
**Board of Governors of the Federal Reserve System
Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation**

November 2008

**CHANGES TO THE INTERAGENCY COUNTRY EXPOSURE REVIEW COMMITTEE
PROCESS**

The federal banking agencies reassessed the Interagency Country Exposure Review Committee (ICERC) procedures and adjusted the criteria for applying an ICERC rating. The reassessment was a result of the agencies recognition of improvements made in banks' cross-border exposure analyses and country risk management programs. Also, international accounting and reporting standards have improved greatly since the guide was revised in 1999, resulting in greater transparency in financial disclosure by governments and public-sector obligors. Furthermore, additional commercial sources of information on country and transfer risk are now widely available.

The agencies reformed the ICERC process with the following changes:

1. To rate only those countries in default.¹
2. To eliminate the rating categories of Other Transfer Risk Problems (OTRP), Weak, Moderately Strong, and Strong.

Supervisory agencies expect institutions under their supervision to continue to monitor their cross-border exposure to all countries closely; to have robust country risk assessment and rating systems; to have appropriate sovereign exposure limits in place for each sovereign entity; to perform solid financial analyses on the sovereign entities to which the institutions are exposed; and to continue to apply robust risk management to all their country exposures—not just to the countries rated by ICERC. Such risk management functions will continue to be evaluated during the course of regular supervisory examinations.

Attached for your information is a copy of the revised ICERC guide. Should you have any questions about this distribution, please contact Donald Gabbai (FRB) at 202-452-3358, John DiClemente (FDIC) at 202-898-3540 or Sandra Hernandez (OCC) at 202-874-5433.

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¹ Default occurs when a country is not complying with its external service obligations or is unable to service the existing loan according to its terms, as evidenced by failure to pay principal and interest timely and fully, arrearages, forced restructuring, or rollovers. The Committee reserves the right to exclude de minimus failures to pay principal and interest, such as incidences of technical or administrative defaults.