

The Risks in Your 10K

What is the quality of the risks identified in your 10K? How well does your CEO manage these risks? What new risks have been identified this year?

When its time to approve your 10K filing, its also a good time to reflect on these 3 questions.

What is the quality of the risks you've identified?

This critical question reflects directly on the thoughtfulness of your management team. When risks were first incorporated into 10Ks, they were basically boilerplate and defensive. Most companies listed risks primarily to protect themselves from shareholder lawsuits.

Today, good companies take the time to thoughtfully consider the risks they face and the consequences. For improved clarity, risks should be framed as an "if...then" paragraph: i.e. "If _____ occurs, then _____ may result."

How well does your CEO manage these risks?

Think about how well the management team is managing each risk and what they're communicating to the board. If there are weaknesses in their risk management practices, now is the time to raise the issues and get them to fix the deficiencies. If there is no process to periodically update your board on risk management, begin at your next board meeting.

Ask lots of questions if risk communications to your board are poor or completely absent. Incorporate risk discussions as a normal part of the board's agenda.

What new risks have been identified this year?

If new risks were identified this year, make sure management has also established risk mitigation plans for these risks? If not, they've only done half the job.

If no new risks have been identified, think carefully about what has changed in your business that might pose new risks. Over time, it's very rare that no new risks arise. Make sure management has an objective internal process to identify risks. Internal Audit can be a valuable resource to help the board identify and prioritize risks.

Take the time to thoughtfully assess your company's risk profile. Then, make sure your CEO has effective risk management plans in place and communicates them to your board.