

# CFA DAY 2014

October 7, 2014

Maria Curie-Skłodowska University

Prof. Krzysztof Jajuga



**CFA Society  
Poland**



# MAIN CHANGES ON FINANCIAL MARKETS – LAST 25 YEARS

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CFA Society  
Poland

**Globalization**

**Technological progress (computers, telecom)**

**Medialization**

**Diversity and complexity of financial instruments**

**Increase of the value of financial assets comparing to  
real assets**

**Increasing role of financial decisions comparing to  
production decisions in companies**

**Increase of wealth of households**

**New types of risk**

# MAIN CHANGES ON FINANCIAL MARKETS – LAST 25 YEARS

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**Question:**

**How you can benefit from these changes?**

**Answer:**

**Enter Chartered Financial Analyst  
profession**



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**I wanted a globally  
recognized  
qualification that  
would prove my  
competency.**

Nina de Martinis-Majstorovic, CFA  
Paris, FRANCE



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**“Among the countless finance degrees around the world, the Chartered Financial Analyst qualification has become the gold standard.”**

*Financial Times*  
13 August 2010

# The Economist

**“Whereas there are tens of thousands of finance degrees available around the world, ranging from the excellent to the worthless, there is only one CFA... explosive growth has made it, in effect, global currency.”**

***-The Economist, 2005***

# THE CFA CHARTER

- Graduate-level investment credential
- Held by more than 100,000 investment professionals working in more than 130 countries
- Recognized by regulatory bodies in many countries as a proxy for meeting certain licensing requirements
- More than 180 universities around the world incorporate the CFA curriculum into their degree programs

## Mission Statement



*To lead the investment profession  
globally  
by setting the highest standards of ethics,  
education, and professional excellence.*



# CFA PROGRAM

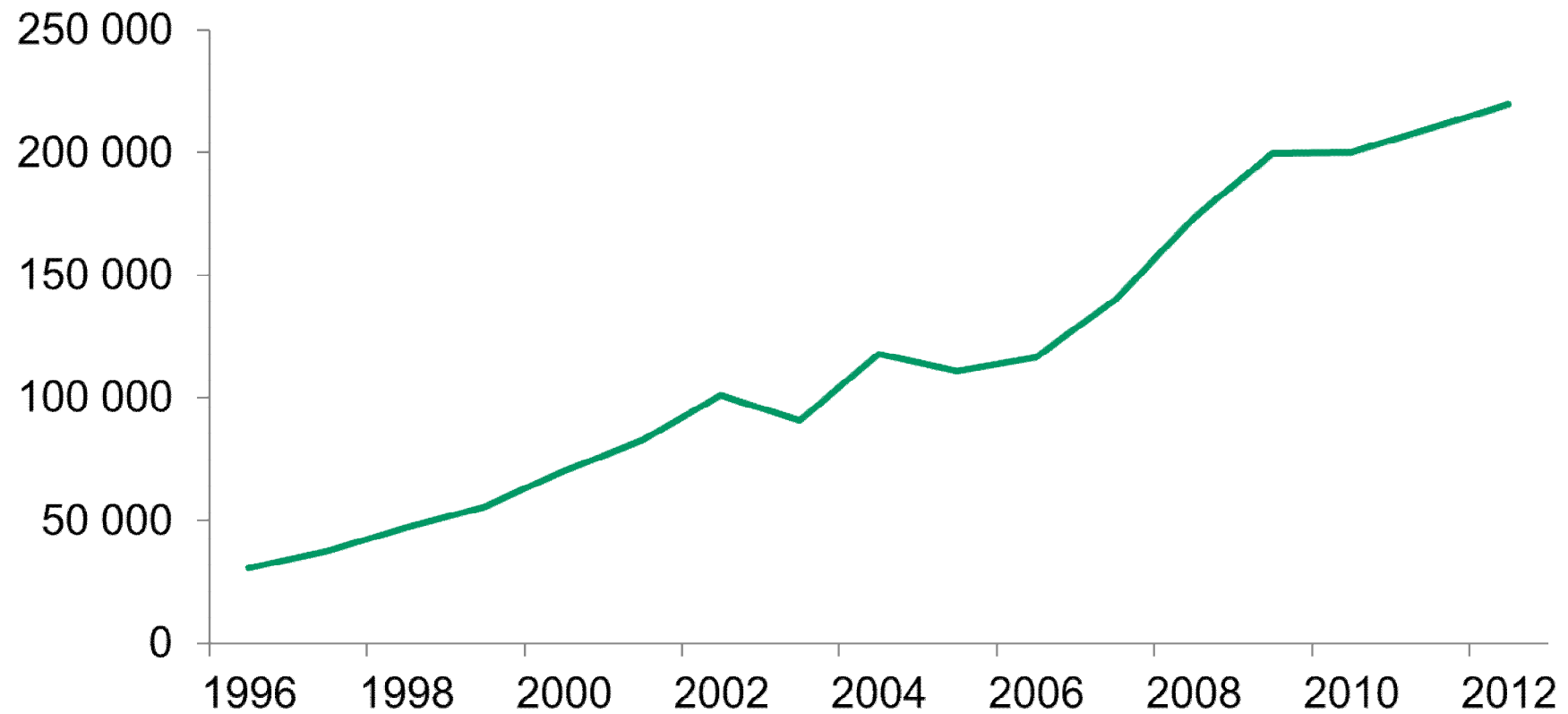


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- Started in 1963, administered by CFA Institute (former AIMR – Association of Investment Management Research), located in Charlottesville, Virginia – [www.cfainstitute.org](http://www.cfainstitute.org)
  - Standard of professional excellence within global investment community
  - Self-study curriculum
  - Body of Knowledge
  - High prestige, better investment decisions, good education

# GROWING DEMAND FOR CFA CHARTER



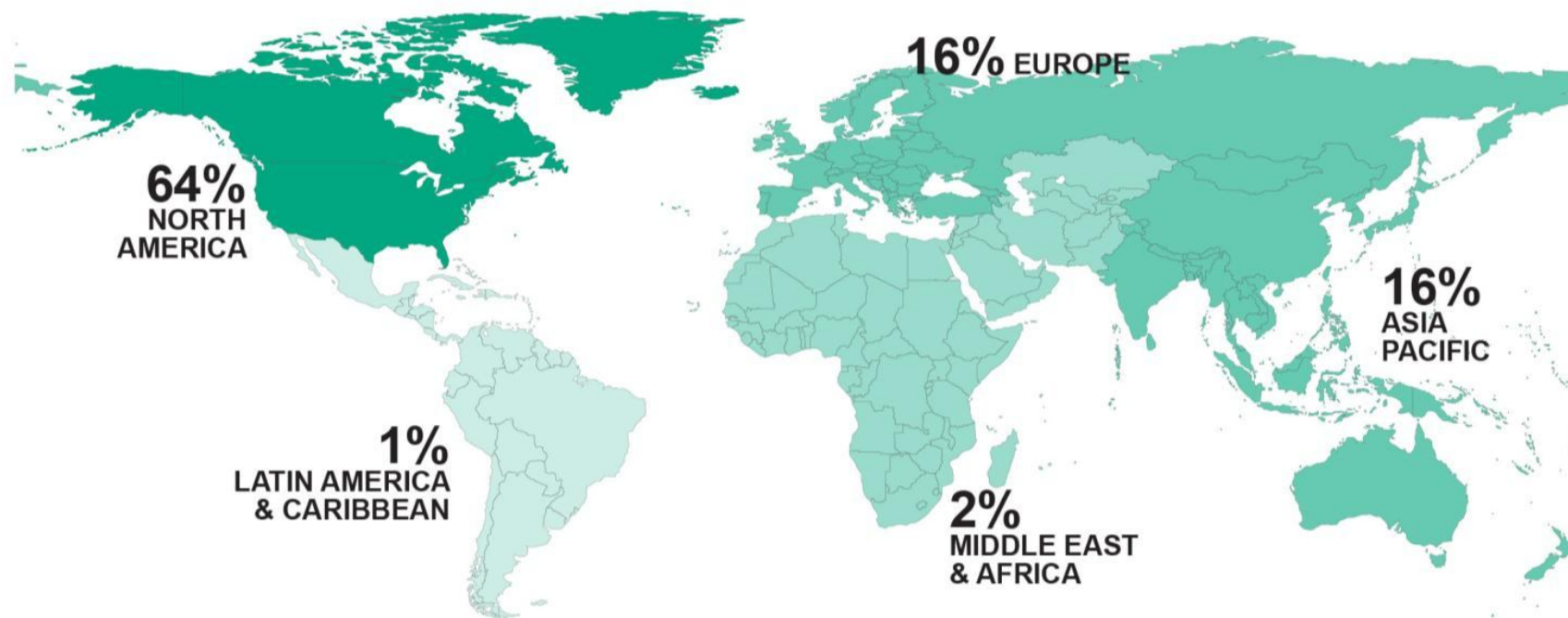
## Candidate exam registration



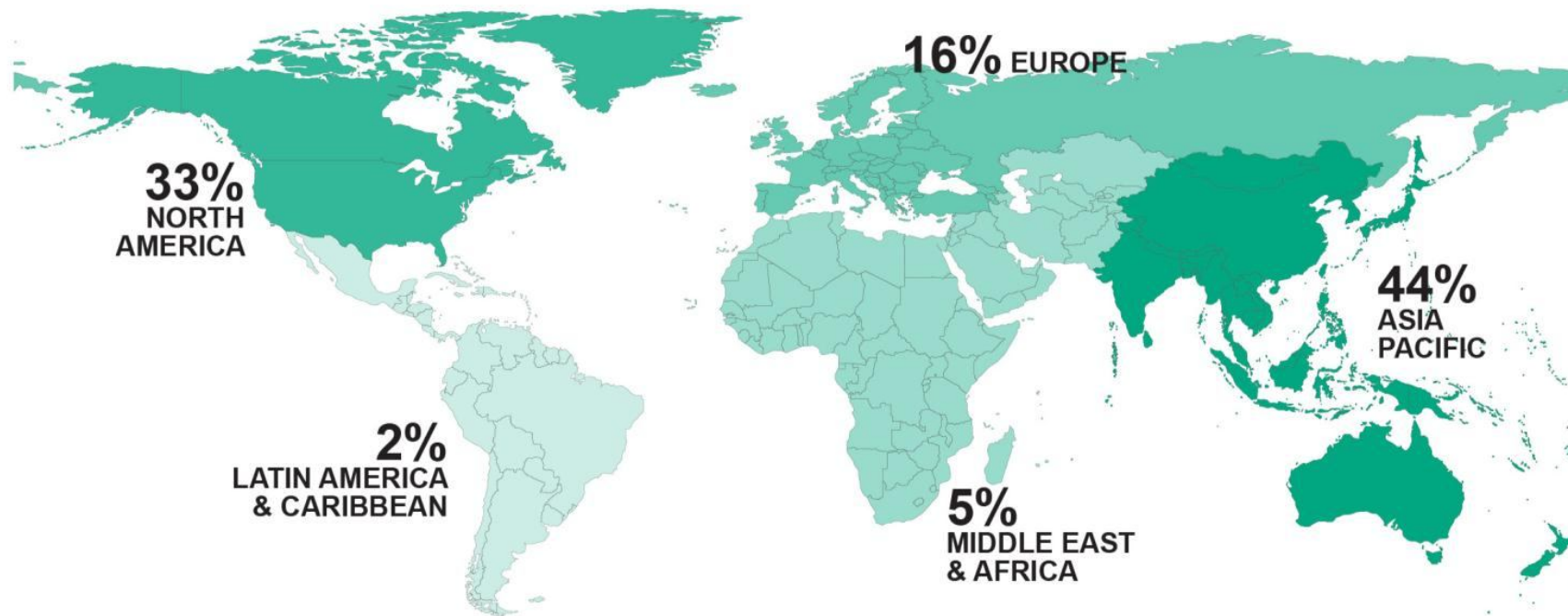
# CFA INSTITUTE MEMBERS BY REGION



CFA Society  
Poland



# CFA PROGRAM CANDIDATES BY REGION





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**Early in my career,  
my boss told me  
if you want  
to be successful,  
you'd better think  
about earning  
the CFA charter.**

Dr. Bruce Wonil Lee, CFA  
Seoul, SOUTH KOREA

# EMPLOYERS SEEK OUT THE CFA CHARTER

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**“Enrollment in or completion of a CFA designation [program] would be an asset”**

-Investment Banking Analyst, Goldman Sachs, 2010

**“You have, or are in the final year of [earning] , your CFA designation”**

-Equity Research Associate, Bank of America Merrill Lynch, 2010

**“Completed [the CFA Program] or working towards CFA designation is advantageous”**

- Analyst, BlackRock, 2010

# Job Ads Around the World

**Corporate Financier**

*Laxey Partners is a global active value hedge fund. In our investment strategies, we are prepared to act as a catalyst for corporate change and development to close prevailing valuation gaps.*

The London office is looking to add an Investment Analyst to its deal team. You would join a highly experienced group of individuals and will be involved in the origination, analysis, development and execution of investment strategies, focused on Continental Europe and a broad range of sectors. We apply a detailed 'private equity'-type of analysis in our investments.

You must display first class analytical and financial skills, an entrepreneurial and commercial acumen and have at least two years relevant experience in the areas of private equity, corporate finance or mergers & acquisitions from an international investment bank. You have an MBA (or equivalent) from a leading business school, are a CFA charter holder and are, beside English, fluent in two European languages.

The remuneration includes a competitive basic package and a bonus highly geared towards performance.

Please apply with full career details and existing remuneration package by email to [Tatum.White@laxeypartners.com](mailto:Tatum.White@laxeypartners.com)

**LAXEY PARTNERS (UK) LTD**

London, UK

**The Chartered Financial Analyst (CFA) designation required**

**CFA is a plus**



**The Chartered Financial Analyst (CFA) designation strongly preferred**

**THE WORLD BANK**

The World Bank Treasury's Quantitative Strategies, Risk, and Analytics Department (QRA) is responsible for developing leading-edge solutions in the areas of strategic asset allocation, quantitative strategies and financial modeling, market analysis, portfolio analytics, and risk measurement for the benefit of the three business segments. In addition to partnering with groups in Treasury, QRA maintains an extensive outreach program with external counterparts including investment banks, asset managers, and international institutions to exchange ideas, and enhance Treasury's reputation in the field of asset allocation strategy, risk management, and portfolio analytics. QRA has the following two job opportunities.

**Senior Investment Officer (Asset Allocation Specialist)**

The candidate will join our Quantitative Strategies and Asset Allocation Team. As part of the team, s/he will lead the design and development of the investment policy, strategic asset allocation, and portfolio construction recommendations for various fixed-income and/or multi-asset class portfolios managed by Treasury, as well as the design, development and implementation of quantitative models and tools for strategic asset allocation, portfolio construction, and risk allocation and budgeting. The Senior Investment Officer will report to the Head of the Quantitative Strategies and Asset Allocation Team in QRA.

Requires an advanced degree in Finance, Economics or Hard Science with 8 years relevant work experience in finance and investments (with focus on asset allocation, portfolio management, quantitative research). CFA certification is a plus. S/he should have proven quantitative and qualitative analytical skills including in-depth knowledge of econometric, local modeling and multi-variate Monte Carlo simulation techniques; and working experience with VBA, SQL, C and C++. A strong background in macroeconomics and familiarity with central bank balance sheets and reserves management operations is highly desirable.

**Senior Investment Officer (Financial Modeling Specialist)**

The candidate will join our Risk and Analytics Team. This position's principal responsibilities are expected to be primarily in the analytical modeling functional area. As part of the team, s/he will lead the design and development and implementation of the quantitative models and tools for valuation of complex fixed-income instruments and option-embedded structured products, strategic and tactical asset allocation, risk allocation and budgeting for one or more investment, and liquidity or funding portfolios managed by World Bank Treasury, lead the development and verify models for highly complex OTC structures; and coordinate with internal and external auditors and controllers on model verification exercises. The Senior Investment Officer will report directly to the Head of the Risk and Analytics Team in QRA.

Requires an advanced degree with equivalent training in Finance, Mathematics or Engineering and at least 8 years of relevant work experience (portfolio management, risk management, financial modeling or quantitative research). CFA, FRM or PFM certification is a plus. S/he should have proven quantitative and qualitative analytical skills in the area of valuing/pricing complex structures; strong theoretical and practical experience with derivative securities; and working experience with VBA, SQL, Matlab, SAS, @Risk, C and C++.

For more information about the World Bank and the Treasury, please visit [www.worldbank.org](http://www.worldbank.org). Interested qualified candidates should submit an on-line application (resume through the Bank's website at [www.worldbank.org](http://www.worldbank.org) click on the side of page), referring to job # **071878** (Senior Investment Officer) or job # **071879** (Senior Investment Officer).

**NEW YORK CITY**  
**OFFICE OF THE COMPTROLLER**  
**CHIEF INVESTMENT OFFICER**

The Comptroller of the City of New York serves as investment advisor and custodian to five (5) retirement systems with total assets of \$85 billion. The Bureau of Asset Management within the Comptroller's office seeks a Chief Investment Officer (CIO) to manage the development of investment policies, standards and guidelines. The CIO will also oversee the development of oversight of investment advisors and consultants.

Working with an internal staff (currently totaling 55, with substantial anticipated growth), the CIO will collaborate in the development and recommendation of investment policy, assist in the recommendation and management of external investment advisors and have responsibility for daily administration of the investment program of the systems. The position entails significant involvement with the boards of each retirement system regarding investment decisions and their implementation.

Candidates should have at least ten (10) years or more of progressively responsible executive level management experience in investments, including significant exposure to retirement systems undergoing working directly for a public pension fund or similar public sector entity is preferred. An advanced degree is required and a graduate degree in business administration or equivalent is strongly preferred. Additionally, the successful candidate should have a strong understanding of capital market theory and exceptional written and verbal communication skills. Also important is the ability to attract and retain accomplished financial professionals and the ability to work with diverse constituencies. New York City residency required within ninety (90) days of appointment.

This position is open until filled. Resumes should be mailed to:

Mr. David Morris  
Heidrick & Struggles  
40 Wall Street, 48th Floor  
New York, NY 10005

or can be forwarded via email to: [CIO-NYC@heidrick.com](mailto:CIO-NYC@heidrick.com).

The City of New York is an EEO/Affirmative Action Employer

*The City of New York*

# Pensions and Investments Online Job Ads Shown in One Day

August 20, 2007

**BUSINESS RESOURCES**

**Hedge Fund Analyst**

Requirements:

- Four-year undergraduate degree; **CFA**/MBA/CPA credentials a plus.

**Executive Director**

**NHRS**

**Hedge Fund Analyst**

**ASSISTANT DIRECTOR/PENSION INVESTMENT OFFICER**

Requires three years financial analysis or investment management experience and **CFA** or MBA or equiv.

**Consultant Relationship Professional & Marketing/Client Service Associate**

**Consultant Relationship Professional**  
Min. 5 years' experience covering institutional consultants in the pension fund industry. Deep contact base and focus; understanding of Equity Mkt Neutral, 130/30, HC and PA strategies desired. Undergraduate degree required; MBA/**CFA** preferred. Relocation not required.

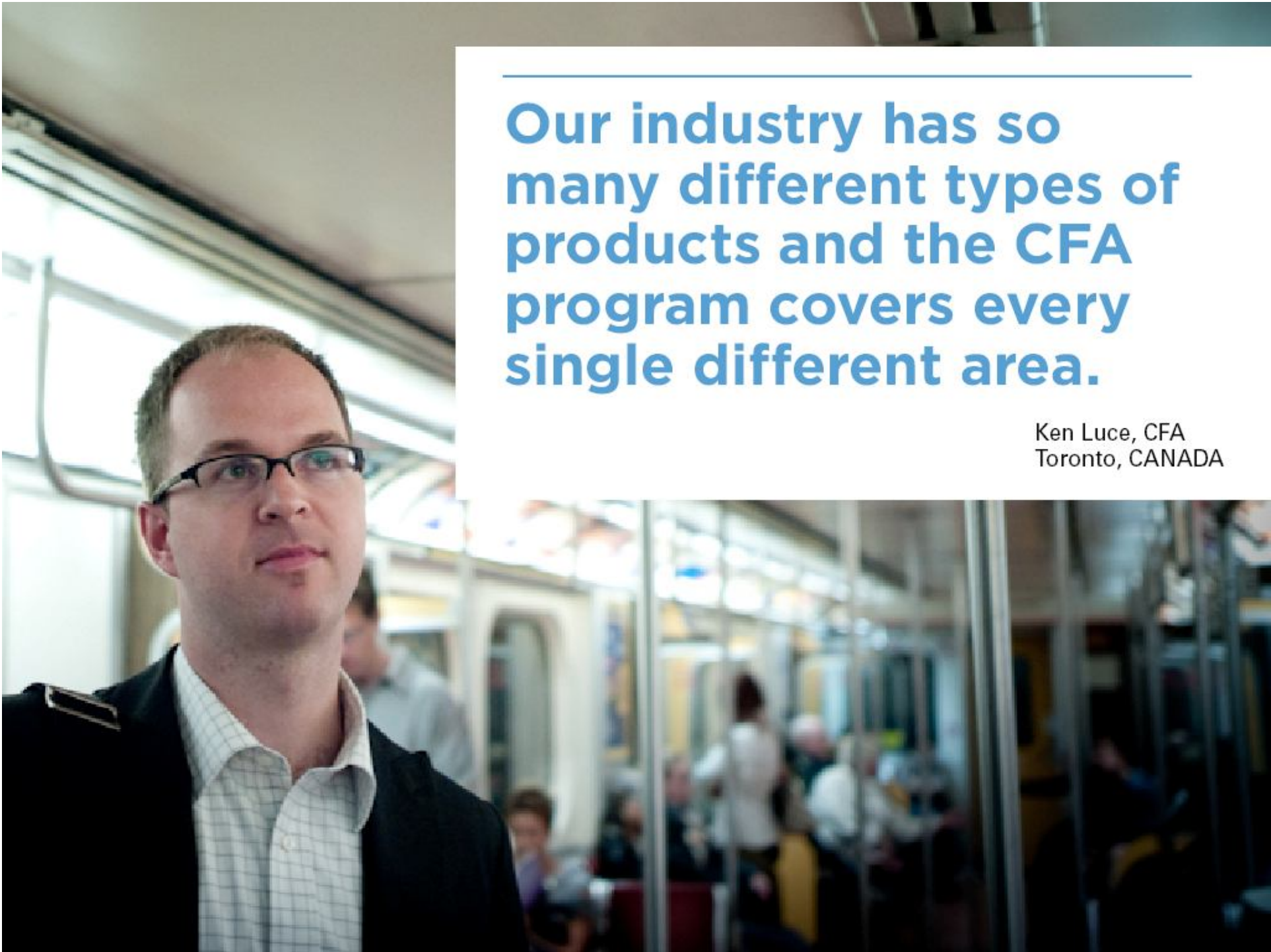
**Portfolio Manager**

**Senior Benefits Manager**

[www.pionline.com](http://www.pionline.com)

The image shows a screenshot of a job board page titled "BUSINESS RESOURCES" dated August 20, 2007. The page features several job listings. Three callout boxes are overlaid on the page, each pointing to a specific job advertisement. The first callout box, titled "Hedge Fund Analyst", points to a job listing that lists requirements including a four-year undergraduate degree and CFA/MBA/CPA credentials. The second callout box, titled "ASSISTANT DIRECTOR/PENSION INVESTMENT OFFICER", points to a job listing that requires three years of financial analysis or investment management experience and a CFA or MBA. The third callout box, titled "Consultant Relationship Professional & Marketing/Client Service Associate", points to a job listing that requires a minimum of 5 years of experience in the pension fund industry and a CFA or MBA. The background page also shows other job listings such as "Executive Director" and "Senior Benefits Manager", along with the website URL "www.pionline.com".



A man with glasses, wearing a dark blazer over a light-colored checkered shirt, is looking slightly to the right. He is standing in a train car, with other passengers and train interior visible in the background. The lighting is bright, likely from overhead train lights.

**Our industry has so many different types of products and the CFA program covers every single different area.**

Ken Luce, CFA  
Toronto, CANADA

# WHAT YOU LEARN AS A CFA CHARTERHOLDER

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- Investment (equity and fixed income) analysis
- Portfolio management
- Wealth planning
- Economic theory
- Alternatives and derivatives
- Performance measurement & evaluation
- Risk management
- Financial reporting
- Quantitative methods

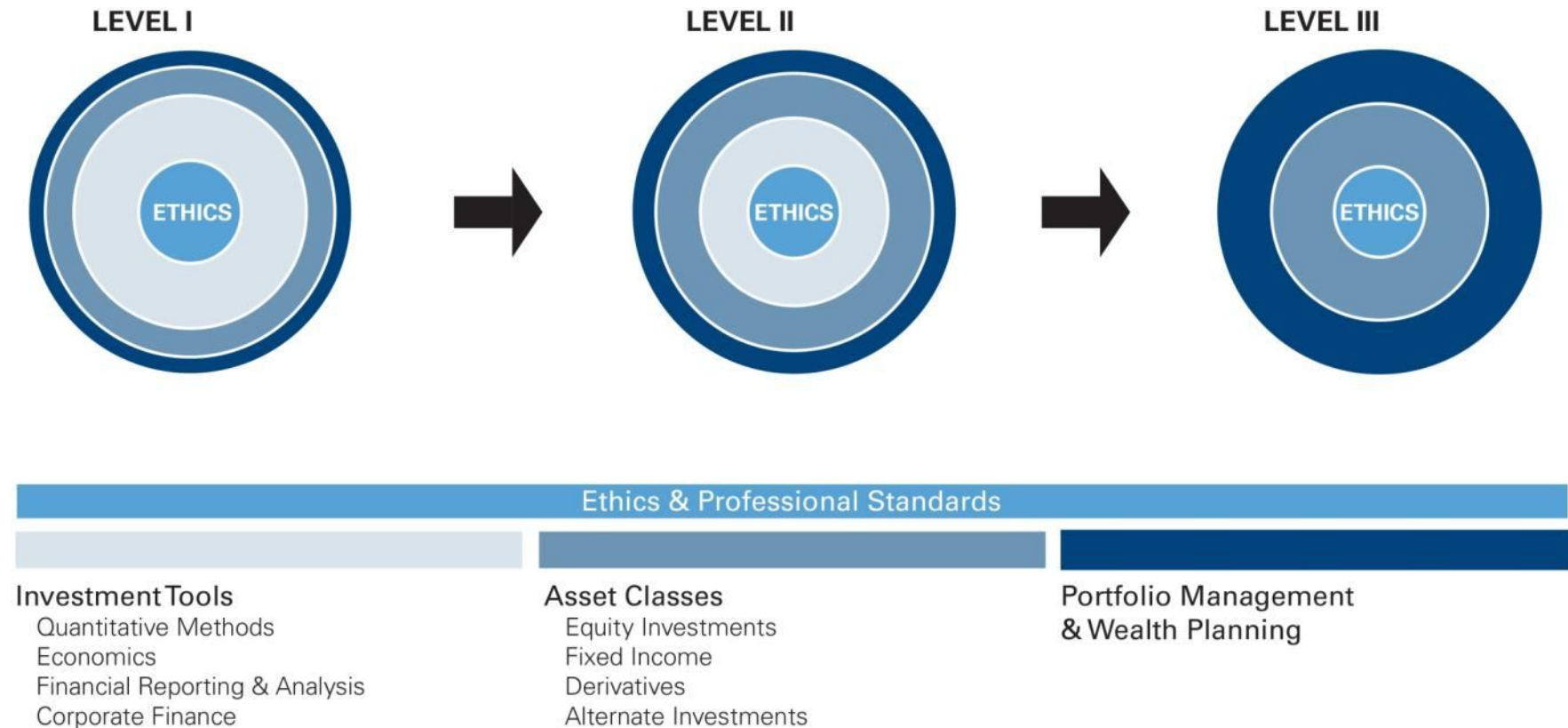
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**$\sqrt{\text{CFA CHARTER}} = \text{ETHICS}$**

## CFA Program Candidate Body of Knowledge

- *Ethical and Professional Standards*
  - Quantitative Methods
  - Economics
  - Financial Reporting and Analysis
  - Corporate Finance
- } Investment Tools
- Equity Investments
  - Fixed Income
  - Derivatives
  - Alternative Investments
- } Asset Classes and Valuation
- Portfolio Management and Wealth Planning
- } Portfolio Management

# THREE LEVELS OF CFA EXAM



# CFA EXAM FORMAT



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	Multiple Choice	Item Set (Objective)	Constructed Response (Essay)
Level I	● 100%		
Level II		● 100%	
Level III		● 50%	● 50%



- **Level I – 240 Total Multiple Choice Questions over 360 minutes. 1.5 minutes per item. Exam given in two three hour blocks with 120 questions in the morning and 120 questions in the afternoon.**
- **Level II – 20 item sets with 6 items each. 120 items over 360 minutes. 3 minutes per item. 10 item sets in morning and 10 item sets in afternoon.**
- **Level III – 10 item sets with 6 items each over 180 minutes. Set of constructed response (essay questions) over 180 minutes. Essay in morning, item sets in afternoon.**

# GRADING PROCESS



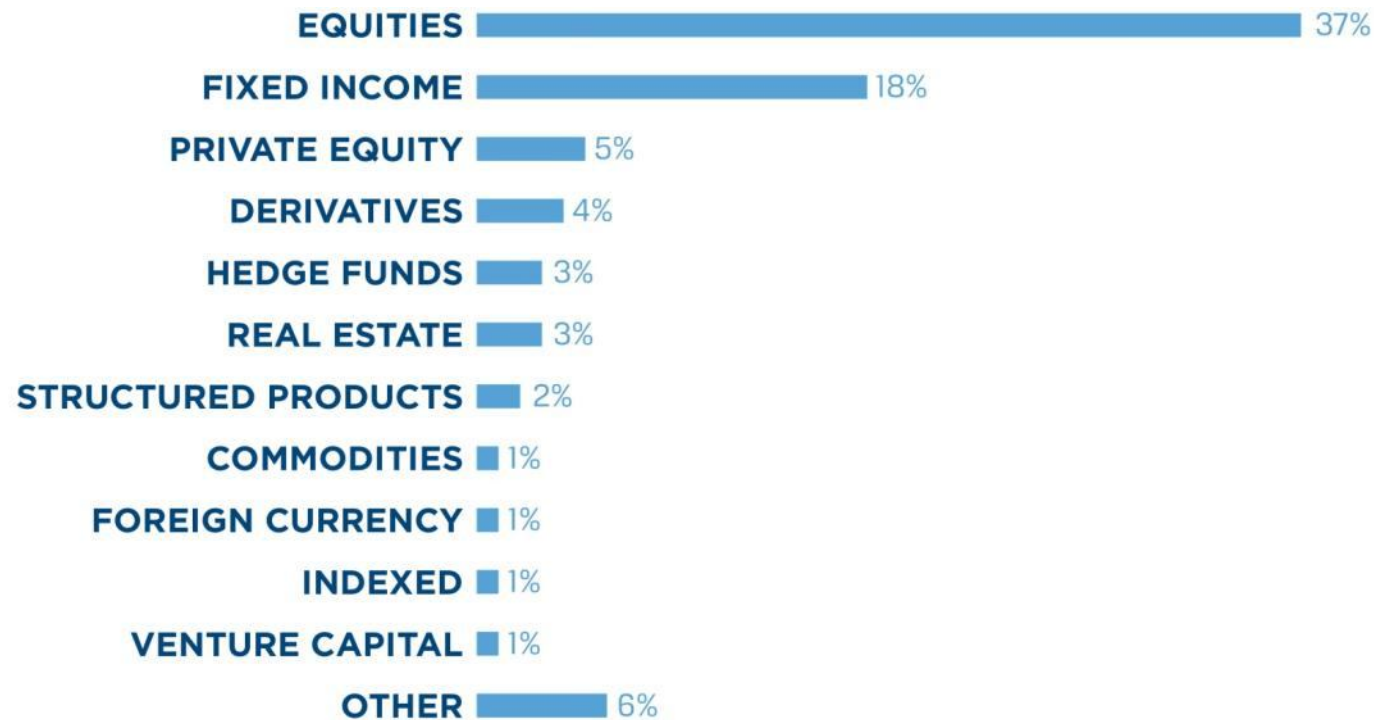
CFA Society  
Poland

Exam	Grading Process
I and II	<ul style="list-style-type: none"><li data-bbox="701 683 1697 735">• Machine graded; extensive sampling</li></ul>
III	<ul style="list-style-type: none"><li data-bbox="701 866 1749 983">• Item Sets – Machine graded; extensive sampling</li><li data-bbox="701 1007 1910 1187">• Constructed Response – Graded by teams of charterholders; structured and detailed process</li></ul>



# WHAT CAN I DO WITH CFA CHARTER?

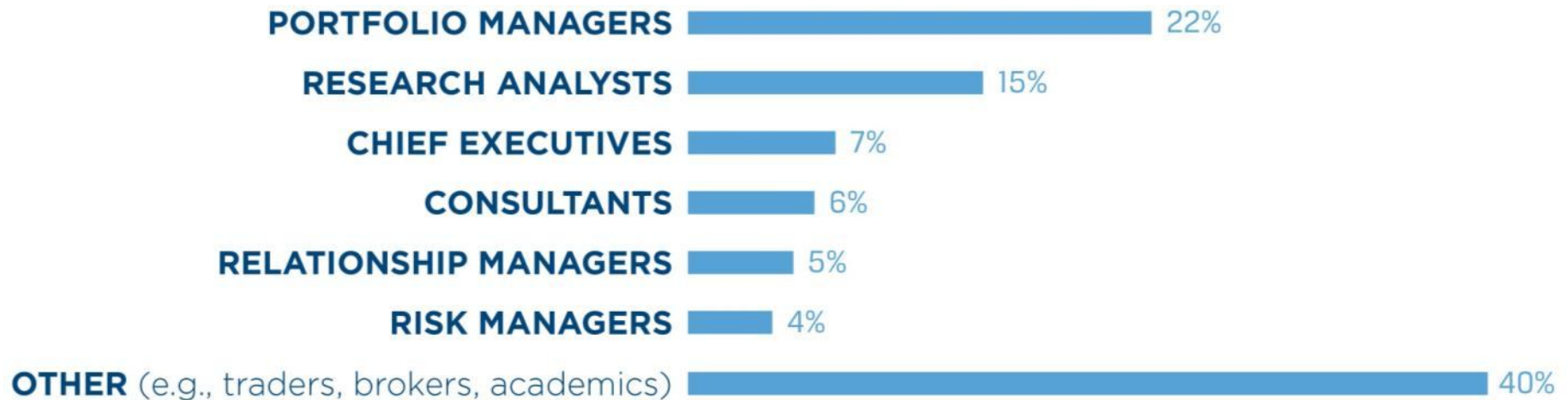
## Charterholder employment by sector



# WHAT CAN I DO WITH CFA CHARTER?



## Charterholder employment by title



# THE GLOBAL EMPLOYERS OF CHARTERHOLDERS

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# THE CFA EQUATION



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Bachelor's degree  
or in final year of  
bachelor's

Level I, II, III Exams

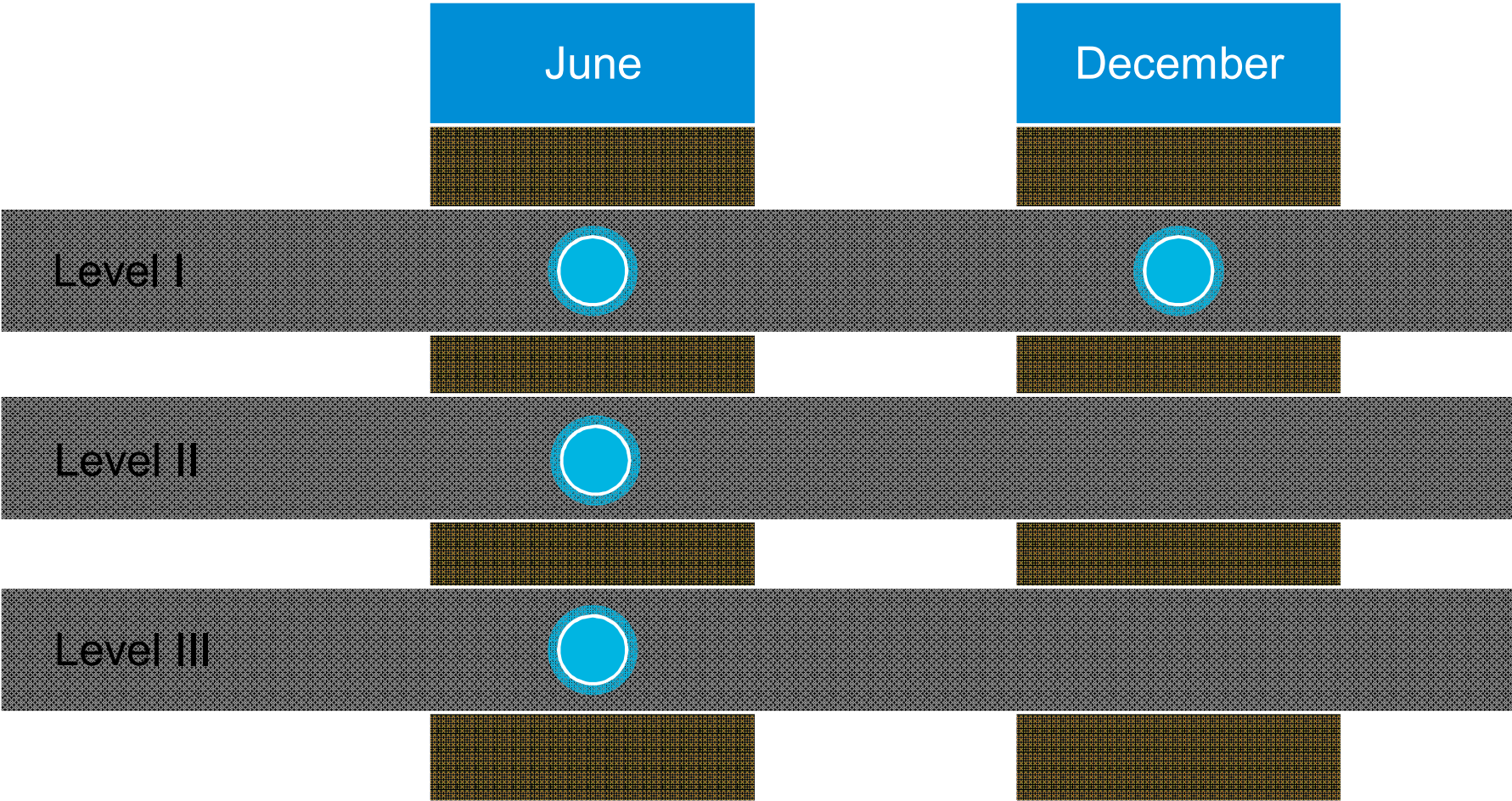


4 years of  
work experience

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**CFA CHARTER**

# EXAM SCHEDULE



# ENROLLMENT DETAILS

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## The Cost of CFA Program Levels I, II, and III

**One-Time Initial Enrollment Fee**

**US\$450**

**Exam Registration Fee**

**US\$825 (680,1210)**

Fees vary depending on the deadline by which enrollment and/or registration is completed and by the curriculum format that is chosen.

A woman with long dark hair, wearing a grey blazer, is smiling and holding a young child with curly hair. The child is wearing a white shirt and a denim vest. They are standing in front of a wall with vibrant, colorful geometric patterns in blue, red, and yellow. The woman is holding a smartphone in her hands. The background shows a building and a car.

**The CFA Program  
taught me valuable  
skills: how to analyze  
and how to study.**

Rana Atallah, CFA  
Kuwait City, KUWAIT

# WITH CFA CHARTER, YOU...



- 
- Develop a comprehensive investment perspective
  - Gain fluency in practical investment analysis and management skills
  - Earn credibility with industry peers
  - Become part of a global community of top industry professionals
  - Gain the flexibility to work in any market
  - Are sought out by top industry employers
  - Demonstrate a commitment to ethics and professional standards



# BECOME A CFA CHARTERHOLDER

[WWW.CFAINSTITUTE.ORG](http://WWW.CFAINSTITUTE.ORG)



- 
- **Established in April 2004 as Polish Association of Investment Professionals – [www.cfa.society.org/poland](http://www.cfa.society.org/poland)**
  - Approved in December 2004
  - Successfully serving CFA charterholders and CFA Program candidates locally
  - Promoting the highest professional and ethical standards in the investment industry
  - Providing a networking platform for investment community as well as other stakeholders

**CFA Society Poland has more than 370 members and more than 1700 candidates**

## KEY OBJECTIVES:

- Implement principles of ethics, education and professional excellence in investment industry
- Create a local investment professional network with global outreach of worldwide colleagues who provide sense of community and support one another professionally and socially
- Continuous education for members
- Career development and Job placement
- Increase awareness about CFA Program and values of CFA Charter

# CFA INSTITUTE RESEARCH CHALLENGE



- Worldwide intercollegiate competition between teams of Students
- Organized by CFA Society Poland
- Analysis of a publicly traded company
- Interview company management
- Mentoring by a investment professional
- Research report writing
- Presentation of research

# CFA INSTITUTE RESEARCH CHALLENGE



- 3,000+** Students
- 1,200+** Industry Volunteers
- 650+** Universities
- 111** CFA Society Hosts
- 87** CFA Local Level Challenges
- 55** Countries



# CFA INSTITUTE RESEARCH CHALLENGE



**Wroclaw University of Economics  
Winners 2013**

# CFA INSTITUTE RESEARCH CHALLENGE

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## **Benefits to students:**

- Interact with investment professionals
- Get real-world experience in equity analysis
- Understand the CFA Institute Code of Ethics and Standards of Professional Conduct
- Learn how to write sell-side research report
- Enrich presentation skills

## **Benefits to universities:**

- Gain global exposure

# CFA INSTITUTE RESEARCH CHALLENGE



## How to get involved?



**STEP 1.** Form the team of 3-5 business and finance students.

**STEP 2.** Find/Contact the Faculty Adviser in your University.

**STEP 3.** Your university must be registered via Application Form.

**STEP 4.** Register your team after confirmation of your University participation.

**STEP 5.** Visit the Kick-Off Meeting, which is planned for **November 2014**



# CFA INSTITUTE RESEARCH CHALLENGE



- 3,000+** Students
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Report:

[http://www.cfainstitute.org/community/challenge/about/Pages/past\\_champions.aspx](http://www.cfainstitute.org/community/challenge/about/Pages/past_champions.aspx)

**Presentation:**

[http://www.cfainstitute.org/community/challenge/about/Pages/past\\_champions.aspx](http://www.cfainstitute.org/community/challenge/about/Pages/past_champions.aspx)

**Thank you for attention!**

# CFA DAY 2014

Maria Curie-Skłodowska University

Andrzej Paślawski, CFA



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Poland

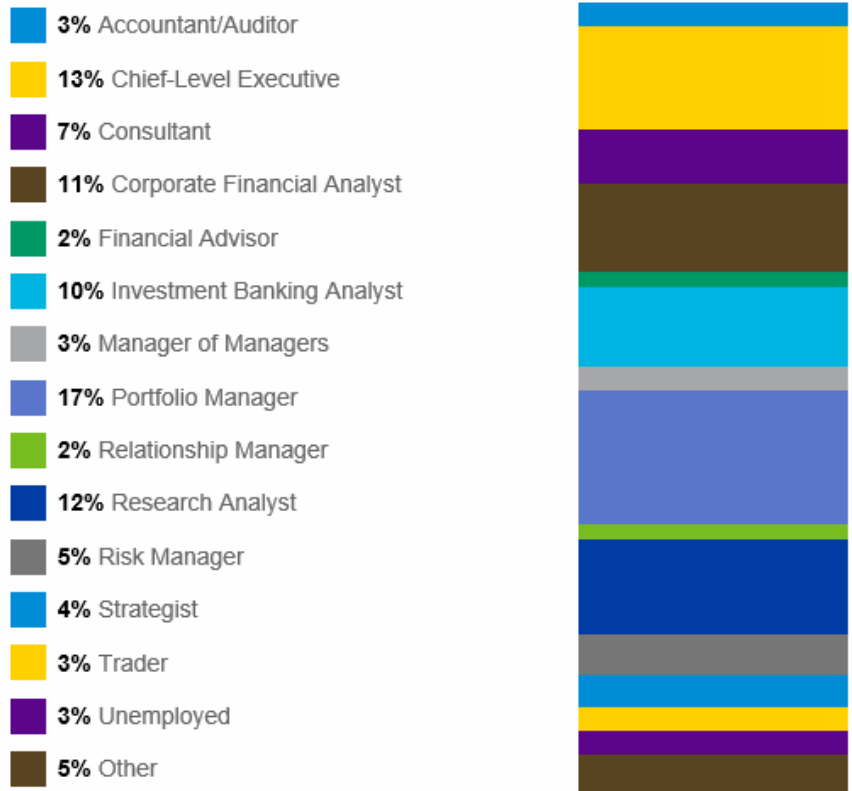


# CHARTERHOLDERS IN POLAND



Poland  
358 Charterholders

### Job Functions





8548 jobs globally for professionals and students in Finance, Banking and Insurance

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[jobs](#) > [Investment banking/M&A](#) > [Investment Analyst](#)

[← Back to Search Results](#)

## Investment Analyst

 Salary:	100-130K
 Location:	New York < NY < USA
 Job Type:	Permanent, Full time
 Company:	Robert Half - US
 Posted on:	18 Apr 14

**Robert Half Financial Services specializes in the placement of professionals with top companies in the market. We have lasting client relationships giving us access to the best opportunities. Our company was named to FORTUNE® magazine's "World's Most Admired Companies" list, #1 in our industry.**

The Financial Services Group at Robert Half International is representing an Asset Manager looking to hire a Senior Investment Analyst/ Product Specialist to support their distribution group (internal and external wholesalers). The position also requires interacting with outside Analysts at the various financial institutions and representing the firm as the product specialist" to collaboratively develop relationships and further product placement within these key relationships. 5 years in the mutual fund industry and investment products/ Series 7 required and willingness to travel. CFA or CFA track a plus.

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## Robert Half - US

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**London experience.**

**World impact.**

[Find out more](#)



8548 jobs globally for professionals and students in Finance, Banking and Insurance






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## Hedge Fund Analyst

 Salary:	£60 to 75k base + bonus
 Location:	London < England < United Kingdom
 Job Type:	Permanent, Full time
 Company:	Watson Fleming
 Posted on:	30 Apr 14

[Apply](#)

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### Experienced hedge fund manager research analyst required for global investment management business.

#### THE ROLE:

- At least 70% of the role will be focused on hedge fund manager research. This will involve the sourcing, research and monitoring of hedge funds in Europe.
- Strategy coverage will be varied and will partly depend on the candidate and what skills and knowledge they bring to the team.
- About 10 to 30% of the role will be client work (the amount depends on the candidate's skills and desires) : answering queries, special projects, making presentations, etc.

#### THE PERSON:

- You will have a few years of manager research experience. ideally this will include coverage of credit and fixed income strategies, but not essential.
- Must have strong academics (ideally at least some way through the CFA) and be able to present.

## Watson Fleming

WATSON FLEMING

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## Analityk Instrumentów Kapitałowych

**Warszawa PCKS12422 6174380**

For our Client, leading investment bank in the world we are looking for qualified candidates for Capital Markets Analyst position. Suitable candidate should have wide interest in financial instruments of capital markets, strong analytical as well as communication skills. The role is based in Warsaw office with focus on close cooperation with unit in London.

### Opis stanowiska / Job description:

- Preparation and supervision of the daily P&L process, including explanation of P&L
- Ensure that the month end numbers agree to the sum of the daily P&L or provide meaningful explanations
- Monitor of all pricing and valuation issues, including off-market rate analysis in respect of all positions held by the desk
- Coordinate balance sheet substantiation and control
- Project work covering controls enhancement, efficiency initiatives and strategic developments in order to provide business advantage
- Prepare regular and ad-hoc analysis of aspects of the business both tactical and strategic
- Contribute significantly to individual development

### Kogo szukamy / Profile description:

- University Degree, preferably in finance
- At least 3 year of relevant experience in finance or in audit for financial institution
- Knowledge and understanding of financial markets and instruments (Interest Rates, FX & derivatives)
- Fluency in English is a must
- Strong attention to details and excellent analytical and quantitative skills
- Ability to work independently and solve complex problems with minimal direction
- Ability to communicate effectively with team located abroad
- Ability to perform multiple tasks in a fast paced, continually changing environment Available to travel abroad (London)
- CFA qualifications preferred or in progress of obtaining
- Knowledge of VBA and Access is an advantage

### Jak aplikować / How to apply:

Osoby zainteresowane ofertą prosimy o przesyłanie aplikacji klikając przycisk Aplikuj.

[▶ Aplikuj](#)

[Wydrukuj ogłoszenie](#)



# COMPENSATION CALCULATION



## Country Differences US\$

	<u>Australia</u> (220)	<u>Canada</u> (2326)	<u>Germany</u> (272)	<u>Hong Kong</u> (478)	<u>Japan</u> (254)	<u>Singapore</u> (280)	<u>South Africa</u> (201)	<u>Switzerland</u> (414)	<u>United Kingdom</u> (851)	<u>United States</u> (10,229)
Median Salary	\$100,399	\$72,549	\$99,465	\$84,306	\$115,199	\$60,910	\$86,632	\$122,514	\$131,544	\$113,000
Median Bonus	\$18,149	\$16,122	\$25,220	\$15,192	\$28,799	\$15,227	\$24,990	\$33,508	\$56,376	\$35,000
Median Non-Cash Compensation	\$0	\$806	\$0	\$0	\$0	\$0	\$3,332	\$3,769	\$9,396	\$5,000
<b>Median Total Compensation</b>	<b>\$131,291</b>	<b>\$100,762</b>	<b>\$128,217</b>	<b>\$114,098</b>	<b>\$163,199</b>	<b>\$79,592</b>	<b>\$134,946</b>	<b>\$170,354</b>	<b>\$217,048</b>	<b>\$170,000</b>
90 <sup>th</sup> Percentile	\$393,101	\$307,929	\$312,408	\$400,000	\$393,598	\$330,612	\$383,180	\$356,859	\$647,185	\$530,000

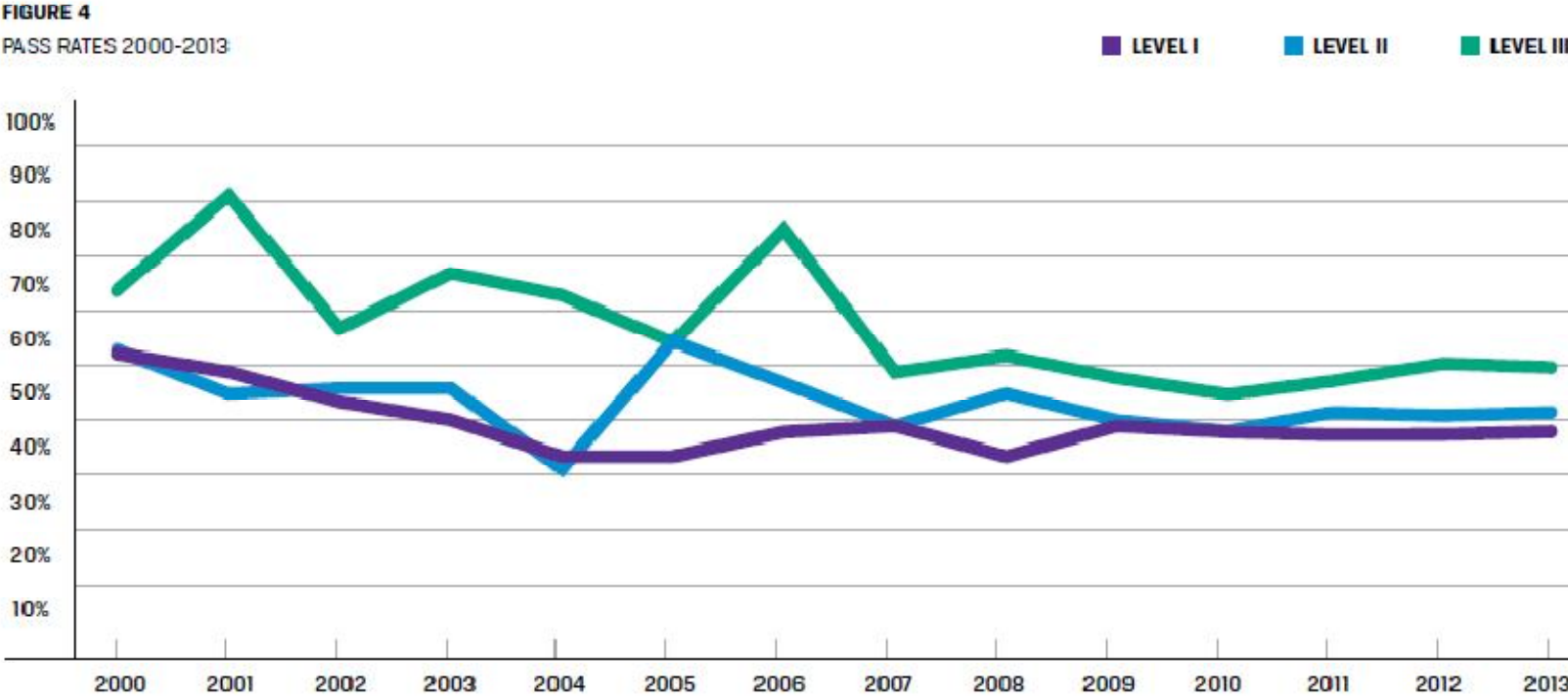
# COMPENSATION CALCULATION



## Country Differences – 5+ years of experience only US\$

	<u>Australia</u> (150)	<u>Canada</u> (1505)	<u>Germany</u> (180)	<u>Hong Kong</u> (296)	<u>Japan</u> (206)	<u>Singapore</u> (148)	<u>South Africa</u> (121)	<u>Switzerland</u> (310)	<u>United Kingdom</u> (558)	<u>United States</u> (7639)
Median Salary	\$123,568	\$81,416	\$110,644	\$103,028	\$118,079	\$85,274	\$99,960	\$125,655	\$150,336	\$125,000
Median Bonus	\$38,615	\$23,296	\$32,542	\$25,640	\$28,799	\$27,409	\$33,320	\$41,885	\$75,168	\$43,625
Median Non-Cash Compensation	\$0	\$2,015	\$0	\$0	\$0	\$0	\$4,998	\$4,188	\$12,000	\$8,150
<b>Median Total Compensation</b>	<b>\$179,945</b>	<b>\$124,945</b>	<b>\$157,831</b>	<b>\$152,558</b>	<b>\$163,300</b>	<b>\$119,383</b>	<b>\$163,268</b>	<b>\$183,874</b>	<b>\$272,484</b>	<b>\$200,000</b>
90 <sup>th</sup> Percentile	\$542,541	\$390,958	\$372,286	\$512,800	\$393,598	\$414,188	\$424,830	\$389,530	\$789,264	\$600,000

# PASS RATES 2000 - 2013



## EXAM – SAMPLE LEVEL I

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7. A company currently has a debt-to-equity ratio of 1.25. Common shareholder's equity is \$4,000,000, consisting of 1.5 million shares outstanding with a current price of \$28/share. Part of the company's debt currently outstanding is \$1,000,000 of convertible bonds. Each \$1,000 par value bond can be converted into 50 common shares at any time during the next three years. The coupon rate on the bonds is 6 percent with interest paid annually. If all convertible bonds are converted, the company's debt-capital ratio is *closest* to:
- A. 42.5%.
  - B. 44.4%.
  - C. 80.0%.

## EXAM – SAMPLE LEVEL I

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Under U.S. GAAP, if the bonds are converted, liabilities are decreased by the book value of the bonds, and the equity is increased by the same amount.

Debt/Equity = 1.25; Equity = \$4,000,000

Debt = 1.25 x \$4,000,000 = \$5,000,000

Shares issued on conversion: \$1,000,000/\$1,000/bond x 50 shares/bond = 50,000 shares

Equity Issued: \$1,000,000

Debt Reduction: \$1,000,000 resulting in \$4,000,000 outstanding

New Debt/Capital ratio: Debt/(Debt + Equity) = \$4,000,000/(\$4,000,000+\$5,000,000) = 44.4%

## EXAM – SAMPLE LEVEL I

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14. An analyst gathers the following information about two companies for the year ending 31 December 2008:

	Company 1	Company 2
Dividend payout ratio	37.5%	40.0%
Return on assets	12%	10.0%
Financial leverage	1.6	2.0

Which of the following *best* describes the expected growth rate of Company 1? The expected growth rate of Company 1 compared to Company 2 is:

- A. lower.
- B. greater.
- C. the same.

## EXAM – SAMPLE LEVEL I

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**ANSWER: C**

“An Introduction to Security Valuation,” Frank K. Reilly and Keith C. Brown  
2008 Modular Level I, Vol. 5, pp. 146-147

Study Session 14-56-f, g

Estimate the dividend growth rate, given the components of the required return on equity and incorporating the earnings retention rate and current stock price;

Describe a process for developing estimated inputs to be used in the DDM, including the required rate of return and expected growth rate of dividends.

ROE = Return on assets x Financial leverage;

Retention rate = 1 – (Payout ratio);

$g = \text{Retention rate} \times \text{Return on equity}$

Company 1: ROE = 12% x 1.6 = 19.2%;  $g = (1 - 0.375) = 12\%$

Company 2: ROE = 10% x 2.0 = 20.0%;  $g = (1 - 0.400) = 12\%$

## EXAM – SAMPLE LEVEL II

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### SMC Case Scenario

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Ian Sherman, CFA, is a portfolio manager at SMC, an investment advisory firm which offers investment products and services to individual and institutional clients. SMC has adopted the CFA Institute Research Objectivity Standards and implemented policies in compliance with the Standards.

All of SMC’s investment professionals have earned CFA charters. Sherman tells prospective clients, “The CFA charter is the highest credential in the global investment management industry. As charterholders we are committed to the highest ethical standards. Completion of the program has dramatically improved the team’s portfolio management knowledge and their ability to achieve better performance results.”

Sherman has earned a reputation for consistently outperforming the market. Over the long run, his mutual funds have outperformed their respective market benchmarks by a wide margin. For the past 12 months the funds have slightly underperformed the benchmarks. Some clients have noticed that Sherman’s fund performance information has not been updated on the advisor’s website in the past six months. When clients inquire about fund performance, Sherman provides them with accurate updated information.



## EXAM – SAMPLE LEVEL II

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Annette Martineau, CFA, works as an analyst for Sherman and presents her recently completed research report and sell recommendation on Muryan Corporation, which is held in one of Sherman's funds to SMC's Investment Committee. After much debate about the company and its prospects, the committee reaches a consensus recommendation that is contrary to Martineau's. Martineau informs Sherman, "I accept that the committee's recommendation has a reasonable basis, but I strongly believe that my recommendation is more appropriate. I have been diligent in my research and have a deeper understanding of the industry and its competitive factors."

The following week, Martineau prepares for an investment conference, open to the general public but typically attended only by investment professionals, by reviewing SMC's policies regarding public appearances. The policies state:

- 1) Employees should remind audience members to judge the suitability of the investment in light of their own unique circumstances.
- 2) Employees should make full disclosure of all conflicts of interest, both their own and those of the firm.
- 3) Employees may not provide research reports to audience members. Research reports are reserved exclusively for SMC clients.

## EXAM – SAMPLE LEVEL II

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1. In which of the following actions does Sherman *most likely* comply with the requirements and recommendations of the CFA Institute Standards of Professional Conduct? When he:
  - A. references the CFA program and designation.
  - B. provides performance information on the advisor's website.
  - C. references the enhanced portfolio management skills of his team.

**Answer: A**

Guidance for Standards I-VII, CFA Institute

2009 Modular Level II, Volume 1, pp., 29-31, 64, 105-7

Demonstrate a thorough knowledge of the Code of Ethics and Standards of Professional Conduct by applying the Code and Standards to specific situations.

Sherman's comments about his staff and the CFA Program are all acceptable.

## EXAM – SAMPLE LEVEL II

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2. According to CFA Institute Standards, Martineau's *best* immediate course of action regarding her initial research report and recommendation on Muryan is to:
- A. leave her name on the report and take no further action.
  - B. leave her name on the report and document her difference of opinion.
  - C. issue her own independent recommendation since she has a reasonable basis.

**Answer: B**

Guidance for Standards I-VII, CFA Institute

2009 Modular Level II, Volume 1, pp. 80-83, example 5.

Study Sessions 1-2-a

Demonstrate a thorough knowledge of the Code of Ethics and Standards of Professional Conduct by applying the Code and Standards to specific situations.

Martineau need not remove her name from the report, but she should document the difference of opinion.

## EXAM – SAMPLE LEVEL II

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3. Which of SMC's policies regarding public appearances is *least likely* consistent with both the requirements and recommendations of the CFA Institute Research Objectivity Standards?
- A. Statement 1.
  - B. Statement 2.
  - C. Statement 3.

**Answer: C**

The CFA Institute Research Objectivity Standards recommend that firms provide full research reports on the subject companies discussed to members of the audience at a reasonable price. At a minimum, the covered employee should disclose whether a written research report is available to members of the audience who are not clients of the firm, the approximate cost, and how a listener might acquire the report. Firms should make copies of the full research report available for purchase or review; for example via the firm's website.

## EXAM – SAMPLE LEVEL III

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### Joenia Dantas Case Scenario

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Joenia Dantas is a financial risk manager for Alimentos Serra (AS), a Brazilian manufacturer and exporter of soybean-based food products. AS is a privately held corporation, wholly owned by Cesar Serra. Recently, AS took out a R25,000,000, four-year, floating-rate bank loan requiring semi-annual payments of interest based on SELIC (Banco Central do Brasil's overnight lending rate) plus a spread of 4.50 percent and repayment of principal at maturity. Serra believes that interest rates will rise in the near future and worries that AS will be unable to absorb the higher loan costs associated with an increase in rates. Dantas tells him that she will convert the loan to a 10.80 percent fixed rate by entering into the pay-fixed side of a four-year, R25,000,000 notional principal interest rate swap with semi-annual payments that exchanges SELIC for a fixed rate of 10.80 percent. She explains that the swap will act as a hedge for the loan, reducing the company's net cash flow risk and net market value risk.

## EXAM – SAMPLE LEVEL III

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Discussions with Dantas about using interest rate swaps to reduce risk cause Serra to think about the fixed income portion of his personal investment portfolio, which includes R12.0 million in bonds that have a modified duration of 5.50 years. Serra's beliefs about rising interest rates make him want to reduce the bond portfolio's modified duration to 2.00 years using interest rate swaps. In order to determine the correct swap position, he needs to learn how to calculate the modified duration of a swap. He asks Dantas how to do this. She explains it to him, using the example described in Exhibit 1.

Exhibit 1  
Data for Swap Example

Maturity of swap	4 years
Payment structure	semiannual
Fixed rate on swap	10.8%
Duration of 4-year, 10.8% coupon bond	2.91 years

Serra decides to use a swap that has a modified duration of -2.40 years for the pay-fixed side to reduce his bond portfolio's duration to the desired level.

## EXAM – SAMPLE LEVEL III

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Dantas knows that AS currently needs to borrow an additional R30,000,000 for 5 years to fund its growth. Brazilian credit markets have tightened and it would cost 17.70 percent per year to borrow this amount locally, but AS can obtain a yen-denominated loan at a fixed rate of 9.50 percent. This would expose it to substantial currency risk. A 5-year currency swap is available in which AS would pay interest in real to the counterparty at 12.20 percent and receive interest in yen from the counterparty at 7.10 percent. The current exchange rate is ¥40/R.

In addition to the current needs, in six months AS will enter into a four-year, quarterly payment, R50,000,000 loan to fund local projects. Dantas expects to borrow these funds at a floating rate and convert the loan to fixed using an interest rate swap. She explains to Serra that AS can commit to a fixed rate of 14.3 percent for the future loan by buying a payer swaption today with an exercise rate of 14.3 percent for a four-year swap with quarterly payments and a notional principal amount of R50,000,000.

## EXAM – SAMPLE LEVEL III

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7. Dantas' explanation of her plan to convert the four-year loan from floating to fixed is *most likely*:
- A. correct.
  - B. incorrect, because the fixed loan rate will be 15.30%.
  - C. incorrect, because the swap should be entered to pay SELIC.

**Answer: B**

Converting a floating-rate loan to a fixed-rate loan requires entering into a plain-vanilla (fixed-for-floating) interest rate swap on the pay-fixed side. The swap should have the same maturity, the same payment frequency, and the same floating interest rate index as the loan and its notional principal should be equal to principal balance of the loan. The borrower will pay the fixed rate on the swap (here 10.80%) and receive the index (SELIC) from the swap counterparty. The borrower will pay the index (SELIC) plus any spread (4.50%) to the lender. The net, fixed interest rate on the swapped loan is the fixed rate on the swap plus any spread over index on the loan or  $10.80\% + 4.50\% = 15.30\%$  in this situation.



## EXAM – SAMPLE LEVEL III

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9. The duration of the interest rate swap described in Exhibit 1 is *closest* to:
- A. -2.41 years.
  - B. -2.66 years.
  - C. -2.91 years.

**Answer: B**

The duration of the pay-fixed position in an interest rate swap is equal to the duration of a floating rate bond with the same payment frequency minus the duration of a fixed rate bond with coupon rate equal to the fixed rate and maturity equal to the swap maturity. The duration of the floating rate bond is, on average, half of the time interval between payments (in this case, half of 0.5 years or 0.25 years.) The duration of the fixed rate bond is given as 2.91 years.  $0.25 \text{ years} - 2.91 \text{ years} = -2.66 \text{ years}$ .

## EXAM – SAMPLE LEVEL III

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10. In order to reduce the duration of his bond portfolio to the desired level, Serra will enter into a pay-fixed swap position with a notional principal *closest* to:
- A. R17.5 million.
  - B. R27.5 million.
  - C. R42.0 million.

**Answer: A**

When the current duration (DB), the target duration (DT), and the value (B) of the bond portfolio are known and the duration of the swap has been calculated, the notional principal of the appropriate swap (NP) is found as:

$$NP = B \left( \frac{MDUR_T - MDUR_B}{MDUR_S} \right).$$

In this case, the notional principal is:

$$12,000,000 \left( \frac{2.00 - 5.50}{-2.40} \right) = 17,500,000.$$

**Thank you for attention!**