Subject F105

Corrections to 2023 study material

0   Introduction

This document contains details of any errors and ambiguities in the Subject F105 study materials for the 2023 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.

This document was last updated on **10 January 2023**.

1 Assignments

Assignment X1 – Question X1.5

There is an error in the solution to F105 X1.5 (iii). The present value of the euro payments should be €118.656m and so the net present value of the swap should be 118.656 − 115.643 = €3.013m.

The full solution to this part should read as follows:

The present value in euro of the payments received by Company X can be valued as a 3-year euro bond:

$$B_{€} = (0.055 \times 120)e^{-0.0575} + (0.055 \times 120)e^{-0.0575 \times 2} + (1.055 \times 120)e^{-0.0575 \times 3}$$

[1]

This gives a value of payments received of €118.656m.   [½]

The present value in sterling of the sterling payments payable by Company X can be valued as a 3-year sterling bond:

$$B_{£} = (0.045 \times 100)e^{-0.05} + (0.045 \times 100)e^{-0.05 \times 2} + (1.045 \times 100)e^{-0.05 \times 3}$$

[1]

This gives a value of payments payable of £98.296m.   [½]

The current euro value of the sterling bond is therefore:

$$\frac{98.296}{0.85} = €115.643m$$

[1]

Therefore, the net present value of the swap to Company X is equal to:

$$118.656 − 115.643 = €3.013m$$

[1]
[Total 5]