



International Air Transport Association

**AUSTRALIA & PAPUA NEW GUINEA
FINANCIAL CRITERIA for IATA Registered
Cargo Agents Approved under Resolution
809.**

Financial Statements will be assessed against the following criteria.

(i) General

The financial statements must be prepared by a qualified accountant (ie. a Member of the Chartered Accountants of Australia or CPA Australia for Australian or CPA Papua New Guinea Agents in Papua New Guinea) and signed by one director or the proprietor.

The financial statements shall reflect the financial position of the applicant no more than four months prior to date of submission.

(ii) Contents of Accounts

As a standard industry practice, the following items should be disclosed in the financial statements or as notes thereto:

- Compensation to directors and shareholders
- Accounts receivable to show:
 - Amounts due from clients
 - Amounts due from Airlines
 - Other (if the amount shown as other is material, it should be fully identified).
- Accounts payable to show:
 - Amounts due to clients
 - Amounts due to Airlines
- Other trade creditors
- Declaration as to the value of duty and taxes included in turnover where the agent has a policy of collecting duty and taxes before disbursing them, and intends reducing the turnover by that amount
- State whether bank overdraft or loan facilities are secured and if so, details of securities held.
- Should any Balance Sheet assets of an applicant be used as security for loans which do not appear on the Balance Sheet (e.g. third party loans to directors) those loans will be deducted from assets, up to the maximum amount of the liability secured by the applicant's assets.

Details of such encumbrances will require disclosure and will be included in the Annual Financial Accounts.

All charges over an Agent's assets both fixed and floating, require immediate disclosure to the Agency Administrator at the time of their creation. Failure to notify the creation of a charge will be regarded as a serious departure

from these financial requirements and shall constitute grounds for the Agency Administrator to temporarily suspend an Agent and to initiate a review by the Agency Commissioner. Retirement of all charges during the year should also be notified to the Agency Administrator.

FINANCIAL STANDARDS

(i) Minimum Equity

The level of equity contribution required by Agents shall be based upon the following scale:

Total Gross Turnover	Minimum Equity
Up to \$ 2 million	\$ 50,000
\$ 2 to \$ 7 million	\$ 75,000
Over \$ 7 million	\$100,000

Agents must at all times have sufficient equity (comprising paid-up capital and retained earnings) in the business to meet the minimum applicable equity requirements.

(ii) Financial Assessment

The financial assessment is based on Five Tests and the allocation of the applicable points to each Test. Maximum points are 30 and a total of 15 points or more is considered satisfactory providing the applicant maintains the minimum level of share capital.

The maximum number of points obtainable is made up as follows:

Current Ratio	10 points
Debt Ratio	10 points
Profitability Ratio	6 points
Tangible Net Worth to Turnover	4 points
TOTAL	30 points

1. Integrity of Accounting System

The accuracy and integrity of internal accounting systems is considered to be critical to the applicant's ability to manage the business.

The accounts provided may be:

- A. Audited Financial Statements, or
- B. Financial Statements prepared by a qualified accountant (ie. a Member of the Chartered Accountants of Australia or CPA Australia for Australian or CPA Papua New Guinea Agents in Papua New Guinea) enclosing a copy of the appropriate tax return and supporting/reconciling documents.

2. Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

This ratio provides a measure of short term solvency of the entity.

Current Assets excludes receivables from shareholders.

Current Liabilities includes the current portion of external long term debt, but excludes loans provided by shareholders or proprietors.

over 1.99	10 points
1.75 – 1.99	9 points
1.50 – 1.74	8 points
1.25 – 1.49	7points
1.00 – 1.24	6 points
0.95 – 0.99	4 points
0.90 – 0.94	2points
under 0.89	0points

3. Debt Ratio

$$\frac{\text{Total Debt}}{\text{Tangible Assets}}$$

This ratio indicates how much of the debt is covered by creditors and how much by shareholders. Ideal ratio is an equal investment by shareholders to external creditors.

Total Debt includes current liabilities and all loans from third parties and includes loans provided by shareholders or proprietors.

Tangible Assets are the total assets (including receivables from shareholders) less intangible assets such as goodwill, franchise fees, client lists and preliminary expenses. Goodwill attaching to premises will be classed as intangible unless supported by a written

valuation from an independent registered valuer.

Under 0.5	10 points
0.5 – 0.59	9 points
0.6 – 0.69	8 points
0.7 – 0.79	7 points
0.8 – 0.89	6 points
0.9 – 0.99	5 points
1.0 – 1.09	4 points
1.10 – 1.19	2 points
Over 1.19	0 points

4. Profitability Ratio

$$\frac{\text{Net Profit After Tax}}{\text{Shareholders Funds}}$$

This ratio is a measure of how well the owner's investment has been employed by management.

Net Profit after Tax – Profit after taxes but before extraordinary items.

Shareholders Funds – This is calculated by summary share capital plus retained earnings (minus deficit) plus other resources.

Over 19.99%	6 points
15% - 19.99%	4 points
10% - 14.99%	3 points
5% - 9.99%	2 points
0% - 4.99%	1 point
Under 0	0 point

5. Tangible Net Worth to Turnover

$$\frac{\text{Tangible Net Worth}}{\text{Total Turnover}}$$

This ratio equates the tangible net worth of an applicant with its turnover and recognizes that the greater the turnover of an organization the greater its tangible net worth.

Tangible Net Worth is the shareholders funds less intangibles. Loans to shareholders/proprietors will be excluded.

Total Turnover is currently the annual gross sales from all sources.

Duty and Taxes will be excluded as a disbursement where the agent has a policy of collecting duty and taxes before disbursing it and if a declaration is provided stating the value of such duty and taxes.

Over 2%	4 points
1.50 – 2.00	4 points
1.00 – 1.49	3 points
0.75 – 0.99	3 points
0.50 – 0.74	2 points
0.25 – 0.49	2 points
Under 0.25	0 points

FINANCIAL DISCRETION

It is recognised that different interpretations of financial accounts are possible and do occur. Accordingly, IATA will appoint an independent financial assessor to review financial documents and confirm suitability of financial criteria (the "Financial Assessor"). The Financial Assessor shall have discretion as to the most appropriate classification in accordance with standard accounting practices for all items included in Financial Statements.

It is in the applicant's best interest to supply to the Financial Assessor any additional information that has a bearing on the review.

GUARANTEES

Applicants who are unable to meet the Financial Criteria may be required to provide additional financial support by any of the following measures to be agreed with the applicant:

- (i) Bank Guarantee
- (ii) Cash deposit with airlines to cover the CASS exposure
- (iii) Other forms of guarantees acceptable to the Agency Administrator.

The level of Financial Guarantee will be calculated based on the Agent's gross turnover amounts for CASS Reporting Periods as follows:

- i) where the Financial Guarantee is in the form of a Bank Guarantee, the amounts of such Guarantee will be equal to the sum of the Agent's three largest gross turnover amounts for the CASS Reporting Periods* included in the latest twelve month's actual CASS data.
- ii) Where the Financial Guarantee is in the form of membership of a "Default Insurance" scheme, the premiums for such Insurance shall be established based on the Agent's gross turnover for each CASS Reporting Period*.
- iii) Where the Financial Guarantee is in the form of some other Security Guarantee, such Guarantee will be assessed by IATA in consultation with the Agent.

FINANCIAL REVIEW

A full review of all Registered Agents will be carried out annually by the duly appointed Financial Assessor.

Quarterly reviews will be carried out of all newly Registered Agents for the first 12 months, and possibly 24 months following Registration. Management accounts must be provided.

FINANCIAL DISCRETION

Financial accounts will be assessed as described in the Financial Criteria, using the data provided by the Agent's accountant.