are generally positive when a futures market is in backwardation.</p> <p>With:</p> <p><b>Statement 4</b> Roll returns are generally negative when a futures market is in contango.</p> <p><b>Statement 5</b> Roll returns are generally positive when a futures market is in backwardation.</p>  |

## Overview of Types of Real Estate Investment

| Lesson                                | Location                               | PDF Pg | Revised          | Correction                                                                                                                                                                                                            |
|---------------------------------------|----------------------------------------|--------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Basic Forms of Real Estate Investment | Exhibit 3 – second and third quadrants | 224    | 10 December 2024 | <p>Replace: Mortgage</p>  <p>With: Mortgage</p>  |

## Portfolio Management

## Economics and Investment Markets

| Lesson                                                                      | Location  | PDF Pg | Revised      | Correction                                                                                                                                                                              |
|-----------------------------------------------------------------------------|-----------|--------|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The Discount Rate on Real Default-Free Bonds: Risk Premiums on Risky Assets | Example 6 | 16     | 26 July 2024 | <p>Replace the equal sign:</p> $P_{t,s} = \frac{E_t(\tilde{P}_{t+1,s-1})}{1 + l_{t,1}} = -0.000008.$ <p>With:</p> $P_{t,s} - \frac{E_t(\tilde{P}_{t+1,s-1})}{1 + l_{t,1}} = -0.000008.$ |

## Analysis of Active Portfolio Management

| Lesson            | Location                                             | PDF Pg | Revised      | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------|------------------------------------------------------|--------|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Practice Problems | The following information relates to questions 11-14 | 139    | 26 July 2024 | <p>Replace:</p> <p>John Martinez is assessing the performance of the actively managed diversified asset portfolio. The diversified asset portfolio is invested in equities, bonds, and real estate, and allocations to these asset classes and to the holdings within them are unconstrained.</p> <p>With:</p> <p>John Martinez is assessing the performance of the actively managed diversified asset portfolio. The diversified asset portfolio is invested in equities, bonds, and real estate, and allocations to these asset classes and to the holdings within them are <b>constrained</b>.</p> |

## Ethical and Professional Standards

### Guidance for Standards I-VII

| Lesson                                 | Location                      | PDF Pg | Revised     | Correction                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------|-------------------------------|--------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Standard IV(A): Recommended Procedures | Incident-Reporting Procedures | 266    | 29 Jan 2024 | <p>Replace:</p> <p>Report potentially unethical and illegal activities in the firm.</p> <p>With:</p> <p><b>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.</b></p> |

## Application of the Code and Standards: Level II

| Lesson            | Location                        | PDF Pg | Revised     | Correction                                                                                                                                                                                                                       |                                                                                                                                                                                                                                       |
|-------------------|---------------------------------|--------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| JR and Associates | Second to last sentence on page | 398    | 29 Jan 2024 | Replace:<br>Ode now has three and a half years of experience in the investment industry.                                                                                                                                         | With:<br>Ode now has <b>two</b> and a half years of experience in the investment industry.                                                                                                                                            |
| JR and Associates | Case Questions Solution 9       | 403    | 29 Jan 2024 | Replace:<br>B is incorrect. To be a CFA charterholder, Ode needs to have completed the required four years of work experience.                                                                                                   | With:<br>B is incorrect. To be a CFA charterholder, Ode needs to have completed the required <b>three</b> years of work experience.                                                                                                   |
| JR and Associates | Case Questions - Solution to 9  | 403    | 29 Jan 2024 | Replace:<br>C is incorrect. The fact that she has completed all three levels of the CFA Program does not make Ode a CFA charterholder. To be a CFA charterholder, she must also have the required four years of work experience. | With:<br>C is incorrect. The fact that she has completed all three levels of the CFA Program does not make Ode a CFA charterholder. To be a CFA charterholder, she must also have the required <b>three</b> years of work experience. |