

Conference Paper

Financial Risk Disclosure: Evidence from Albanian and Italian Companies

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Abstract

In recent years standard setters, regulators and professional bodies worldwide have shown an increased interest in risk reporting. This has reflected the fallacy of the financial reporting model to communicate a company's risk profile, the recent scandals and the financial crisis. The European Union, the International Accounting Standards Board (IASB) and other national standard setters have introduced specific requirements in order to impose companies to highlight the principal financial risks and uncertainties that they face. The idea is that high-quality risk disclosure help investors and other market participants in their decision-making process, by providing a better understanding of the risk exposures and risk management practices of companies.

Previous studies show large heterogeneity in risk reporting within individual countries and identify size as key determinant of risk disclosure. A few researches propose a cross-country investigation of risk reporting and to date there is a lack of evidence about companies operating in Southern Europe, especially in the Balkans.

The aim of this study is twofold. First, we fill this gap by analyzing risk reporting regulations in Albania and in Italy to examine the different requirements. Second, we examine risk information disclosed by a sample of 12 Albanian companies and 12 Italian companies within their annual reports, using content analysis. Due to small sample size we offer preliminary findings about financial risk disclosure. The results show that on average Albanian companies disclose less information on financial risk than Italian companies. Different explanations can be given for this evidence: i) risk disclosure regulation is less incisive in Albania, because it is limited to inform investors about the relevance of financial instruments and the terms and conditions of loans; ii) Albanian companies have fewer incentives to disclose risk information than Italian companies.

Keywords: Financial risk disclosure, risk reporting, risk disclosure, content analysis, cross-country investigation

1. Introduction

In recent years risk reporting has received increasing attention by standard setters, regulators and professional bodies worldwide. Since 2007, listed companies must report the exposure, the objectives and the processes for managing financial risks (IFRS 7). Similarly, the Financial Stability Board (FSB) has developed new guidelines to improve risk reporting. This interest reflects the fallacy of the financial reporting

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model to communicate company's risk profile, the recent scandals and the 2007-2009 financial crisis.

The objective of this study is to provide further empirical evidence about the financial risk reporting practices in Albania and in Italy and key factors that influence risk disclosure decisions.

The extant literature focuses on: i) the level of compliance with ad hoc standard about market risk (e.g., [12, 23]; ii) the impact of risk disclosure on decision making (e.g., [17]); iii) the determinants of mandatory financial risk reporting practices (e.g., [7]). A few of prior researches focused on cross-country investigation, but they are limited to U.S., Canadian, UK and German settings [9]. This study contributes to fill the gaps by exploring the differences between Albanian and Italian financial risk reporting. This paper proceeds as follows. Section 2 goes on to describe risk disclosure regulations. Section 3 reviews the literature related to risk reporting practices. Section 4 provides details on research design. Section 5 describes the main findings, while Section 6 details the conclusions.

2. Albanian and Italian Risk Disclosure Regulations

The increased importance of risk information has led financial accounting bodies and national legislators to enhance and improve risk reporting requirements. In the last decade a gradual transition from voluntary risk disclosure to mandatory risk disclosure has been observed, in response to request of investors and users of financial statements. This change concerned the majority of European countries even if it is adopted in different ways and times.

In this paragraph we examine the regulatory developments about risk reporting in Albania and in Italy. To understand the differences on mandatory risk disclosure we offer a preliminary brief overview about the two accounting systems.

Albania. The first step of Albania for the development of an accounting framework right after the starting of the transition period is represented by the issue of Law No. 7661 "On accounting", entered into force the 1st January 1993. This law establishes the rules, the principles and the procedures to draw up the Financial Statement of all companies in Albania.

The financial report recommended by Law No. 7661 consists in Balance Sheet, Comprehensive Income Statement and Summary Notes and all of them must be considered and drafted as a unique and inseparable element. At the beginning no specific format was required but only a minimum of elements of financial report indicated by the law. Even if the law provided for a chart of accounts, the Minister of Finance enabled operators to use the Annual Fiscal format report.

It can be stated that the introduction of this first accounting law was forced by the opening to the market economy and the starting of the first private entrepreneurship and it was still influenced by the old accounting practices [24].

The framework produced few transparency and it was inconsistent with Albanian Company Law. In order to enhance foreign investment and to respond to European

Union struggles to increase the accounting harmonization, Albanian government issued Law No. 9228 "on Accounting" in 2004, which is still into force. This law requires the following entities to prepare their financial reports and consolidated statements (if member of a group) using IAS/IFRS:

- listed companies;
- Commercial banks, financial institutions, insurance and reinsurance companies, and security funds and investment companies;
- Companies that are subsidiaries of any parent whose shares are listed in any stock exchange around the world;
- Companies that exceed both of the following criteria in the two preceding years: an annual turnover of more than Lek 1,250,000,000 (approximately US\$ 11 million) and an average number of employees that are more than 100.

The Financial report under the new law consists in:

- a) balance sheet;
- b) Statement of income and expenditure;
- c) Statement of changes in equity;
- d) Statement of cash flows (cash flow);
- e) Annexes to the financial statements containing disclosure of accounting policies and other explanatory material.

The Law of 2004 also identifies the National Council of Accounting (NCA) as an independent public professional body with legal entity, which is first of all required to develop national accounting standards.

The main impact on Albanian accounting framework is the introduction and approval of National Accounting Standards (NAS, or SKK in Albanian language) by the NCA. They were written taking IAS/IFRS as example and result compliant with them. They entered into force in 2008 and the first financial reports written consistently with the new standards have been issued in 2009.

Even if the introduction of Standards compliant with IAS/IFRS improved Albanian accounting practices, Albanian financial reports are still considered to be on a poor quality level. The only sector which issues a higher level of reports is the Banking sector: the reason is the affiliation of Albanian banks to European groups which force to adopt a standard accounting practice. Moreover, the affiliation to foreign groups produces the import of higher qualified staff than average Albanian accountants because of a longer accounting tradition. Furthermore, Bank of Albania carries out an important work in the improvement of accounting level. Poor quality of other sectors' firm mainly derives from the absence of information request from third parties, the lack of interest of the Authority to ask for "best practices" and the lack of experienced administrative staff. As a demonstration of the poor quality of financial reports, banks don't consider Annual Reports so important to investigate loan applicant's financial conditions [24].

Regarding risk disclosure, the only requirements by NAS are included in Standard No. 3, which in paragraph 37 states that entities must indicate policies used in evaluating financial instruments and other information regarding financial instruments in order to improve financial statement's comprehension. The following paragraph states that

the entity must indicate the accounting values at the end of the reporting year of the following asset categories:

- Financial assets evaluated using amortized cost;
- Financial liabilities evaluated using amortized cost.

Furthermore, loans must be evaluated at nominal value net of impairment.

Paragraph 39, in the end, requires that entities must disclose all the information which enables users to evaluate financial instrument in place relevance and their characteristics.

Albanian framework doesn't require more disclosure for financial risk and the Authority did not prepare any best practice regarding this particular aspect of accounting.

Italy. In Italy we can identify three stages that have characterized the regulatory changes in risk reporting. Before 2005 disclosure was fundamentally voluntary because firm had discretion to choose which information regarding risks had to be communicated. It was generically required to describe the trend of the management, which could consist also in a risk disclosure. A study run in the period 2000-2003 shows high variability in risk disclosure policies, in respect of industry and firm size [22]. The main factor was the absence of regulation regarding risk disclosure.

The second stage (2005-2007) shows an increase in financial risk mandatory disclosure requirements.

Through Legislative Decree 394/2003 the Italian system adopted Directive 2001/65/EC regarding fair value of financial instrument evaluation. The most significant news of the Decree are:

- the introduction of article 2427-bis civil code, which impose specific information regarding fair value of capital assets and derivatives have to be disclosed in the Supplementary Notes;

- the addition of point 6-bis) to the second comma of article 2428 civil code, which states that Management Report has to show information regarding financial instruments, if owned and relevant for the financial situation and comprehensive income evaluation. In particular, management must disclose: a) the objectives and the policies of the company regarding financial risk management and financial risk hedging policy for each operation; b) firm's exposure to credit risk, liquidity risk, interest rate risk and currency risk. Therefore disclosure's mandatory requirements grow up. Italian legislator has been "conservative" and it neither allowed nor imposed fair value evaluation for all assets, but it intensified existing information duties.

In order to illustrate the new requirements, Italian standard setter (Organismo Italiano di Contabilità, OIC) issued Standard No. 3 "Information about financial instruments to be disclosed in Supplementary Notes and Management Report" in March 2006. Through this document, the standard setter clarifies fair value evaluation and gives exemplifications regarding derivatives' evaluation. OIC 3, like IFRS 7, divides risk into the following categories: market risk, credit risk, liquidity risk and other price risk.

From the above, it is evident that in the period taken into consideration financial risk disclosure became mandatory while non-financial risk disclosure remained voluntary.

The third stage started in 2007 with the amendment of article 2428 Civil Code by the Legislative Decree 32/2007. This Decree has been adopted as mandatory content of Directive 2003/51/EC, also known as "Accounts Modernization Directive". The new regulations state that Management Report must present "an accurate, balanced and exhausting analysis of the firm's financial situation and management trends and results" (...) "and also a description of main risks and uncertainties to which the firm is exposed". It is also specified that this analysis must be "consistent with entity and complexity of firm's business" and include "the necessary financial indicators to understand the financial situation of the company, its trend and its results and, if necessary, non-financial indicators relevant to the specific business, human resources and environment". Therefore the legal framework now consists not only in financial risk mandatory disclosure but also in cogent system which involves all risk categories that could affect the firm.

3. Literature Review

The growth of the risk disclosure's demand from the financial market represents an incentive for academics and practitioners' associations to investigate risk reporting. Starting from the nineties, the literature examined the need of information to improve risk disclosure quality. It has been revealed that through the analysis of firm risk communication's best practices it is possible to assess the relevance of this kind of corporate disclosure [8].

Literature contribution consists in the analysis of risk factors communicated by the companies. The present work pays attention to the empirical researches which showed the risk disclosure's policies and the limits of annual report disclosure in the absence of a common legal framework. In order to evaluate informative contents of risk disclosure, some Authors observed the nature (qualitative or quantitative), the dimension (financial or non-financial), the timeframe (past, present or prospective) and the impact (positive or negative) of each information released and communicated to the market [5]. This analysis allows to assess both the existing reporting model and the variability of the information disclosed by firms. Currently, many works investigate the generic risk disclosure practices (see Table 1) while some investigate financial risk disclosure or particular categories of financial risks (see Table 2).

In [5] examined the risk disclosure of a sample including 85 Italian non-financial unlisted companies. In the proposed multidimensional framework the following risk categories are taken into consideration: strategic risks, risk related to the company features (financial structure, ownership structure, technological structure, organization, business processes), external risk (industry, legal, political, economic, financial and social frame work, natural environment). Results show that the attitude of goals communication and the way to reach them is poor. Moreover, results show that quantitative disclosure regarding the positive or negative impact of risks is insufficient.

In [14] focus on risk disclosure of a sample including 300 Canadian listed companies. The Authors identify multiple risk categories like political risk, technological risk, weather risk, operational risk and market risk (in its non-financial meaning, or

rather the possibility that changes in competition can reduce sales and market share). Financial risks (credit risk, interest rate risk, exchange rate risk and financial instruments value risk) are also examined. Results show a much higher level of financial risk disclosure than other risk disclosure level. The Authors explain this inclination as the consequence of the listing of the sample's firms in two different financial markets (Canada and USA). They also confirm the predominance of qualitative risk disclosure and disclosure about bad news. Value creation opportunities are not disclosed at all.

In [15, 16] obtained partially different results in UK from the examination of the Annual Reports of 79 non-financial listed companies in 2000. Starting from ICAEW (Institute of Chartered Accountants of England and Wales) taxonomy, the Authors classify risks disclosed by firms in six categories: financial, operational, empowerment, IT, integrity and strategic. Interest rate risk, exchange rate risk, price volatility risk, credit risk and liquidity risk are included in financial risk category. Results show that the most disclosed category of risk is operational risk (1.957 sentences; 31,7% of the total), followed by integrity risk (1.571 sentences; 25,5% of the total). This indicates that UK firms prioritize strategic risk disclosure unlike Canadian firms; however, this differences need to be evaluated paying attention to the different weight assigned to both risk categories by the different works: Linsley and Shrives considered strategic risk to be more important than Lajiliand Zéghal did. Linsley and Shrives state that management is more inclined to disclose external risks (like strategic risk) rather than internal risks to the market: the presumable reason is that management associates more ownership costs to internal risk disclosure. Unlike other works, the results of this research show that UK firms offer both historical and forward-looking information. It is possible to explain the divergence in the empirical results taking into consideration the meaning of risk embraced by Linsley and Shrives, which is more extensive than other studies. Indeed, the Authors weight equally bad risks and opportunities and management is more inclined to communicate prospective information if they have a positive impact on financial and earnings while quantitative disclosure is very bare even if it could be a useful instrument to compare financial statements or to measure the risk of a particular investment.

In [2] examine Annual Reports of 100 Malaysian companies using the same risk categories adopted by Linsley and Shrives. They found out that disclosure level is significantly lower rather than UK's one. The difference is justified by the underdevelopment of Malaysian reporting practice, which in average consists in the communication of 20 sentences regarding the exposition to risk and its management. These results also show a predilection for strategic and empowerment risks while only in the 64% of the sample financial risks are disclosed.

The Table 1 summarizes the major results of risk reporting practices works.

Other literature focuses specifically on financial risks, sometimes studying single categories of financial risks. The analysis of financial risk disclosure practices has been made with the aim of verifying the compliance with reporting standards of standard setters. In the United States, [12, 23] observe the communication of market risk information, showing that the starting compliance level with FRR 48 is unsatisfactory. In

particular, Roulstone finds vague qualitative disclosure, with information about hedging instruments lacking of quantitative details. This makes it difficult for stakeholders to understand management ability to reach goals.

In the UK, examining the effect of implementation of FRS 13 “Derivatives and Other Financial Instruments – Disclosures” on disclosure policies [1, 10, 11, 25], there was found an increase in the quantity of information disclosed, even if still inadequate in satisfying the investors information need. In [3] focus on a sample of UK firms adopting IFRS 7 and point out the low transparency of financial statements regarding disclosure on the relevance of financial instruments and the nature and the amount of financial risks.

In [18] create a disclosure index based on the application of IAS 32 and IAS 39. They find a high variability in the communication of single financial risk categories. Even if Portuguese firms disclose much information on financial instruments detained, the disclosure level on credit risk and interest rate risk is very low (respectively 6% and 34%), which means that the informative is very poor.

Cross-country investigations made by [19, 20] confirm the inadequacy of exchange rate risk management but highlight a higher transparency of UK firm annual reports than US firms annual reports (see also [7]). The model used for the analysis compares market information with information detained by firms’ management resulting, as indicated by a survey. Authors demonstrate that managers prefer not to communicate information about exchange rate risk management, in particular in the US where they are considered sensitive information for the high competitive pressure. In a study dated 2008, Marshall and Weetman demonstrate that the portion of information disclosed in the UK in the period 2004 – 2006 is steady as the nature qualitative of the disclosure, even if standards require more detailed and more extensive disclosures [21].

The Table 2 illustrates the results of researches about financial risk reporting practice, taking into consideration the examined standards.

In conclusion, the results of the different works made at international level show that risk disclosure practices are still inadequate. Most of the information disclosed is qualitative and generic and it turns to be un-useful for financial statements users, who prefer information regarding future events’ impact on the firm’s economy instead of what happened in the past. Some surveys made on investors and analysts sample show a limited appreciation about the risk reporting practices, so the improvement of risk disclosure’s model is necessary (CFA Institute).

Given the regulatory background and the gaps in empirical previous studies on financial risk disclosure in Southern Europe, our paper aims at providing a preliminary analysis on risk reporting practices in Albania and in Italy. Our expectations are that Italian companies disclose more information about financial risk than Albanian companies.

4. Research Design

Author and Year	Sample	Risk categories	Results
[5]	85 annual reports of Italian unlisted non-financial companies	1. Strategic Risks 2. Specific risks of the company 3. External risks	Low inclination in disclosing strategic risks on future strategies and goals.
[14]	300 annual reports of Canadian listed companies (financial and non-financial)	1. Financial risks 2. Political risk 3. Market risk 4. Technological risk 5. Environmental risk 6. Weather risk 7. Legal risk 8. Seasonality risk 9. Operational risk 10. Cyclicity risk 11. Supplier risk 12. Natural resources risk	Inhomogeneous and unclear information of risks, especially quantitative information.
[15, 16]	79 annual reports of UK listed non-financial companies	1. Financial risks 2. Operational risk 3. Empowerment risk 4. IT risk 5. Integrity risk 6. Strategic risk	Regarding non-financial risk, the most disclosed category is strategic risk; other ICAEW categories are undisclosed at all.
[2]	100 annual reports of Malaysian listed non-financial companies	Same framework proposed by [15, 16]	Disclosure level of Malaysian firms is lower than UK firms.

TABLE 1

Author and Year	Standard
[12]	FRR 48 (USA)
Rajgopal (1999)	FRR 48 (USA)
[23]	FRR 48 (USA)
[1]	FRS 13 (UK)
[10]	FRS 13 (UK)
[11]	FRS 13 (UK)
[25]	FRS 13 (UK)
[3]	IFRS 7 (UK)
[18]	IAS 32 - IAS 39 (Portugal)

TABLE 2

4.1. Sample Selection

To conduct our research, we analyse annual financial reports of Albanian companies and we compare them with Italian companies' financial reports. Because of the lack of an organic list of entities operating in Albania and the difficulties to find financial

Albanian Companies affiliated to Italian - Albanian Chamber of Commerce	70
(-) Associations, Tax and Legal Services (-) 2014 Annual Reports Missing	-19 - 12
(-) Financial Companies and other IAS/IFRS adopters	- 4
(-) Narrative information missing	- 23
Albanian sample	12

TABLE 3: Albanian sample definition.

statements useful for our research, we use a small size sample, constructed as following.

In the beginning, the sample consisted in 70 Albanian entities, selected among affiliated to Italian-Albanian Chamber of Commerce. Their financial reports have been collected from the National Registration Centre, in which the entities are obliged to deposit, among other documents, their annual reports. From the initial 70 entities sample, we excluded: i) 19 associations or tax and legal services; ii) 12 companies with 2014 financial reports missing; iii) 2 financial companies and other 2 IAS/IFRS adopters; and iv) 23 companies with narrative information missing. Therefore, the sample of Albanian companies consists in 12 non-financial companies using NAS (SKK in Albanian language).

After the selection of Albanian companies, a symmetrical sample of Italian companies using national accounting standards (OIC) has been constructed. We chose Italian firms considering the same industry and the similar size of the companies from Albania.

The final sample is composed of 12 Albanian firms using NAS and 12 Italian firms using OIC.

4.2. Method of analysis

To examine and classify financial risks disclosure within the Albanian and Italian annual reports we use content analysis. This approach has been widely adopted in previous studies on narrative disclosure [4, 14]. Content analysis is defined as *“a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use”* [13]. According to the extant literature [15], a single coder performed the content analysis to ensure reliability. Financial risk information is examined in the supplementary notes and in the management reports. We consider the sentence as recording unit and we classify risk information in these seven categories (Table 5):

1. financial risk management;
2. credit risk;
3. liquidity risk;
4. pricerisk;
5. interest rate risk;

N	ALBANIAN COMPANIES	ITALIAN COMPANIES	INDUSTRY
1	Albanian Energy Green	Acquirente Unico	Energy
2	Agrigose	Cavit	Agro-industrial
3	Albaco Shoes	Base Protection	Manufacture
4	Balkan Energy Green	DolomitiEnergia	Energy
5	CamunAlb	Rosetti Marino	Energy
6	Colacem Albania	Colacem	Construction
7	Erjol & A	Klepierre Management	Services
8	Giorgi Alfo	Bocca di Puglia	Construction
9	Italshqipja	Iskralegno	Manufacture
10	ManufactureItaliana	So.Me.Co.	Manufacture
11	Metal Work	Cg Serramenti	Metal-mechanic industry
12	Rina Albania	CSQA Certificazioni	Services

TABLE 4: Sample.

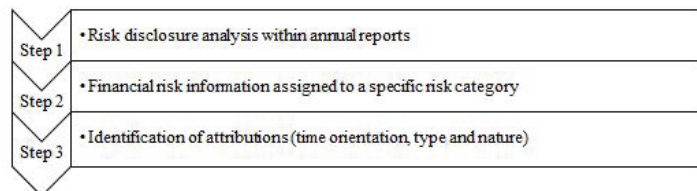


Figure 1

- 6. currencyrisk;
- 7. other financial risk (as a residual category).

This analysis captures three attributes of each sentence:

- 1. time orientation: past, present or no-time specific, forward-looking;
- 2. type: quantitative, qualitative;
- 3. nature: good news, bad news, neutral news.

Rule code is in Appendix A, while encoding scheme is illustrated in Figure 1.

5. Findings and Discussion

In this section we examine how Albanian and Italian companies disclose relevant information about their financial risk exposure. A total of 44 sentences were identified

Risk category	Definition
Financial risk management	Information about: (a) how each risk arises; (b) how the entity manages each risk (for example its objectives, policies and processes for managing the risk and the methods used to measure the risk); (c) the extent of risk exposures that the entity manages.
Credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation
Liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
Price risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.
Interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
Currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
Other financial risk	Financial risk that affects financial position or performance (for example, taxation risk and legal risk).

TABLE 5: Risk category.

Sample	Mean	Median	Min	Max	Std. Dev.
Albanian companies (n=12)	4	6	0	9	3
Italian companies (n=12)	10	8	0	24	9

TABLE 6: Individual-country results for total financial risk disclosure.

within the Albanian sample, whereas we found a total of 124 sentences within the Italian sample. As shown in table 6, Albanian companies disclose on average 4 sentences about financial risk, while Italian companies disclose 10 sentences. This evidence confirms our expectations about the predominance of financial risk disclosure in Italy. Our explanation for this difference is that Italian companies have more incentives to disclose risk information.

As regards risk categories, we can observe that Albanian firms disclose mostly other financial risk (75%). Examining their annual reports, we find that these risks arise mainly from tax regulation or litigation problems, factors that can affect negatively the financial position. Information about financial risk management (5%), credit risk (2%), liquidity risk (2%) and currency risk (5%) appears less important for Albanian firms. Some information is provided to users of financial statements regarding interest rate risk (11%).

	Albania		Italy	
	Recording unit		Recording unit	
	N.	%	N.	%
Time orientation				
Past	5	11%	0	0%
Present or no-time specific	30	68%	124	100%
Forward-looking	9	20%	0	0%
	44	100%	124	100%
Type				
Qualitative	44	100%	113	91%
Quantitative	0	0%	11	9%
	44	100%	124	100%
Nature				
Good news	12	27%	22	18%
Bad news	21	48%	10	8%
Neutral news	11	25%	92	74%
	44	100%	124	100%

TABLE 7: One way analysis.

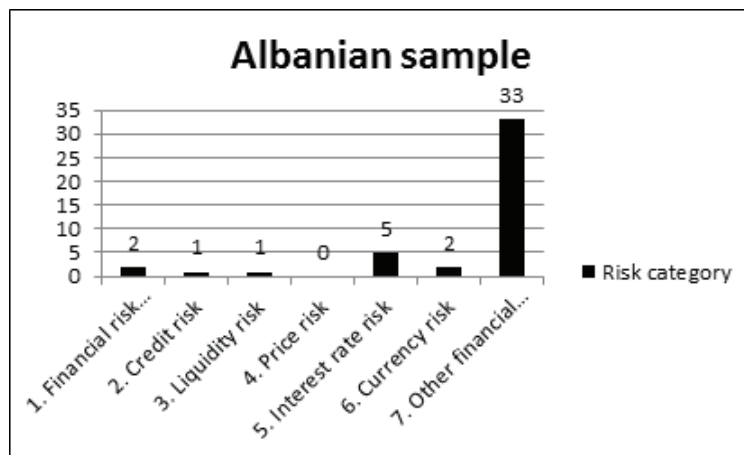


Figure 2

Italian companies disclose mainly information about credit risk (32%) and liquidity risk (21%), in line with users' expectations, as revealed by a survey (CFA Institute, 2011). The other risk categories are disclosed on average from 10% (price risk) to 13% (interest rate risk).

One possible explanation for these differences is probably linked to the regulatory environment and accounting standards. Italy has a more pervasive legislation about financial risk disclosure, similar to IFRS 7, than Albania.

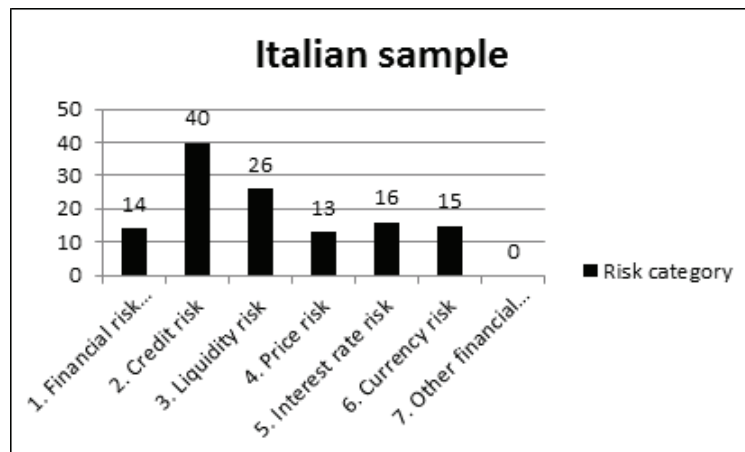


Figure 3

6. Conclusions

This paper is a first financial risk disclosure study that compares two Southern Europe countries. Based on a content analysis of annual reports of a matched-sample of 24 firms from Albania and Italy, we provide evidence on the individual-country and the cross-country levels.

We find a prevalence of present (or no-time specific) and of qualitative risk disclosure. Forward-looking information is missing in Italian reports, while Albanian firms provide some details on the future, especially about the possible impact of tax regulation. Descriptive cross-country statistics suggest heterogeneity in risk disclosure quantity. Italian firms provide more risk disclosure than Albanian firms. This finding is consistent with more strict regulation imposed by Legislative Decree 32/2007.

Our study is subject to limitations. Firstly, we examine a limited sample size of Albanian and Italian companies due to a difficulty to find published Albanian annual reports. Secondly, we analyse only the quantity of disclosure and we do not provide evidence on the quality of disclosure.

7. Appendix A: Rule Code

1. The recording unit is the sentence, considered as the period which ends with a full stop or a semicolon.
2. Tables are encoded considering each line as a sentence.
3. In lists, every full stop equalizes a sentence.
4. Only risk relevant information (regarding risk exposure) is encoded.
5. In case of coexistence of more risk categories or attributions, the most emphasized one prevails.
6. In case of repeated information, every time it is communicated a score is assigned.

7. Referring to its time orientation, a sentence is considered to be: past, if referred to situations which have already had their impact on previous Financial Reports; present, if it contains references to the Financial Report examined and no-time specific if it does not refer to any time period; forward-looking, if it is connected to elements which can have their impact on the firm in the future.
8. Referring to its type, a sentence is considered to be: qualitative, if it has a narrative form and it does not contain any value; quantitative, if it contains numbers (monetary or not).

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