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Fitch Ratings Updates Infrastructure Completion Risk Criteria; Requests Market Comments

Link to Fitch Ratings' Report(s): Exposure Draft: Completion Risk Rating Criteria

Fitch Ratings-New York-15 January 2020: Project completion is a meaningful risk for project finance transactions, and has garnered significant attention recently with several infrastructure projects globally running into cost overruns and delays. As a result, Fitch Ratings has released an exposure draft for its rating criteria for completion risk, and is now requesting market commentary on the updated criteria.

"Delays, cost overruns and outright cancellations of high profile infrastructure projects in the U.S. and Canada are recent by-products of an increasingly competitive market environment," said Global Infrastructure and Project Finance Head Cherian George. "In Latin America, completion risk has been manifested due to right-of-way, social and environmental issues," said George. "Risk is getting pushed down to contractors in greater numbers, which is resulting in some fixed-price projects becoming unprofitable. The downfall of certain European contractors also highlights the pressure contractors are feeling."

While the analytical approach is conceptually the same, Fitch will now break completion risk out into a separate standalone criteria that will shed more light on factors like a project's complexity, scale, and duration (CS&D), availability of replacement contractors and contract terms. Fitch does not anticipate changes to its outstanding ratings as result of the new criteria.

Specifically, the exposure draft:
–Distinguishes the range of projects, using project CS&D as the attribute with the highest influence, although it is constrained by the weakest of all the attribute assessments.
–Explicitly recognizes the credit strength garnered from joint ventures (JVs) with joint and several liability, and distinguishes the relative strength of near-equal members, versus those with disparate expertise and credit strength.
–Recognizes independent engineer (IE) reports do not have global or regionally accepted or established standards for risk evaluation, so the opinions provided are not of consistent quality and reliability. The criteria therefore establishes a risk margin to replacement cost scenarios based on contractor credit quality. In addition in the absence of a well-substantiated IE opinion, the criteria establishes indicative security levels based on market input.
–Reflects the exposure to delay risk by establishing minimum thresholds, noting delay risk is relevant across all projects, regardless of counterparties.
–Clarifies notching between thresholds based on available performance security and liquidity.

Fitch invites feedback from market participants on the released criteria. Comments should be sent to criteria.feedback@fitchratings.com by March 15, 2020. Once finalized, Fitch will apply the criteria to existing ratings and apply the criteria described in this exposure draft to new projects during the exposure draft period.

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Additional information is available on www.fitchratings.com

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