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96.	<i>Svintradze N.</i>	582
	TRENDS IN THE DEVELOPMENT OF PERSIAN WOMEN'S PROSE	
97.	<i>Zornytskyi A. V.</i>	590
	LINGUISTIC USAGE (USUS) AS A POTENTIALLY NEGATIVE FACTOR IN LITERARY TRANSLATION	
98.	<i>Бабчук Ю. Й.</i>	592
	СУЧАСНІ ДОСЛІДЖЕННЯ В ЕКСПЕРИМЕНТАЛЬНІЙ ФОНЕТИЦІ	
99.	<i>Крецу В. П.</i>	598
	ФРАЗЕОЛОГІЯ В ЛІНГВОДИДАКТИЧНОМУ АСПЕКТІ: ЗАВДАННЯ І ВПРАВИ	
100.	<i>Морозовська Л. Ф.</i>	603
	СЕМАНТИЧНА СТРУКТУРА БАНКІВСЬКОГО ТЕРМІНА	
101.	<i>Преснер Р. Б., Ванівська О. М.</i>	611
	СУЧАСНІ МЕТОДИКИ ДИСТАНЦІЙНОГО НАВЧАННЯ ІНОЗЕМНОЇ МОВИ У ЗВО	

ECONOMIC SCIENCES

102.	<i>Bakhishova Shahnaz Natig gizi</i>	613
	ESTIMATION OF THE INDICATOR REVPAR, WHICH REFLECTS THE EFFICIENCY OF HOTEL SERVICES IN THE REPUBLIC OF AZERBAIJAN	
103.	<i>Demydova O. O., Shumak L. V., Philippov O. V.</i>	620
	ENSURING ECONOMIC SECURITY IN INVESTMENT AND CONSTRUCTION ACTIVITIES IN UKRAINE IN THE PRE-WAR PERIOD	
104.	<i>Hrabovska A. A.</i>	626
	THE MAIN TOOLS FOR INNOVATIVE DEVELOPMENT IN THE PROMOTION SYSTEM NATIONAL COMPETITIVENESS	
105.	<i>Luste O.</i>	629
	ORGANIZATIONAL CULTURE IN THE SYSTEM OF ENTERPRISE'S STRATEGY	
106.	<i>Maksymov O., Maksymova Ju., Rudyk O.</i>	638
	MODELING BUSINESS PROCESSES OF AN ENTERPRISE BASED ON ADAPTIVE PRODUCTION FUNCTIONS	
107.	<i>Mykhailovyna S. O.</i>	644
	FIXED ASSETS: ORGANIZATION OF ACCOUNTING AND ON-FARM CONTROL	
108.	<i>Puzyrova P.</i>	649
	TRANSFORMATION OF THE FINANCIAL RISK MANAGEMENT PROCESS IN THE ACTIVITIES OF BUSINESS STRUCTURES IN MODERN CONDITIONS	
109.	<i>Shemakhina I.</i>	657
	PROBLEMS OF UKRAINE INTEGRATION INTO THE GLOBAL ECONOMIC DEVELOPMENT	

UDC 330

**TRANSFORMATION OF THE FINANCIAL RISK MANAGEMENT
PROCESS IN THE ACTIVITIES OF BUSINESS STRUCTURES
IN MODERN CONDITIONS**

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Abstract: it is determined that the success of the company depends on the accepted concept of risk management. It has been proven that the desire to avoid or minimize risks is natural, but solving the problem is complicated by the existence of a direct relationship between risk and profit. It is established that a higher level of risk provides potential opportunities for obtaining increased profits, but does not exclude the possibility of additional losses in the event of the realization of the risk. It was determined that balancing between profitability and risk, finding their optimal ratio is considered as one of the important and difficult tasks faced by company management.

Keywords: transformation, management, financial risks, price risks, business structures, economy, profitability, company.

The search for effective approaches to risk management has become one of the most important directions in the development of modern economic science. In the broadest sense, risk is the uncertainty regarding the occurrence of a particular event in the future. In business, risk is primarily associated with financial losses arising in the event of its implementation. Since it is impossible to completely avoid risks, they can and should be consciously managed, bearing in mind that all types of risks are interconnected, their level constantly changes under the influence of the dynamic environment [1; 3; 5].

In international practice, the risk management process is considered a key area of management, significant attention is paid to the study of risk areas, the search for

effective methods of risk control, assessment and monitoring, and the creation of appropriate management systems. Theoretical studies of domestic scientists on the problems of uncertainty and risk are mostly devoted to the analysis of the causes of occurrence, classification and methods of quantitative assessment of risks, less attention is paid to the search for effective management techniques that would be adequate to the real capabilities of domestic entrepreneurs [2; 4; 9].

Among the financial risks, which are determined by the probability of monetary losses due to unforeseen changes in the volume, yield, value and structure of assets and liabilities, the group of price risks occupies a special place. Price risks are associated with the probability of changes in market prices and their impact on financial or physical assets, which are recorded on both active and passive accounting accounts on the balance sheet of a company, enterprise or bank, as well as on off-balance sheet items [6; 10; 13].

Therefore, a change in the market price of assets causes a change in the value of assets, liabilities, balance sheet items or off-balance sheet liabilities, ultimately forming gains or losses on market-sensitive positions. Price risks are most apparent when assessing the value of balance sheet items based on market prices at the end of each business day. In this case, any changes in the market price are immediately reflected on the balance sheet. Additional problems arise in case of untimely accounting of losses or gains, since ignorance of risk factors does not mean their absence [7; 8; 9].

In financial activities, the most significant price risks are the risk of changes in interest rates and exchange rates, as well as the market risk associated with changes in the value of securities. The risk of interest rate changes (interest risk) is present in the activities of borrowers, creditors, owners of securities, and investors. Currency risk arises for those economic entities that have assets, liabilities or off-balance sheet items denominated in foreign currency on their balance sheet. Owners of securities are exposed to market risk [11; 12; 14; 15].

Thus, most economic entities deal with price risks in one way or another, and the instability and unpredictability of both international and national financial

markets in recent years have significantly exacerbated the problem of finding optimal methods of managing this group of risks. A necessary condition for achieving success in the field of activity, which is characterized by increased risk, is the creation and improvement of risk management systems that allow identifying, evaluating, localizing and controlling risk. The decision-making mechanism should not only identify the risk, but also allow assessing what risks and to what extent the company can take on, as well as determine whether the expected return justifies the corresponding risk. Justified or acceptable risk is a necessary component of the strategy and tactics of effective management. Thus, the transformation of the risk management process includes a wide range of actions that can be represented as a sequence of the following stages (Fig. 1):

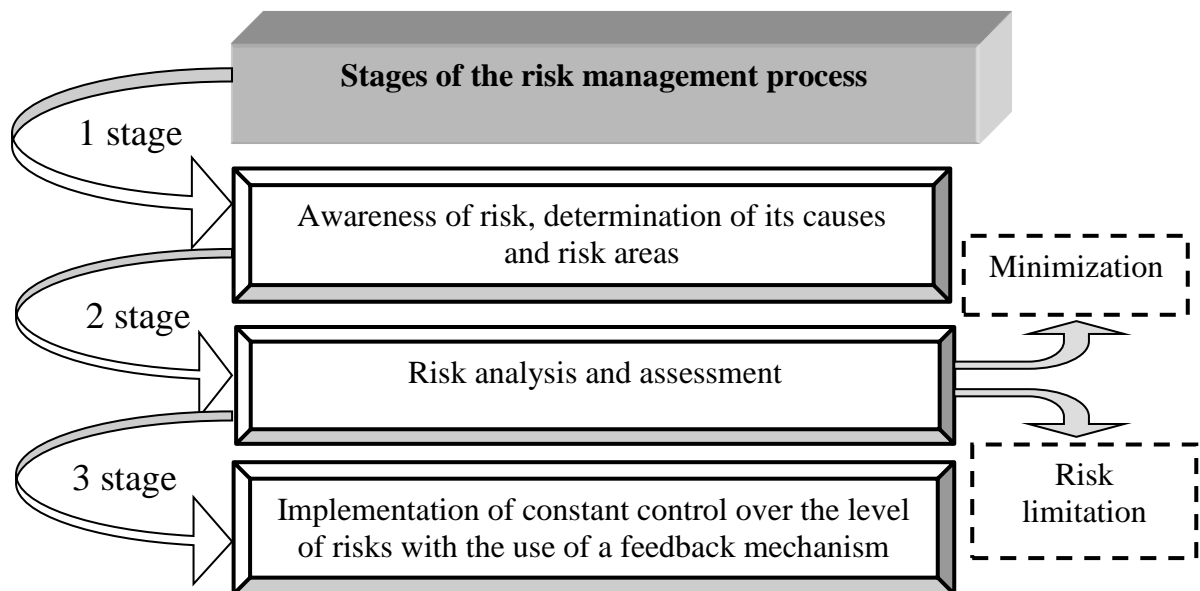


Fig. 1. Transformation of the risk management process of the business unit [16; 17; 18]

The first stage of the price risk management process is implemented quite simply, since the very fact of owning balance sheet and (or) off-balance sheet positions sensitive to changes in interest rates, exchange rates or stock indices already means the presence of risk. Identifying the risk and analyzing its nature is necessary, but not sufficient. It is important to find out the size of the risk, that is, to quantify it. The degree of risk of economic decisions is assessed by the expected losses that are the consequences of such a decision. Because of this, risk assessment systems that

formalize the process of measurement and calculations should determine three main components of risk: the size (volume of possible losses), the probability of a negative event, and the duration of risk exposure [19; 20].

This stage of the management process ends with a comparative analysis of real and acceptable risk levels. If the actual risk does not exceed the permissible limits, then the management can limit itself to the control function in order to prevent the risk level from increasing, i.e. immediately proceed to the last stage of the management process. If the level of real risk exceeds the permissible limits, then the problem of finding optimal management methods arises, the choice of which is largely determined by the type of risk, as well as the characteristics and capabilities of a specific enterprise, the general state of the economy, the degree of development of the infrastructural elements of the financial system, and the legislative and regulatory environment [10; 17; 21; 22].

To manage price risks, a hedging technique is used, which is understood as an activity aimed at creating protection against possible losses in the future. Hedging includes methods of influencing the structure of the balance sheet in order to limit price changes and create risk protection systems by concluding additional financial agreements that allow compensation for possible losses [4; 8; 10].

If it is not possible to minimize the risk, then the management can make a decision on its limitation, which is carried out by reducing the volume of financial and economic transactions, in connection with which the risk arises, and shortening the risk period in order to reduce the probability of the occurrence of a negative event.

Business entities can use risk avoidance tactics in their activities by refusing to carry out certain financial transactions, developing new markets, introducing new services and products, and other actions that are accompanied by increased risk. However, in some types of business, for example, in banking, this approach is not always acceptable. If the company can work without attracting credit resources, placing funds on deposits, buying securities, conducting export-import operations, then the bank is unable to avoid many types of risks. In addition, a significant part of

banking operations is determined, first, by the needs of customers, without which the bank cannot exist. Therefore, it is the banks that should work on improving their activities and finding new approaches to solving risk problems, applying the methods of minimizing price risks as widely as possible [12; 14; 20].

Therefore, the success of the company largely depends on the accepted concept of risk management. However, defining the purpose of the risk management process is not as clear-cut as it might seem at first glance. The desire to avoid or minimize risks is natural, but solving the problem is complicated by the existence of a direct relationship between risk and profit. A higher level of risk provides potential opportunities for obtaining increased profits, but does not exclude the possibility of additional losses in the event of the realization of the risk. Minimizing the level of risk makes it possible to get a low but stable profit. Therefore, balancing profitability and risk, finding their optimal ratio is considered as one of the important and difficult tasks faced by company management.

Thus, financial risk is the probability of adverse financial consequences in the form of loss of income in situations of uncertainty of the conditions for carrying out its financial activities. Insurance of financial risks is provided with the help of:

- insurance of failure to receive profit (income);
- insurance of risks of introduction of new equipment and technologies;
- insurance in case of a decrease in the stipulated level of profitability;
- founder's risk insurance;
- stock market risk insurance.

Therefore, in order to form an adequate and effective model of financial risk management of a business entity, it is necessary to determine the following theoretical-methodological and functional-organizational issues:

- the structure of the business entity's risk management model;
- a description of the main factors that determine the parameters of the risk management model of the business entity;
- main quantitative indicators used in the business entity's risk management model;

- peculiarities of using portfolio analysis in the risk management model.

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