Subject SP5

CMP Upgrade 2022/23

CMP Upgrade

This CMP Upgrade lists the changes to the Syllabus, Core Reading and the ActEd material since last year that might realistically affect your chance of success in the exam. It is produced so that you can manually amend your 2022 CMP to make it suitable for study for the 2023 exams. It includes replacement pages and additional pages where appropriate.

Alternatively, you can buy a full set of up-to-date Course Notes / CMP at a significantly reduced price if you have previously bought the full-price Course Notes / CMP in this subject. Please see our 2023 *Student Brochure* for more details.

We only accept the current version of assignments for marking, *ie* those published for the sessions leading to the 2023 exams. If you wish to submit your script for marking but only have an old version, then you can order the current assignments free of charge if you have purchased the same assignments in the same subject in a previous year, and have purchased marking for the 2023 session.

This CMP Upgrade contains:

- all significant changes to the Syllabus and Core Reading
- additional changes to the ActEd Course Notes and Assignments that will make them suitable for study for the 2023 exams.

0 Changes to the Syllabus

There are no material changes to the Syllabus Objectives.

1 Changes to the Core Reading

This section contains all the ***non-trivial*** changes to the Core Reading.

Chapter 4

Page 4

The Core Reading at the top of page 4 has been adjusted to read:

In the UK, money market interest rates were historically often quoted relative to LIBOR (the London Inter Bank Offered Rate).

LIBOR has been replaced by a series of reference rates such as the Sterling Overnight Index Average (SONIA) or for US Dollars the Secured Overnight Funding Rate (SOFR).

Chapter 8

Section 1.3

The first paragraph on page 5 has been extended to include the following:

Regulators will also be aware that professional market participants are likely to have superior knowledge to the general public and many elements of financial market regulation are designed to protect the general public from abuse by professionals.

Chapter 12

Section 1.8

The reference to LIBOR in the opening paragraph has been removed. It now reads as:

The cashflows are usually discounted using a reference rate like SONIA or SOFR zero-coupon interest rates (since this reference rate is the cost of funds for a financial institution).

Section 1.9

The procedure has been adjusted to read:

1. **Calculate forward rates for each of the reference rates that will determine swap cashflows.** This is done using the formula described in Section 1.4.

2. **Calculate swap cashflows on the assumption that the reference rates will equal the forward rates.** In other words, we assume that the forward rates will actually be realised.

3. **Set the swap value equal to the present value of these cashflows.** Here the cashflows are discounted using the appropriate reference zero rates.

Chapter 13

Section 1.4

On page 11, the opening paragraph has been adjusted to remove the reference to LIBOR:

Suppose the interest rate R_K on the floating rate note is reset every three months to equal a reference interest rate (the time between resets is known as the *tenor*). The payoff provided by the cap will be:

$$L \times 0.25 \times \max(R_K - R_X, 0)$$

On page 12, the first paragraph of Core Reading has been adjusted to remove the reference to LIBOR:

Each payoff is a call option on the reference interest rate observed at time t_k (with the payoff occurring at time t_{k+1}) and is known as a *caplet*. The cap is a portfolio of *n* such options.

Section 1.10

On page 17, the section of Core Reading has been adjusted to remove the reference to LIBOR:

Assuming that the swap rate at the maturity of the option is lognormally distributed, we consider a swaption with the right to pay R_X and receive a floating reference rate on a swap that will last *n* years starting in *T* years. We suppose there are *m* payments per year under the swap and that the principal is *L*.

Chapter 14

Section 2

The oil and gas industry has now been renamed as 'Energy'. The first paragraph of the Energy section reads:

These companies are involved in the extraction and supply of oil and gas products used throughout the economy as well as the production of renewable energy.

Chapter 15

Section 3.1

The second paragraph of Core Reading has been reduced to read:

From June 2001 the weightings of all FTSE constituents were altered to reflect the availability of stock in the market, called a 'free float' adjustment.

Section 3.2

The Core Reading paragraph on the Dow Jones index has been amended to read:

The Dow Jones Industrial Average, commonly known as the Dow Jones index, is made up of 30 shares. It is an unweighted index. It provides a quick guide to shares in the industrial

sector, but it is not representative of the American equity market as a whole. It is of limited use as a true gauge of market performance. Nevertheless, it is very widely reported.

Section 3.4

The description of DAX has been updated to include 40 rather than 30 shares:

The Deutsche Aktienindex (DAX) is a real-time index of 40 leading shares. It is a total return index.

Section 4.1

The number of stocks included in the FTSE All-World Index has been updated:

Finally, there is a FTSE All-World Index comprising the Large/Mid-Cap aggregate of around 4,000 stocks from the Global Equity Series.

Chapter 23

Section 3.4

On page 19 the first paragraph of Core Reading has been adjusted to remove the reference to LIBOR:

The equity swaps can be modified to provide international diversification (by swapping returns on a domestic index for a foreign index) or to move between market sectors. Similarly, interest rate swaps can be used to modify the shape of a fixed interest portfolio, swapping floating rate reference interest rates returns for fixed interest returns on long-term bonds.

2 Changes to the ActEd material

This section contains all the ***non-trivial*** changes to the ActEd text.

LIBOR has been replaced by a series of reference rates eg SONIA or SOFR (see change in Chapter 4 above). There are a good number of references made to LIBOR throughout the course notes These have been changed to 'reference rate'.

3 Changes to the X Assignments

The 2022 versions of the SP5 X Assignments remain fit-for-purpose.

However, we only accept the current version of assignments for marking, *ie* those published for the sessions leading to the 2023 exams. If you wish to submit your script for marking but have only an old version, then you can order the current assignments free of charge if you have purchased the same assignments in the same subject in a previous year and have purchased marking for the 2023 session.

4 Other tuition services

In addition to the CMP you might find the following services helpful with your study.

4.1 Study material

We also offer the following study material in Subject SP5:

- Flashcards
- Revision Notes
- ASET (ActEd Solutions with Exam Technique) and Mini-ASET
- Mock Exam and AMP (Additional Mock Pack).

For further details on ActEd's study materials, please refer to the 2023 *Student Brochure*, which is available from the ActEd website at **ActEd.co.uk**.

4.2 Tutorials

We offer the following (face-to-face and/or online) tutorials in Subject SP5:

- a set of Regular Tutorials (lasting a total of three days)
- a Block (or Split Block) Tutorial (lasting three full days)
- an Online Classroom.

For further details on ActEd's tutorials, please refer to our latest *Tuition Bulletin*, which is available from the ActEd website at **ActEd.co.uk**.

4.3 Marking

You can have your attempts at any of our assignments or mock exams marked by ActEd. When marking your scripts, we aim to provide specific advice to improve your chances of success in the exam and to return your scripts as quickly as possible.

For further details on ActEd's marking services, please refer to the 2023 *Student Brochure*, which is available from the ActEd website at **ActEd.co.uk**.

4.4 Feedback on the study material

ActEd is always pleased to receive feedback from students about any aspect of our study programmes. Please let us know if you have any specific comments (*eg* about certain sections of the notes or particular questions) or general suggestions about how we can improve the study material. We will incorporate as many of your suggestions as we can when we update the course material each year.

If you have any comments on this course, please send them by email to **SP5@bpp.com**.