

# Subject SP5

## Corrections to 2019 study material

### 0 Comment

This document contains details of any errors and ambiguities in the Subject SP5 study materials for the 2019 exams that have been brought to our attention. We will incorporate these changes in the study material each year. We are always happy to receive feedback from students, particularly details concerning any errors, contradictions or unclear statements in the courses. If you have any such comments on this course please email them to [SP5@bpp.com](mailto:SP5@bpp.com).

This document was last updated on **12 February 2019**.

## 1 SP5 Course Notes

### Chapter 5 – page 5, figure 5.1

On this page there is a diagram showing the setup for a typical securitisation, whereby investors have purchased an ABS, and the funds have been passed via an SPV to Company X. One of the descriptions says 'SPV pays interest & capital to SPV in return for ABS'.

This does not make a great deal of sense, and should read:

'SPV uses cashflows on secured assets to pay interest & capital to purchasers of the ABS'.

### Chapter 5 – page 24, self-assessment question

At the bottom of this page there is a solution for the spot exchange rate. The text and calculation should read as follows:

When using the Core Reading formula above, it is important to remember that  $F$  and  $S$  should refer to the cost of one unit of the overseas currency in terms of the domestic currency (and not the number of overseas currency that someone can purchase for one unit of the domestic currency). So  $F$  in the example above is 0.6667 £ per \$ rather than 1.5 \$ per £.

We can then find the spot exchange rate,  $S$ , from the forward rate,  $F$ , as:

$$F = \frac{6,000,000}{9,000,000} = S \times \frac{(1+r_d)}{(1+r_f)} = S \times \frac{e^{0.04 \times 90/365}}{e^{0.02 \times 90/365}} \Leftrightarrow S = 0.6634 \text{ £ per \$ or } 1.5074 \text{ \$ per £}$$

### Chapter 18 – page 29, practice question 18.3

The table provided in this question is incomplete (missing a column headed 'Standard deviation of returns') and should read as follows:

Asset Class	Annual Return (%)	Standard deviation of returns (%)	Asset Class Correlations		
			1	2	3
1	10.0	10.0	1.00		
2	7.0	5.0	-0.25	1.00	
3	5.0	5.0	0.25	0.50	1.00
Risk-free	4.0				

## 2 SP5 Assignments

### Assignment X3 – Question X3.3

The final sentence in the paragraph immediately under the table contains an incorrect date. This sentence should read as follows:

‘The first payment was to be on 1 January 2019.’

The solution is unaffected.