What's New for 2005 Level 2 Curriculum

1. Assigned Readings

- 2005 CFA Level II Candidate Readings (CFA Institute, 2004) New Edition
- Standards of Practice Handbook, 8th edition (AIMR, 1999)
- Standards of Practice Casebook (AIMR, 1996)
- Quantitative Methods for Investment Analysis, Richard A. DeFusco, Dennis W. McLeavey, Jerald E. Pinto, and David E. Runkle (AIMR, 2001)
- International Investments, 5th edition, Bruno Solnik and Dennis W. McLeavey (Addison Wesley, 2003)
- The Analysis and Use of Financial Statements, 3rd edition, Gerald I. White, Ashwinpaul C. Sondhi, and Dov Fried (Wiley, 2003) – New edition
- Financial Shenanigans, 2nd edition, Howard Schilit (McGraw-Hill, 2002)
- Investment Analysis and Portfolio Management, 7th edition, Frank K. Reilly and Keith C. Brown (South-Western, 2003) – New edition
- Fundamentals of Financial Management, 8th edition, Eugene F. Brigham and Joel F. Houston (Dryden, 1998)
- Analysis of Equity Investments: Valuation, John D. Stowe, Thomas R. Robinson, Jerald E. Pinto, and Dennis W. McLeavey (AIMR, 2002)
- Fixed Income Analysis for the Chartered Financial Analyst® Program, Frank J. Fabozzi (Frank J. Fabozzi Associates, 2000)
- Analysis of Derivatives for the CFA® Program, Don Chance (AIMR, 2003)

Note:

In 2005 L2 curriculum, there are new editions for a few textbooks (labeled in red), including CFA Level II Candidate Readings, The Analysis and Use of Financial Statements, and Investment Analysis and Portfolio Management.

Study Session	New LOS
SS1-2 Ethical and Professional Standards	No new LOS
<u>SS3</u> Quantitative Methods	<u>SS3</u> 1.B. 1)discuss the limitations of regression analysis.
<u>SS4</u> Economics	<u>SS4</u> 1.B.f) describe the key features of a plan for reforming economies that have operated under a highly centralized system;
	2.A.e) discuss the costs and benefits of regulation and how these costs and benefits are shared in the economy.
	 3. A. "Foreign Exchange" The candidate should be able to a) calculate the widest interval within which the mid-point of the bid-ask spread in the domestic country must remain to allow no arbitrage between the currencies of the domestic country and a foreign country; b) calculate the profit on a triangular arbitrage opportunity, given the bid-ask quotations for the currencies of three countries.
<u>SS5-7</u> Financial Statement Analysis	SS5 1.B. d) interpret the disclosures related to SFAS 143 "Accounting for Asset Retirement Obligations" regarding obligations related to remedying environmental damage caused by a company, and explain the standard's likely financial statement and ratio effects.
	 1.F. The candidate should be able to a) explain the differences in accounting for defined contribution and defined benefit pension plans; b) compare and contrast the following measures of defined benefit pension

2. New LOS

	plan liabilities: 1) projected benefit obligation,
	2) accumulated benefit obligation, and
	3) vested benefit obligation;
	projected benefit obligation: d) identify the factors that affect a plan's assets.
	and discuss how the funded status of a plan is determined;
	e) calculate and justify the adjustments required to a company's financial
	statements to reflect the economic position of its pension plan; f) compute the liability (or asset) to be reported on a company's balance
	sheet based on pension and other postretirement benefit disclosures under
	U.S. Generally Accepted Accounting Principles (U.S. GAAP);
	g) calculate the pension of other postretirement benefit expense (income) to bereported on a company's income statement based on footnote and other disclosures under U.S. GAAP:
	h) distinguish between U.S. GAAP and International Accounting Standards
	(IAS) for accounting for pension and other postretirement benefit plans;
	and preretirement benefits;
	<u>SS7</u> 1 E compare cash flow from operations and net income
	2 B "Equipare cash new from operations and rectingoine
	able to
	a) calculate weighted average shares outstanding and basic and diluted
	earnings per share (EPS) for a company with a complex capital structure; b) differentiate between basic and diluted EPS and between weighted
	average shares outstanding and shares outstanding per the balance sheet;
	c) explain why diluted EPS is more suitable for valuation purposes than basic
SS8-9	SS9 1.D. b) discuss the sources and implications of international differences
Corporate Finance	in controlling conflicts of interest between owners and management;
<u>SS10</u> Basia Valuation	No new LOS
Concepts	
<u>SS11-13</u>	<u>SS11</u>
Equity Investments	1. The candidate should be able to
	the difficulties in sustaining a competitive advantage with any generic
	strategy;
	<u>SS13</u>
	1.B. p) calculate the intrinsic value of a share of common stock using a single-stage residual income model:
	2. "Security Analysis Using Value-Based Metrics"
	The candidate should be able to
	a) calculate net operating profit after tax (NOPAT); b) calculate dollar weighted average cost of capital (\$WACC);
	c) calculate economic value added (EVA®);
	d) differentiate between accounting profitability as measured by ROE and
	economic promability as measured by EVA; 3. "Company Analysis and Stock Valuation"
	The candidate should be able to
	a) describe the elements of a franchise P/E;
	c) demonstrate the use of the variables in the growth duration concept to
	imply acompany's P/E.
SS14-15 Dobt Invostmente	No new LOS
Dept investments	CC47

Derivative Investments	1.b) compute the periodic payments that must be made by the counterparties
	to an interest rate swap;
	2.A.
	a) explain how put-call parity for European options is used to create synthetic
	instruments and why an investor would want to create such instruments;
	b) illustrate how violations of put-call parity for European options can be
	exploited and how those violations are eliminated;
<u>SS18</u>	<u>SS18</u>
Portfolio Management	1.B. "An Introduction to Asset Pricing Models" The candidate should be able
	to
	a) discuss the assumptions of the capital market theory;
	h) calculate, based on the SML, the expected return for an asset; determine
	whether the asset is undervalued, overvalued, or properly valued; and outline
	the appropriate trading strategy;
	I) evaluate the effect on the SML of relaxing each of the following
	assumptions:
	2) transactions costs
	2) heterogeneous expectations and planning periods, and
	4) taxes:
	i) discuss the stability of individual asset betas and portfolio betas over time:
	k) discuss beta estimation problems and why published beta estimates may
	differ:
	I) describe the concept of benchmark error and its implications for testing the
	capital asset pricing model (CAPM).
	1 C "Multifactor Models of Pick and Poture" The condidate should be able to
	a) compare and contrast the assumptions of the arbitrage pricing theory
	(APT) to the assumptions of the CAPM.
	h) discuss why Roll's critique of the CAPM and Shanken's challenge to the
	APT cause many observers to consider the models to be untestable:
	c) explain how the number and identity of risk factors in a multifactor model
	are chosen, and identify macroeconomic and microeconomic factors that
	have been used in such a model.
	2 "The Dartfelia Management Dresses and the Investment Deligy Statement"
	2. The Politonio Management Process and the investment Policy Statement The condidate should be able to
	a) explain the importance of the portfolio perspective:
	b) describe the steps of the portfolio management process and the
	components of those steps:
	c) explain the types of investment objectives:
	d) define investment constraints, and distinguish among the types of
	investment constraints;
	e) discuss the role of the investment policy statement in the portfolio
	management process;
	f) explain the elements of an investment policy statement;
	g) explain how strategic asset allocation is combined with capital market
	expectations in the portfolio management process.

<u>Note</u>:

- The above info is based on the comparison between 2005 and 2004 official study guide. The two lists only focus on NEW LOS/Readings and thus LOS/Readings removed from curriculum are not stated.
- More CFA info can be found on my webpage CFA Study Room: <u>http://normancafe.atspace.com/StudyRoom.htm</u>