

CACS Paper 2 – Industry & Product Knowledge

Summary of Updates (Oct 2026 – Version 1.4)

The updates made to the CACS Paper 2 study guide (June 2024 – Version 1.3) are summarized as follows:

- Additions or updates are indicated in blue italics.
- Deletions are indicated in strikethrough.
- Section and page references relate to the updated study guide.

Chapter	Page No.	Update / Amendment
Ch 1 Section 1.1 Macroeconomic Analysis	1, 2	Many central banks target a certain level of inflation, while the United States (US) central bank – the Federal Reserve (US Fed Reserve) – has a dual mandate of <i>maximum employment and stable prices</i> , ~~inflation targeting and economic growth~~ . Generally, during periods of inflation, central banks would typically reduce the money supply to slow down production and consumption, whereas during periods of economic slowdown or recession, <i>central banks</i> ~~governments~~ would typically increase the money supply to boost capital investments and production.
Chapter 1 Section 1.8.2 Loss Aversion in Portfolios	20	Loss aversion is associated with prospect theory, that investors value gains and losses differently, placing more weight on perceived <i>losses</i> ~~gains~~ versus perceived <i>gains</i> ~~losses~~ .
Chapter 2 2.8.2 Relative Performance	56	With this information, a benchmark can be generated for the client consisting of 10% weighting in 3-month SGD <i>Compounded SORA</i> ~~interbank bid rate~~ , 30% weighting in returns from Citigroup World Government Bond Index and 60% weighting in returns from the MSCI AC Asia Pacific ex Japan Index.
Chapter 4 4.2.1 Types of Money Market Instruments	82	T-bills are issued by sovereign governments and considered to be the safest of all money market instruments. Singapore Government Securities (SGS) may be traded in SGD1,000 denominations and on a rate of discount basis. The Singapore Government also issues T-bills of ~~36-month~~ and 1-year maturities.
Chapter 4 4.5.5 Inflation Risk or Purchasing Power Risk	99	Coupons, which are the income component of bond returns, are denominated in fixed dollar amounts. Their purchasing power will be eroded if inflation rises, reducing the real return to investors. <i>Inflation-protected bonds</i> ~~Floating rate bonds such as inflation-protected bonds~~ (eg Treasury inflation-protected or TIPS in the US) <i>and floating rate notes</i> ~~or (FRN)~~ offer some protection against inflation because of the <i>regular adjustment of principal or</i> resetting of coupon rates.

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Chapter 5 5.6.3 Using Financial Ratios	114	The details and formulae for the ratios in the five categories listed above can be found in <i>Additional References 1: Financial Ratios</i> ~~Appendix : Financial Ratios.~~						
Chapter 5 5.7.1 Absolute Valuation	116	The dividend discount and the free cash flow to equity models can be found in <i>Additional References 2: Valuation of Stocks</i> ~~Appendix 5.2: Valuation of Stocks.~~						
Chapter 7 7.3.2 Benefits of Real Estate Investment Trusts	167	The main benefit for having a REIT structure is that there is tax exemption at the trust company level. Income generated from the properties will not be taxed at <i>the REIT level if it is distributed to unitholders; distributions are tax-exempt for individual investors and taxed in the hands of other (e.g. corporate) investors.</i> ~~trust company level but only subject to the personal income tax of investors.~~ For a non-REIT structure, where properties are held by a company, the income from properties will be taxed at the corporate rate before they are available to the investors. To enjoy the tax exemption, a REIT <i>must distribute at least 90% of its taxable income to unitholders in the same year in which the income is derived, and it is subject to leverage limits under the CIS Code. In Singapore, at least 90% of the taxable income has to be distributed</i> ~~is subjected to mandatory distribution rules and debt ratio limits. In Singapore, at least 90% of the profits are required to be distributed~~ while the amount of debt is capped at 45% of the property value.						
Chapter 7 7.4.3 Comparison between Real Estate investments and Business Trusts	170	<table><tr><th colspan="2">Table 7.4.3 – Comparison between listed REITs and BTs</th></tr><tr><td></td><td>Listed REIT</td></tr><tr><td>Distribution</td><td><i>Distribution of at least 90% of taxable income to qualify for tax transparency</i> ~~Mandatory distribution of minimum of 90% of annual income to qualify for favourable tax treatment~~</td></tr></table>	Table 7.4.3 – Comparison between listed REITs and BTs			Listed REIT	Distribution	<i>Distribution of at least 90% of taxable income to qualify for tax transparency</i> ~~Mandatory distribution of minimum of 90% of annual income to qualify for favourable tax treatment~~
Table 7.4.3 – Comparison between listed REITs and BTs								
	Listed REIT							
Distribution	<i>Distribution of at least 90% of taxable income to qualify for tax transparency</i> ~~Mandatory distribution of minimum of 90% of annual income to qualify for favourable tax treatment~~							
Chapter 7 7.4.4 Stapled Securities	170	In a stapled security, the issuer is bound by the regulations specific to each of the security being stapled. Therefore, if a REIT and a BT are stapled together, the issuer has to <i>distribute at least 90% of the REIT's taxable income to unit holders to qualify for tax transparency</i> ~~pay the minimum 90% of annual income to unit holders on the REIT to qualify for favourable tax treatment~~ but is free from paying dividends on the BT. Also, such stapled securities cannot be marketed as REITs.						

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Chapter 7 7.5.9 Key Risks of Hedge Funds	178	The Russian debt crisis in August 1998 was the last straw that caused LTCM to suffer huge losses of close to USD2 billion. <i>In September 1998, By the end of August 1998, the US Federal Reserve bought together 14 banks and securities firms, which funded a USD3.6billion recapitalisation.</i> ~~had to organise a bailout of USD3.6 billion to help avoid the collapse of several banks that had lending exposures to LTCM.~~
Chapter 7 7.8.1 Key Features of Commodity Investments	189	Motives for investing in Commodities: • Participating in Rapid Economic Growth – For economies undergoing economic growth, it is likely that they will require huge quantities of commodities to fuel their growth. Prices of these commodities are likely to increase with a surge in demand. For example, with the rapid urbanisation of China, steel is in great demand for the construction of buildings and railroads. Investing <i>in steel-related commodities such as iron ore</i> ~~or aluminium~~ may be a good avenue to participate in China's economic growth
Chapter 7 7.10 Chapter Summary	191	The key differences between a BT and a REIT are: a. REITs <i>must distribute at least 90% of their taxable income to enjoy tax transparency</i>, while BTs are not subjected to this requirement; and
Chapter 8 8.3.2 Structure of Futures Markets	195	There are many futures exchanges which trade in futures contracts. These include the following: • Chicago Board of Trade (CBOT) • Chicago Mercantile Exchange (CME) • <i>ICE Futures Europe</i> ~~London International Financial Futures Exchange (LIFFE)~~ • <i>Tokyo Financial Exchange</i> ~~Tokyo International Financial Futures Exchange (TIFFE)~~ • Singapore Exchange Derivatives Trading (SGXDT)
Chapter 8 8.4.4 Credit Default Swap	202 204	A credit default swap (CDS) provides insurance against credit risk. In summary: • Similar to any insurance, the party that is seeking protection, i.e. the CDS buyer, will pay a premium, known as the CDS Spread, to the protection provider, i.e. the CDS seller. The CDS Spread is usually paid quarterly ~~or semi-annually~~. <i>Whether a credit event has occurred is decided by the Credit Derivatives Determinations Committee, a market committee that operates under ISDA's rules. The CDS Recovery Amount is then set through a credit event auction, in which dealers submit bids and offers for the defaulted bonds or loans; the auction final price is used for cash settlement.</i> ~~The CDS Recovery Amount is determined by an~~

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	205	~~independent committee in the International Swaps and Derivatives Association (ISDA) via an auction process. The CDS Recovery Amount is based on how much of the defaulted company's assets, after full liquidation and repaying senior creditors, is available to repay the bond investors.~~ Example: The CDS is settled by cash settlement. After the ISDA committee completed its evaluation, <i>the credit event auction determined a final price of 22%</i>. ~~it determined that the CDS will have a Recovery Amount of 22%.~~ The CDS seller will be required to pay USD7.8 million to the CDS buyer, calculated as [CDS Notional Amount of USD10 million - CDS Recovery Amount of USD2.2 million]
Chapter 8 8.6.4 Interest rate Options	231	An interest rate option gives the option buyer the right but not the obligation to make (call) or receive (put) a known interest rate payment. For example, an investor buys an interest rate put option <i>on 3 month Compounded SORA with a SIBOR</i> with a strike price of 2.0%. This means that at expiration, if the prevailing <i>SORA SIBOR</i> rate is lower than 2.0%, the investor will exercise his option and will receive 2.0% in lieu of the prevailing <i>SORA SIBOR</i> rate. If <i>SORA SIBOR</i> is above 2.0%, the investor will let the option expire.
Chapter 8 8.6.5 Interest Rate Caps and Floors	232	The buyer of the cap receives payments at the end of each period in which the interest rate exceeds the agreed strike price at the end of each period. An example of a cap would be an agreement to receive a prorated payment for each month when the <i>SOFR LIBOR</i> rate exceeds 2.5%. The gain from the payments is used to offset the increase in interest rates.
Chapter 9 9.2.4 Underlying Asset	243	These instruments include (but are not limited to): <i>Interest rates such as SOFR, SORA, CMS and T-bond yield</i> ~~Interest rates such as SOFR, CMS, SOR and T-bond yield;~~
Chapter 5 9.5.3.5 Daily Range Accrual Note	257	9.5.2.5 Daily Range Accrual Note The Daily Range Accrual Note (DRAN) is a structure where the investor receives a target level of return if a reference index "falls" within an agreed range, failing which the client receives less or no interest, but his principal will not be affected. The reference index can be a stock index such as the Dow Jones index or an interest rate benchmark such as SOFR, <i>SORA (Singapore Overnight Rate Average) or Constant Maturity Swap (CMS) or Singapore SOR (swap offer rate).</i>
Chapter 9 9.5.4 Category 4: Risk of Principal Loss + Yield Enhancement Return	264	9.5.4.1 Dual Currency Investment A Dual Currency Investment (DCI) involves a base currency, an alternate currency and a short option on the currency pair, specifically a short put option on the alternate currency. It can be considered as a type of yield enhancement structured product. <i>MAS has issued a Notice on DCIs (Notice FAA-N11), which sets requirements for financial advisers and their representatives advising on</i>

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		<i>DCIs. It does not apply where advice is given to accredited investors, expert investors or institutional investors.</i> The MAS has specific guidelines on DCIs
Chapter 10 10.6.1 Mortgage Loans	297	A Covered Person needs to be aware that property investments may be used as a means to facilitate money-laundering. <i>Although property developers and estate agents in Singapore are subject to anti-money laundering requirements, a Covered Person should not rely on their checks to ascertain the sources of funds for property purchases by foreign buyers</i> Unlike Covered Entities, property developers and real estate agents may not have stringent Know Your Customer (KYC) procedures to ascertain the sources of funds for property purchases by foreign buyers. Some foreign investors may move funds into Singapore by first purchasing properties and subsequently selling the properties for cash, and depositing the funds afterwards with a Covered Entity