Online Appendix for Political Risk Spreads
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Online Appendix C: Coplin-O’Leary Risk Rating Method

The Coplin-O’Leary (CO) data cover both 18-month and 60-month risk forecasts. Analysts first establish the three most likely political regimes over the two horizons and assign probabilities to each regime. 17 risk factors are specified (12 for the 18 month horizon and 5 for the 60-month horizon).

The 18-Month factors are: 1) Turmoil; 2) Equity Restrictions; 3) Operations Restrictions; 4) Taxation Discrimination; 5) Repatriation Restrictions; 6) Exchange Controls; 7) Tariff Barriers; 8) Other Import Barriers; 9) Payment Delays; 10) Fiscal and Monetary Expansion; 11) Labor Policies; and 12) Foreign Debt. The five-year risk factors are: 13) Turmoil (used in both 18-month and 60-month forecasts); 14) Investment Restrictions; 15) Trade Restrictions; 16) Domestic Economic Problems; and 17) International Economic Problems.

These factors are numerically scored on a scale of 0 to 3. CO then aggregates them into four categories:

i. **Turmoil** (actions that can result in threats or harm to people or property by political group, which include riots and demonstrations, politically motivated strikes, disputes with other countries that impact business, terrorism and guerrilla activities, civil or international war, street crime that affects international business personnel, and organized crime having an impact on political stability or foreign business); Both the 18-month and 60-month forecast are category 1;

ii. **Transfer** (includes exchange controls on international business, inconvertibility of currency, and restrictions on the transfer profits, dividends, and investment capital out of the country); 18-month includes categories 6, 9, 10 and 12 while the five-year also includes categories 13 and 17.

iii. **Investment** (includes turmoil, equity restrictions, and restrictions on local operations, i.e. labor, management, and procurement, taxation discrimination, repatriation restrictions); 18-month includes categories 1-6, and 11 while the five-year also includes categories 13, 14, and 16.

iv. **Export** (focuses on risks facing exporters to the country, including turmoil, exchange controls, tariffs, other trade barriers, payment delays and foreign debt); 18-month includes 1, 6-9, and 12 while the five-year also includes 13, and 15-17.

After summing the numerical scores, letter grades are then assigned from A+ (least risky) to D- and F (most risky). We then convert the letters back to a numerical score ($A^+ = 1, A = 2, \ldots D^- = 12, F = 13$).

1 For additional detail, see [http://www.prsgroup.com/PRS_Methodology.aspx](http://www.prsgroup.com/PRS_Methodology.aspx)

As mentioned, we have both 18-month and 60-month forecasts. We have ratings for most of the countries in our analysis. While these data are monthly, we only chose to load the December data.