**Chapter 1: Risk Reporting**

**Question 1**

Do you agree that better risk measurement equates to better risk management?

**Question 2**

What is the difference between exposure and risk?

**Question 3**

List and explain the different risks.

**Question 4**

Provide examples of summary metrics under IFRS 7.

**Question 5**

What are the main shortcomings of value-at-risk (VAR) measures?

**Question 6**

What is a reportable operating segment?

**Question 7**

What is the difference between accounting and non-accounting measures of risk?

**Question 8**

Who are considered related parties under IAS 24?

**Question 9**

What is a scenario when an entity is exempted from disclosing transactions with a related party?

**Question 10**

List some examples of related party transactions that have to be disclosed.

**Question 11**

What are some of the detailed information that needs to be disclosed when an entity has related party transactions during the financial year?

**Question 12**

What additional information does an entity have to disclose in addition to revenues from transactions of an operating segment?

**Question 13**

How does an entity decide if their business comprises of different operating segments and hence information need to be reported separately?

**Question 14**

Provide details of disclosures required for companies that have exposure to financial instruments at the end of the reporting period.

**Answers**

**Question 1**

Better risk measurement provides better tools. However risk management is driven by a whole host of factors such as risk culture, tone at the top, the incentive systems and so on. Thus better risk measurement does not necessarily lead to better risk management.

**Question 2**

Exposure is typically the nominal amount that the entity takes position and is subject to risks. Risk takes into account probability of loss.

**Question 3**

1. Credit risk is the risk of possible default by the counterparty to a transaction, borrower of loan or issuer of bonds.
2. Market risk is the risk of losses arising from market price movements. These could be market prices of shares, commodities or bonds.
3. Interest rate risk is the risk of losses arising from interest rate movements.
4. Operational risk is the risk of losses due to operational lapses.
5. Liquidity risk is the risk that the entity is not enabled to liquidate its position when the need arises.
6. Legal risk is the risk that the entity violates laws and regulations of specific jurisdictions.
7. Reputation risk is the risk that the entity's reputation suffers due to certain actions of its employees.

**Question 4**

Summary metrics under IFRS 7: Value at risk, sensitivity analysis, credit risk, liquidity risk and bankruptcy prediction models

**Question 5**

*Shortcomings of VaR measures*: VAR assumes a normal stable market condition, based on normal distribution, which may not be useful under extreme market conditions and where the correlations no longer follow the assumptions.

**Question 6**

A reportable operating segment is an operating segment that meets the following thresholds:

1. Revenue test: revenue is 10% or more of total sales
2. Profit/loss test: absolute amount of profit or loss is 10% or more of the greater of total profits or total losses.
3. Asset test: asset is 10% or more of total assets

**Question 7**

Difference between accounting and non-accounting measures of risk:

Accounting measures of risk are measures based on financial statements prepared under the accounting standards. These include the statement of financial position, income statement and statement of cash flows.

Non-accounting measures of risk are not limited to financial statements. They include sensitivity analysis, measures of liquidity profiles, credit risk measures, value-at-risk, and so on.

**Question 8**

Related parties include subsidiaries, parent companies, associates, joint-ventures, parties in a post-employment benefit plan, key management and close family members of key management. Close family members include:

1. Related parties' domestic partners and children;
2. Children of related parties' domestic partners;
3. Dependents of related parties or related parties' domestic partners.

Key management refers to individuals who have the power and responsibility to direct and control the entity's activities.

**Question 9**

An entity is exempted from making the disclosures relating to related party transactions when it relates to a government that has control, joint control or significant influence over the entity. This also applies to transactions with another entity when the same government has control, joint control or significant influence over the entity.

If an entity applies this exemption, it shall disclose the name of the government and the nature of its relationship with the reporting entity. It also needs to disclose the nature and amount of each individually significant transaction and the qualitative or quantitative extent of any collectively significant transactions.

**Question 10**

* Purchases or sales of goods
* Purchases or sales of property
* Rendering or receiving of services
* Leases
* Transfers of research and development
* Transfers under licence agreements
* Transfers under finance arrangements
* Provision of guarantees or collateral
* Commitments

**Question 11**

When an entity has related party transactions during the period, it shall disclose the nature of the related party relationship, amount of the transactions and outstanding balances (Including commitments with their terms and conditions and nature of the consideration to be provided in settlement), details of any guarantees given or received, provisions for doubtful debts recognized in relation to the outstanding balances and expense incurred in respect of doubtful debts due from related parties.

**Question 12**

In addition to revenue amounts, an entity shall also provide information about the extent of its reliance on its major customers. If a single external customer’s transaction amounts to 10% or more of an entity’s revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segments reporting the revenues.

**Question 13**

An entity shall report information separately for each operating segment when they fulfill the characteristics of an operating segment and exceed quantitative threshold requirements.

An operating segment can be characterised as a component of an entity that (a) earns revenue and incur expenses from business activities, (b) is regularly subjected to review by the entity’s chief operating decision maker to assess its performance and determine the allocation of resources to the segment, and (c) has available discrete financial information.

For quantitative requirements, fulfilling any one of the following thresholds would necessitate reporting as an operating segment.

(a) The revenue of the operating segment (Including both external and intersegment sales) is 10% or more of the combined revenue (Both internal and external) of all operating segments.

(b) The absolute amount of the operating segment’s reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.

(c) The assets of the operating segment are 10% or more of the combined assets of all operating segments

**Question 14**

Companies are required to provide qualitative disclosures in the context of quantitative disclosures that would allow users of the financial statement to form an overall picture of the nature and extent of risks arising from financial instruments. For qualitative disclosures, a company is required to disclose their exposure to risk and how they arise along with the methods used to measure the risk. Companies must also disclose the policies and processes for managing the risk. For quantitative disclosure, companies must disclose summary quantitative data about its exposure to a particular risk at the end of the reporting period.