



Independent Construction Industry Ratings Tool (iCIRT)

Single-Party and Multi-Party Ratings Methodology (v1.0, 2021)

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1 OVERVIEW

This document provides an overview of the iCIRT single- and multi-party risk rating methodology for assessing businesses in connection with residential building construction. Initially the single- and multi-party risk rating outcome will cover builders and developers, and will expand to include certifiers, designers, manufactures and suppliers in due course.

2 BACKGROUND

We acknowledge market wide concern relating to the number of 'bad actors' across the residential building construction industry. We understand that people may be financially exposed when constructors become insolvent or are otherwise unable or unwilling to remediate material defects. As a higher risk sector naturally exposed to the property cycle and with the growing contagion of counterparty risk from a cascaded contracting delivery model, people are seeking increased transparency. More specifically we understand the Government is looking to utilise market intelligence to help guide their risk-based surveillance efforts and, together with industry, all parties are eager to ensure there are no unintended consequences. Equifax has been working closely with the public and private sectors to design and develop an operational prototype. The methodology (version 1.0, May 2021) available on our website provides a high-level overview of this collaborative work and is outlined below.

3 SCOPE

The iCIRT multi-party risk rating methodology is an analytical framework to determine the star rating outcome across single parties that combine to produce an overall multi-party star rating outcome. The risk assessments use public and privately procured data of a kind recognised as being of interest in guiding resource allocation and decision making when assessing the capability, capacity and willingness of an entity or group of entities (ie. multi-party team) in honouring their commitments related to residential building construction. This is a top-down process supported by a bottom-up, evidence-based data-driven approach and is prepared in accordance with the assessment scope sought.

There are three (3) assessment options available:

- **Brief Assessment** – Uses non-consensual data across a range of privately procured and/or public sources including Government registers; credit bureaus; court judgements; trading payment performance; key trading partners; property data; personal property and securities register; Government licensing and disciplinary registers; and financial statement information for companies with a financial reporting obligation.
- **Standard Assessment** – Supplements the brief assessment with private financial statements and business records including ultimate beneficial owners as well as other consent-based data

on key persons and/or officeholders, including identity verification; national criminal history checks; anti-money laundering and counter-terrorism financing checks; politically exposed persons and sanctions checks; local and global media checks; credit checks; bankruptcy and historic personal insolvency checks; enforceable undertakings; and banned or disqualified persons checks.

- **Detailed Assessment** – Supplements the standard assessment with additional information including insurance eligibility, cover and claims history; past projects and previous performance; industry awards and recognition; due diligence for engaging third parties; extent of onsite engagement of consultants; continuing professional development; operating standards certification / compliance; parent company linkage and/or guarantees; contractual cover, stability and sustainable growth; pipeline cover, cashflow and breakeven analysis; covenants, financial facilities and borrowing capacity; tax and BAS statements and/or amounts overdue; other statutory payments (i.e. employees, super); subcontractor payment claims; tribunal decisions; industrial action; contingent liabilities and pending litigation.

This document outlines the methodology used to derive the score and associated star rating outcome. This does not provide a credit rating and is not designed to provide financial product advice, nor does it provide a recommendation to approve or purchase any particular built asset or to enter into any engagements or arrangements with the subject of this report.

These assessments use public and private data sets (where available) based on the service level selected (as above). For standard and detailed assessments, the outcome may be influenced by the participation and disclosures provided by each of the assessed parties, as well as the individual consents of key persons in performing a series of background checks. The assessment extends to incorporate information on related parties and key trading partners.

4 COLLABORATION AND CONSULTATION

Equifax has worked closely with market representatives, industry associations and subject matter experts to contribute towards a national construction industry ratings capability. The iCIRT Industry Forum includes a diverse range of stakeholders across the public and private sector to contribute towards the collaborative co-design of a private-sector led, industry-wide risk rating tool¹.

¹ There have been many numerous industry working groups that have met and contributed towards input into the iCIRT Industry Forum. Equifax would like to kindly acknowledge and thank the participation and support of people across many market and industry bodies represented on the iCIRT Industry Forum, including leaders from the NSW Government, Insurance Council of Australia (ICA), Owners Corporation Network (OCN), Strata Community Association (SCA), and ten different industry associations. We would also like to acknowledge and thank the many other people that have provided input and/or contributed towards the Forum including representatives across our banking and insurance industry, legal and professional services, industry leading constructors / consultants, subject matter experts and academia. The Forum has formally convened nine times to review and progress the ratings framework, methodology and approach, and we would like to thank all for their input, guidance and support.

Consumers are at the heart of this process

Significant market costs & impacts

Working together to restore confidence

Improving transparency to build trust



The Building Confidence Report outlined recommendations for legislative reform, and identified the changes required to shift industry culture acknowledging positive change **cannot be done by Govt alone...**

Working Together

ICIRT Industry Group

Consumers Sub Group

Finance Sub Group

Insurance Sub Group

Government Sub Group

Constructors Sub Group

Certifiers + Consultants Sub Group

Legal / Prof. Sub Group



- **Consumers** at the heart of the process
- Provide transparency across the eco-system
- Multi-disciplinary, multi-jurisdictional approach
- Centralised repository & single source of truth
- Traceability and an expanded line of sight
- Industry architecture and agency model
- Support an industrialised, scalable capability
- Restore confidence in construction industry
- Improving economic and social outcomes

The intention of the ratings tool is to assess and provide an independent view of either a single-party or multi-party build team having the capability, capacity and willingness to support the delivery of a trustworthy built asset. Ultimately the purpose of these ratings is to assist in building improved transparency for consumers and to restore confidence in construction.

The tool will be supported by the continued input of industry stakeholders, setting aside individual positions to positively progress and deliver improved industry transparency for the common good. In this way we have sought to embrace the principles of fairness and to monitor for any unintended outcomes.

The iCIRT Industry Forum will convene bi-annually to monitor and assess ratings performance and outcomes, with representatives providing input and feedback to further refine and enhance the process, and to assess the reliability and effectiveness of new and emerging data sets which may result in future updates to this methodology.

5 RATING OUTCOME

The following section provides a high-level overview of the rating outcome and includes an outline of the number and type of star rating outcomes, the scope and scalability of assessments, together with contributing factors and industry comparisons.

A five-star rating outcome

iCIRT provides a star-rating outcome based on an aggregated assessment of the underlying data, scores and weights of individual attributes across six (6) assessment criteria. This outcome ranges from zero stars (unrated) to five stars (more trustworthy) in accordance with this methodology. The higher the number of stars the more likely the business or build team has exhibited characteristics that infer they are willing to honour their commitments related to residential building construction. Conversely, the lower the number of stars, the more likely the business or team has exhibited higher risk characteristics.

iCIRT Report Summary

The image shows a summary of an iCIRT report. On the left, there are five stars, with the first two filled (Bronze). Below the stars, the 'Data' field shows 'Bronze - Base level of confidence'. The 'Version' is '1.0' and the 'Date' is '06-Oct-20'. The 'Outcome' is 'Medium to High' and the 'Ranking' is 'Worse than Industry Average'. To the right, a legend defines the star ratings: a yellow star for Bronze (brief review using non-consensual data), a grey star for Silver (standard review with financials and background check), and a gold star for Gold (detailed review with participation and enduring consent). On the far right, a screenshot of the iCIRT report interface is shown, displaying the same information and a color-coded bar chart at the bottom.

Scaleable rating assessments

We acknowledge there are a range of interested parties seeking to use the iCIRT service, and as such have prepared three (3) main assessment levels to accommodate for the different tiers of due diligence desired. These three assessment levels are defined within this methodology document, and the rating outcome is colour coded to assist users in readily understanding the scope and information used within the process, as well as the limitations of the rating provided. The three main rating types provided include: Gold ratings, Silver ratings and Bronze ratings, and are summarised below:

Gold Ratings = Based on a detailed assessment where the business and/or build team have fully participated and provided all requested disclosures for a more comprehensive business review, including all key person consents in order to perform an expanded array of background checks.

Silver Ratings = Based on a standard review where the business and/or build team have provided a number of required disclosures to support an initial assessment, together with some or all key person consents in order to perform a basic selection of background checks.

Bronze Ratings = Based on a brief review using all available public and proprietary data that does not require consent or the participation of the rated business or build team. No key person checks are included, and the outcome is qualified on the basis of limited analysis.

Scope of engagement

iCIRT ratings may be provided on either a single-party business or multi-party build team, and the heading of the report will clearly signify the type and scope of the assessment. The methodology for determining a single- and/or multi-party rating is further outlined later in this document.

Fit-for-purpose scorecards

While there are many different businesses that typically make up the build team, there are a number of individual (and in some cases shared) attributes that may reflect the reliability and/or extent of risk associated with residential building construction. These attributes and their associated weighting of importance may vary based on the entity's role and contribution within the build team, together with the size and scale of their business. As such, Equifax has worked with the iCIRT Industry Forum to develop a number of scorecards to provide fit-for-purpose assessments to reflect the size and role (ie. developer, builder or certifier) of each business.

Appropriate industry comparisons

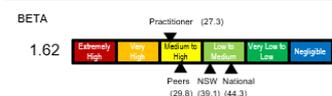
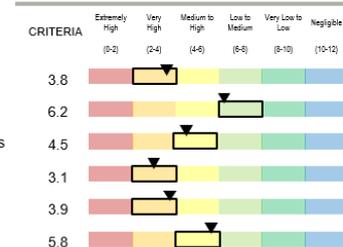
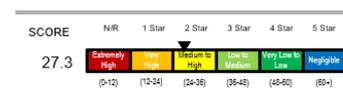
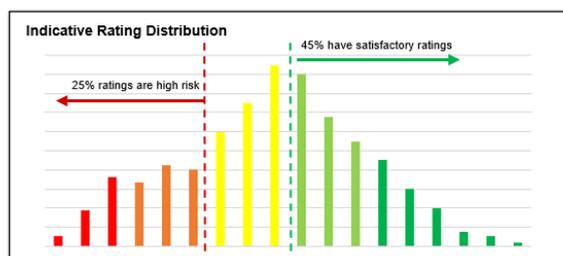
While the underlying data, scores and attributes enable the derivation of a star rating outcome, they also enable a relative risk ranking in order to support appropriate comparisons with others of a similar size and nature. In this way, businesses can be assessed relative to others that share the same role (ie. builders are compared with builders) and size (ie. small firms with small firms). A Development Risk Index (DRI) or beta coefficient is used to numerically quantify the proximity of a given business to the industry average (represented by a score of 1.0). Those with a higher beta coefficient reflect a higher level of risk (based on the characteristics relative to their peers), and those with a lower beta coefficient (lower than 1.0) represent a lower level of risk. These can be further stratified and/or aggregated to compare across roles and regions.



is the sum of the six key rating criteria:

Six Key Rating Criteria

1. **Character** Bona fides of officers / owners, phoenixing & adverse checks
2. **Capability** Trading history, officeholder experience, licenses, insurances
3. **Conduct** Track record, judgements, tax debt, incidents, penalties, undertakings
4. **Capacity** Project pipeline, sustainable / stable operations, liquidity, cash flow
5. **Capital** Capital, funding, borrowing capacity, covenants, debt serviceability
6. **Counterparties** Related parties, value chain dependencies, sustainable sourcing

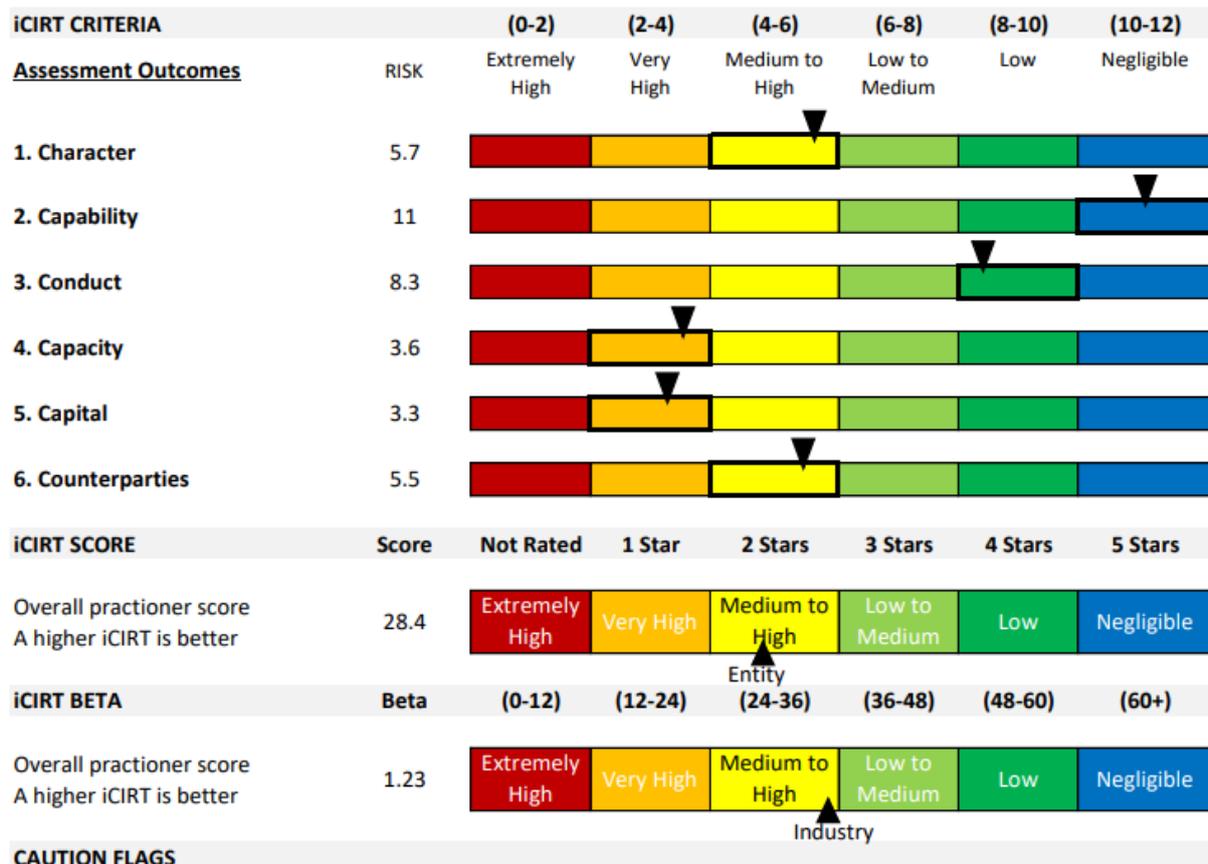


Development Risk Indices (DRI)

- Beta reflects relative risk
- Beta of 1.0 reflects industry average
- Higher beta scores reflect higher risk
- Calculated as National score / Entity score
- E.g. 44.3 / 27.3 = Beta of 1.62 (higher risk)

Key contributing factors

Each report will contain a breakdown of the assessment outcome, highlighting the underlying score across each of the six assessment criteria. This will include the overall iCIRT score, together with a comparison to industry in the form of a beta coefficient (outlined above). The report may include one or more caution flags to highlight key risk items and/or limitations, together with a high-level summary of the primary attributes that were observed to either positively or negatively influence the rating outcome (Key Contributing Factors).



CAUTION FLAGS



The assessed entity and its officers were not approached for supplementary information, and as such consent has not been sought to perform a number of background checks that may otherwise influence the overall outcome of this assessment based on the iCIRT methodology.

Key Contributors

Track record in delivering past projects	✓✓✓	Regulator notices and past undertakings	×××
Mature third-party engagement process	✓✓	Ultimate beneficial owner has past default	××
Stable revenues and strong pipeline	✓✓	Insurance claims in the last two years	×
Simple structure & sound governance	✓	Limited headroom in funding covenants	×

Positive Contributor	Major	Moderate	Minor
	✓✓✓	✓✓	✓

Negative Contributor	Major	Moderate	Minor
	×××	××	×

6 RATING METHODOLOGY

6.1 Single-Party Risk Rating Framework

Figure 1: Single-Party Risk Rating Framework

While there are a range of commercial reporting services available, the iCIRT risk rating methodology seeks to provide a more holistic assessment and reviews a range of data attributes across six assessment categories (criteria) as outlined below:

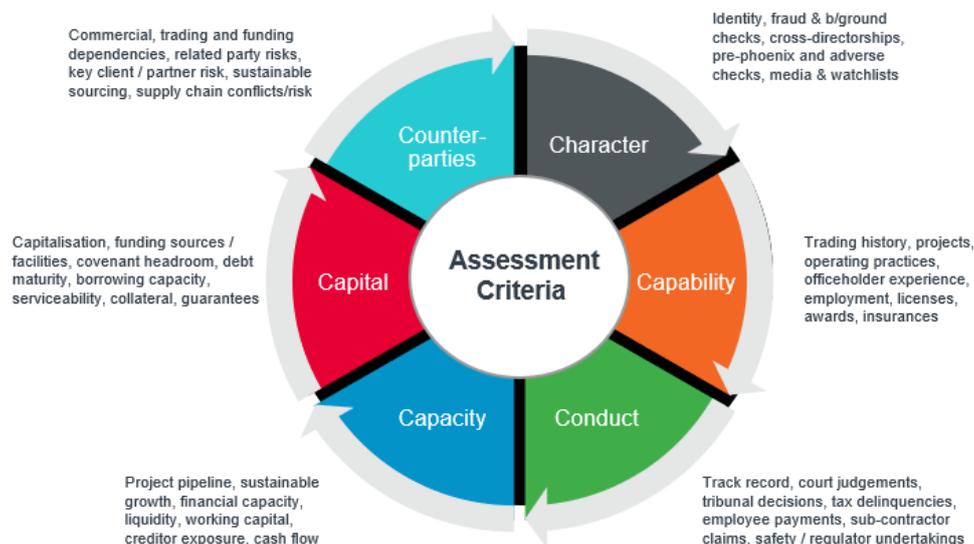


Figure 2: Single-Party Risk Rating Attributes

Equifax obtains and uses a broad range of data points from a number of internal and external sources that are believed to be accurate and reliable, but many of these cannot be independently verified by Equifax. The various attributes that are considered in the risk ratings tool include:

<p>Character</p> <ul style="list-style-type: none"> • Key Person Background Checks • Number & Tenure of Officeholders • Officeholder Bureau Record • Shareholders / Beneficial Owners • Cross Directorships & Adverse 	<p>Conduct</p> <ul style="list-style-type: none"> • Trade & Payment Performance • Court Judgements (eg. Defaults) • Statutory Obligations (eg. Tax, Super) • Regulatory/Undertakings (eg. Safety) • Related Party Conduct / Adverse 	<p>Capital</p> <ul style="list-style-type: none"> • Equity / Capitalisation • Retention and Collateral • Funding Facilities & Headroom • Borrowing Capacity / Serviceability • Encumbrances & Guarantees
<p>Capability</p> <ul style="list-style-type: none"> • Business Tenure & Track Record • Register Record (License, Regulatory) • Experience & Past Projects • Insurances & Claims History • Operational Maturity & Governance 	<p>Capacity</p> <ul style="list-style-type: none"> • Operations & Profitability • Liquidity / Working Capital • Operating & Net Cash Flow • Pipeline & Contractual Cover • Funding / Credit Requests 	<p>Counterparties</p> <ul style="list-style-type: none"> • Related Pty Support / Dependencies • Related Pty Exposures / Guarantees • Related Party Risk / Adverse • Third Party Management • Key Trading Partners

6.1.1 Rating Criteria - Character

The attributes for Character includes a range of factors to support an understanding of the transparency and trustworthiness of the business and its key persons. This extends beyond the legal entity and its officeholders to consider the ultimate holding company, other related parties, director-related connections, shareholders and ultimate beneficial owners.

Character recognises the number, commercial record, and length of service of its existing officeholders, the openness and participation of key persons, and the track record of the entity in meeting its commitments across its commercial, financial, legal and regulatory requirements. This includes a number of background checks (including global and local media) to identify whether key persons were not prima facie involved in any misconduct or wrongdoing in their capacity as directors for this or other entities, past or present.

Character considers the corporate complexity and number of cross-directorships, identifying whether officeholders have been identified across various registers (ie. banned or disqualified, enforceable undertakings, and/or disciplinary registers). This category also considers whether officeholders have been a past bankrupt and/or connected to previous corporate insolvencies and identifies the potential pre-phoenix risk, such as the establishment of newly formed businesses with links to financially-distressed related parties.

Additional factors include management disclosures, attestations, as well as the broader governance structure and level of corporate and project site oversight.

For a detailed assessment, **Key Attributes** include:

- Verification of the business structure, legal entities, trading activity and GST registration
- Verification of the officeholders, shareholders and ultimate beneficial owners
- The number & tenure of officeholders and their commercial record checks
- The number of cross-directorships and identification of past administration / insolvency, with pre-phoenix alerts relating to related party distress & newly incorporated businesses
- Identification across various registers including the banned corporations or officeholder registers, and other regulatory and/or SafeWork enforceable undertakings registers
- Commercial record checks of shareholders and ultimate beneficial owners
- Commercial record checks of ultimate holding company, as well as the directors and shareholders of the ultimate holding company
- Provision of requested disclosures & consent to contact key persons for background checks
- Provision of key person consents (and associated information) to complete background checks, including criminal history, AML, CTF, PEP, Sanctions, global & local media checks, credit and national personal insolvency checks)
- Provision of management attestations and supporting evidences relating to projects, financial disclosures, business & statutory obligations, compliances, insurances, performance references & governance arrangements

6.1.2 Rating Criteria - Capability

The attributes for Capability include a range of factors relating to the tenure and trading history of the business, including officeholder experience, employment history, licenses, qualifications, memberships, and industry awards. Capability also considers the track record on other projects of a similar size and nature, as well as the business' insurance and claims history. This includes management attestations, evidences and performance references relating to operating practices and governance affairs (including the compliance program, design review process and inspection regimes).

For a detailed assessment, **Key Attributes** include:

- Business tenure and trading term, including the number and tenure of officeholders, and their corresponding track record and existence of past adverse
- Verification of the licence and status (as appropriate), including the number of years held, and any conditions imposed (ie. unrestricted or restricted, with or without conditions)
- Track record & experience (on past projects of a similar size & nature)
- Insurance cover including insurance claims history, certificates of eligibility, and the history of insurance cover (having been refused or cancelled)
- Verification of key persons, experience and employment history, qualifications, professional memberships, and evidence of continuing professional development (as appropriate)
- Design and construction management, and defects management practices
- Workplace, health and safety management, and environmental management practices
- Quality management, project management, and risk management practices
- Third-party management practices and on-site engagement of design practitioners & certifiers
- Performance references (incl. quality assurance, workplace health & safety, documentation), industry recognition and professional membership awards

6.1.3 Rating Criteria - Conduct

The attributes for Conduct include a range of factors relating to the business' past conduct, considering its commercial record, court judgements, industrial disputes, tribunal decisions, tax delinquencies, employee payments, subcontractor payments, and overall trade payment performance. Conduct also considers pending litigation, as well as regulator intervention including safety, rectification and/or other undertakings or orders.

For a detailed assessment, **Key Attributes** include:

- Commercial track record of the business & related parties (incl. defaults & court judgements)
- Commercial track record of officeholders (incl. material defaults and court judgements)
- Trade payment performance and payment performance trend
- Business activity statements (BAS) up-to-date, paid within terms, and disclosed
- Income tax returns up-to-date, paid within terms (or tax payment plan), and disclosed
- Employee payments and subcontractor payments up-to-date and disclosed
- Tribunal decisions, industrial disputes, and subcontractor payment claims (last 24 months)
- WHS investigations and Safework prosecutions and undertakings (last 24 months)
- Other regulatory prosecutions and enforceable undertakings (last 24 months)
- Pending litigation and contingent liabilities

6.1.4 Rating Criteria - Capacity

The attributes for Capacity include a range of factors relating to the business' project pipeline and capacity to meet its commitments. This includes an assessment of the solvency and ongoing sustainability of the business, considering the working capital, liquidity and cash flow conversion cycle. Other areas are also considered, such as cases where there may be an excessive reliance on its supply chain for liquidity. Capacity also considers the size of the development relative to an entity's current scale of operations. A disproportionately large contract or project pipeline may stretch the entity's existing capacities and leave limited headroom to absorb routine and non-routine delays or disruptions.

For a detailed assessment, **Key Attributes** include:

- Commercial performance and financial capacity
- Previously completed projects and current project pipeline (type, progress and value)
- Status of buildings under development (ie. extensions, deferrals, abandonments)
- Type, number and trend of credit enquiries and credit amount sought (last 12 months)
- Pipeline cover, sales stability and sustainable growth
- Scheduled activity and operating cash flow
- Operating profitability and overhead cover
- Operating leverage and breakeven headroom
- Cash conversion cycle and creditor exposure
- Working capital, liquidity and solvency

6.1.5 Rating Criteria - Capital

The attributes for Capital include a range of factors relating to the business' capitalisation and funding sources. Some businesses may have higher levels of debt and borrowings, which sometimes can increase returns to equity holders but can also create a high demand on an entity's cash flows to service that debt. Some may have dividend policies that determine minimum payments to owners, which can further impact available reserves for thinly capitalised businesses. Capital also considers an entity's access to funding facilities, as well as its debt maturity schedule and headroom under stipulated covenants. In the event an entity has no external funding facilities, various metrics are used to assess its borrowing capacity to access funding facilities.

For a detailed assessment, **Key Attributes** include:

- Capitalisation and net tangible worth
- Business reinvestment and dividend payouts
- Contractual cover and commercial track record (including defaults and judgements)
- Type, number and trend of credit enquiries and credit amount sought (last 12 months)
- Mortgages and the number and type of secured charges over property (incl. PPSR)
- Financial facilities, status, unused committed facilities, and unencumbered collateral
- Covenant compliance and headroom
- Debt serviceability and interest cover
- Financial leverage, debt and gearing levels
- Post balance date events, pending litigation and contingent liabilities

6.1.6 Rating Criteria - Counterparties

The attributes for Counterparties includes a range of factors relating to the business' exposure to related parties and others across the broader supply chain. This considers a number of attributes to assess its capacity to withstand unforeseen disruptions. An entity may be reliant on its suppliers not only for inputs but also for key execution capabilities. Moreover, the credit extended by the suppliers may underpin an entity's working capital. An overly complex ownership structure can create related party dependencies, and Counterparties considers the corporate sponsors and broader group structure, based on the strength and nature of business support and dependencies identified in accordance with the Parent Subsidiary Linkage (detailed in annexure 7.1).

For a detailed assessment, **Key Attributes** include:

- Structural complexity, considering the number of related parties relative to the size and scale of the business and number of officeholders
- Verification of related body corporates (ABN or ACN) and identification of material court judgements
- Rating of the ultimate holding company / corporate sponsor, and linkage with the corporate sponsor / parent company
- Commercial record of the ultimate holding company, immediate parent entity and other related parties
- Commercial record of the officeholders and shareholders of the ultimate holding company, as well as the commercial record of the ultimate beneficial owners of the business
- Commercial record of key trading partners
- Identification of supply chain conflicts (with certifier)
- Related party guarantees received (for constructor / practitioner)
- Related party guarantees extended (to others)
- Sourcing, due diligence and governance for engaging and monitoring third parties

6.2 Single-Party Risk Rating Outcomes

The overall iCIRT score (and associated star rating) is based on the underlying scores and weights for each of the key attributes across the six (6) assessment criteria. As outlined above, each of the criteria comprise individual attributes that are weighted and scored in order to derive the overall outcome for each criteria. Each individual attribute is scored from 0-12 based on the relative importance and directional trend of the attribute, and each attribute is multiplied by a weighting factor (where the weights for each of the attributes sum to 100%) for that criteria.

A score between 0-12pts is then derived for each criterion, and each of these are weighted (where the weights sum to 100%) and are combined to provide an overall iCIRT score between 0-72pts. This score maps to a final star rating (from zero to five stars). The iCIRT score is compared to the industry average score to derive the beta coefficient and reflects the relative positioning to industry. A beta score lower than one reflects a lower risk profile, and a score higher than one reflects a higher risk profile, relative to the broader industry.

Where an attribute is more severe in its influence to the overall outcome (such as disqualified directorships, past criminal history, undischarged bankrupts etc) the weight will be higher to reflect these types of risks and vulnerabilities. Based on the severity of individual attributes these will also be disclosed within the Key Contributing Factors section of the iCIRT report. Other flags may be used to disclose matters of interest, such as a pre-phoenix flag.

Where multiple values for the one attribute are available (ie. multiple director scores) Equifax uses its proprietary methodologies and experience to combine these results based on various factors (such as the number of directors involved, experience and length of tenure, average and worst and best scores) to arrive at a weighted contribution of each of these values that best summarise the particular attribute.

Similarly, the weights for each attribute and/or criteria are based on their relative importance to the overall rating, are influenced by the size and structure of the rated party (ie. providing a fit-for-purpose and proportional assessment) and are configured to reflect the role and type of practitioner (ie. builder, developer, certifier, manufacturer, supplier, etc).

There are a number of data points that serve as a proxy for size, including sales turnover, project values, capitalisation and the number of officeholders. Each of these factors, criteria, weights, and attributes are based on Equifax's experience, and have been configured following industry consultation and subject matter expertise and input. Where appropriate data is available, the score distribution, contribution, directional trend and overall weighting has been analytically derived to support a normal distribution across industry. Equifax will review and consult on the performance of iCIRT outcomes with the iCIRT Industry Group and will assess the reliability and effectiveness of new and emerging data sets which may result in future updates to this methodology.

6.3 Multi-Party Risk Rating Outcomes

Multi-Party Risk Ratings are derived on the basis of the underlying Single-Party Risk Ratings to reflect the overall iCIRT score (and star rating) for the project or build team. Initially the Multi-Party Risk Rating will be based on the developer, builder and certifier, and will extend to incorporate designers, manufacturers, and suppliers in due course.

The overall Multi-Party Risk Rating is derived from the weighted scores of single-parties related to a project in order to accommodate the relative importance of different practitioners (eg. the relative weight and importance of the developer/builder score is higher than the manufacturer/supplier). This process also identifies potential project or build team conflicts (ie. where the builder or developer or associated business or key person has a corresponding connection to a certifier or associated business). The project team member weights sum up to 100% and generate an overall project team Multi-Party Risk Rating and iCIRT score between 0-72pts. The project team score maps to a final star rating (from zero to five stars).

The multi-party project team iCIRT score is compared to the industry average score to derive the beta coefficient and reflects the relative positioning to other project teams. A beta score lower than one reflects a lower risk profile, and a score higher than one reflects a higher risk profile. These can be reviewed across regions and/or to other similarly sized developments to provide further benchmarking and relative comparisons.

The iCIRT report provides criteria-based scores, star-rating notches, and key contributing factors in accordance with this methodology. High level flags may also be provided for each project team allowing users to quickly identify key areas of focus and further investigation.

7 Annexures

7.1 Parent Subsidiary Linkage (PSL) Framework

Purpose

The PSL Framework provides an overview of the methodology for assessing the impact on an entity's rating, from any potential support from its ultimate parent or corporate sponsor.

Scope

The PSL Framework facilitates determination of any potential uplift on an entity's standalone rating as a result of support from its parent. Generally, the PSL Framework applies when the profile of the parent is stronger than the stand-alone profile of the entity.

The extent of uplift to an entity's standalone rating would depend on the strength of linkage between the entity and its parent. Linkage is likely to be material if the parent is the dominant shareholder, asserts economic control or is able to otherwise influence the key strategic decisions of the entity.

Framework

The first step in the PSL Framework is the assessment of the standalone rating of an entity and the corporate sponsor (parent).

We would then proceed to assess the strength of linkage between the parent and the entity. The legal, operational, strategic and financial ties between the parent and the entity are analysed to determine the strength of the linkage. The stronger the linkage, the higher the parent's propensity to extend support.

Assessment of Linkage

We analyse the legal, strategic, financial and operational linkage between the entity and the parent, by assessing a number of factors including those listed below.

Legal Linkage

Extent of shareholding, legally enforceable provisions, corporate status of the parent

Full ownership or majority shareholding by the parent is a key contributor to a strong legal linkage. The other instances of a strong legal linkage include the presence of a deed of cross guarantee between the parent and an entity, the presence of any legally enforceable provisions, such as guarantees or standby letters of credit provided by the parent to the entity.

In the event the parent is a listed entity, then default by the entity could result in an adverse impact to the parent's reputation. Such default could also trigger cross default clauses on ISDAs and other facilities, and hence, may adversely affect the parent's ability to raise funds.

Geographical barriers and regulatory constraints may weaken the legal linkage. For instance, if the parent and the entity are domiciled in different countries, it may limit the parent's ability to gain control over the entity's funds due to tax and capital transfer barriers.

Strategic Linkage

Relative importance of the entity to the parent, shared name

Strategic linkage is measured by the entity's deemed importance to the parent, which is prima facie measured by the entity's contribution to the parent's revenue, assets, profitability or cash flows. In some cases, the strategic linkage may be strong despite the small scale of the entity's operations. For instance, the parent's focus on improvement in the entity's market competitive position through regular capital investment, or the parent's strategy to expand operations in the entity's domicile country may indicate a strong strategic linkage.

Strategic linkage is also deemed strong when the entity and the parent use a common name/ brand/ logo. Such commonality also indicates a greater intent on the parent's part to associate itself with the entity. Under these circumstances, the entity's failure to meet its financial obligations may also adversely impact the parent's reputation, thereby inferring there may be a higher likelihood of financial support.

Financial Linkage

Demonstrated track record of support, economic incentive to the parent

A demonstrated track record of financial support in the form of equity infusion, extension of related party loans or standby letters of credit or letters of comfort for availing financing facilities, are all indicative of a stronger financial linkage. Financial linkage is also deemed strong, when there is an evidence of the parent extending regular and timely funding support, leading to the entity's low dependence on external borrowings.

While determining financial linkage, it is also necessary to ascertain the economic incentive (or disincentive) to the parent, from extending or refraining to extend financial support to the entity. If the entity is not profitable and is a drain on financial resources of the parent on a persistent basis, there is a greater likelihood that the parent company may stop extending financial support beyond a point.

Operational Linkage

Extent of management control, control over operations, centralised treasury function

Operational linkages may be considered strong if the parent and the entity have a common Board of Directors, or where the parent appoints the majority of the directors on the entity's Board. We also assess the control exerted by the parent, over the entity's day to day operations and the entity's access to its parent's proprietary technology/resources. Operational linkage is also deemed strong when the parent manages treasury operations centrally and maintains and controls common funding facilities. Further, the greater the similarity in operations and/or interdependence for process, materials, suppliers, product, technology, market access, etc., the stronger the operational linkage is likely to be.