

# [Although that the company enters into master](https://assignbuster.com/although-that-the-company-enters-into-master/)

[Economics](https://assignbuster.com/essay-subjects/economics/), [Currency](https://assignbuster.com/essay-subjects/economics/currency/)

Although AAPL has not realized any significant losseson its cash, cash equivalents and marketable securities till date, futurefluctuations in their value could result in significant losses. From thecompany’s 10K we see that the company’s credit ratings and pricing of itsinvestments can be negatively affected by: Liquidity, Credit deterioration, financialresults, Economic risk, Political risk and Sovereign risk. The company’s 10Kshows that AAPL’s exposure to credit risk on its trade receivables is higher incertain international markets and APPL’s ability to mitigate the risks is confined. The company is also exposed to credit risk on its trade accounts receivable andvendor non-trade receivables related to its long-term supply agreements.

The company’s10K shows that trade receivables as of September 2017, in which AAPL had twocustomers that individually represented 10% or more of total trade receivables, each of which accounted for 10%. On the vendor non-trade receivables side on September2017, AAPL had three vendors, which accounted for 42%, 19% and 10% showing thatthe vendors individually represented 10% or more of total vendor non-tradereceivables. In terms of managing the counterparty risk thecompany’s 10K confirms that AAPL has procedures to monitor and limit thecompany’s exposure to credit risk on its trade and vendor non-tradereceivables, as well as long-term prepayments. AAPL requires collateral incertain instances from its vendors to limit the credit risk. The 10K also showsthat the company enters into master netting arrangements, which are designed toreduce credit risk by permitting net settlement of transactions with the samecounterparty.

Now let’s understand what a master netting arrangement is. Amaster netting arrangement is a master contract between two counterparties thathave multiple derivative contracts opened with each other. In an event ofdefault or on termination of any one contact, the master agreement provides forthe net settlement of all contracts which are opened between the twocounterparties, as well as cash collateral, through a single payment, in asingle currency. We also see that the net cash collateral received by AAPLpertaining to derivative instruments under its collateral security arrangementsas of September, 2017 and September, 2016 was $35 million and $163 million, respectively. Further the 10K also provides information that AAPL limits thecompany’s credit risk on trade receivables with credit insurance for certaincustomers, requiring third-party financing, loans or leases to support creditexposure.