5 August 2019

M E M O R A N D U M

PAC/RESO/667

TO:	All Members, Passenger Agency Conference Accredited Representatives
FROM:	Director, FDS Operations, GDC
SUBJECT:	**MAIL VOTE (A308)** PAC2 (Mail A308) **Changes to Local Financial Criteria – East Africa (Kenya, Tanzania & Uganda)**

Background Information

East Africa (Kenya, Tanzania and Uganda) APJC met on 29 April 2019 to discuss the proposed changes for the LFC of East Africa (KE,TZ,UG) in line with Resolution 812 and NewGen ISS implementation.
The changes focused on the Financial Security and introducing the categorizing levels of Agent's Risk Statuses A, B & C.
A quorum was present from the Airlines and Agents.
The APJC voted unanimously to recommend the changes to Conference.

Effective date

The proposed effective date of these changes is 1 October 2019 or aligned with the implementation of NewGen ISS in East Africa (Kenya, Tanzania and Uganda) in case of changes in implementation date.

Proposed Action

Conference to adopt the changes to the Local Financial Criteria as shown in Attachment 'A'.

The timetable for Mail Vote A308 is as follows:

Voting Period:	5 – 19 August 2019
Filing Period:	20 August – 3 September 2019

Effectiveness:	1 October 2019 or aligned with the implementation of NewGen ISS in East Africa in case of changes in implementation date.

To cast a vote, Members are asked to access the application from the following link:

https://www.surveymonkey.com/r/A304-319

Please note that no other form of voting will be accepted. Voting will conclude at close of business MAD time on **Monday, 19 August 2019**. Votes not cast by that deadline will be deemed to be affirmative.

In conformity with the Mail Vote procedure endorsed by PAConf in October 2009, this Mail Vote has been provided in advance to representatives of the agency associations ECTAA, UFTAA and WTAAA for review and/or comment. No comments were received.

Any Member seeking clarification on any aspect of the mail vote or the mail vote process is invited to contact the IATA Distribution Management team by email to distributionmanagement@iata.org.

J.A. Rodriguez

Juan Antonio Rodriguez
Director, FDS Operations, GDC

Attachment A:

It is proposed to change the Local Financial Criteria of East Africa (Kenya, Tanzania and Uganda as follows:

~~EASTERN AFRICA (KENYA, UGANDA AND TANZANIA)~~

~~(Effective 1 October 2012 – Mail Vote A221)~~

~~FINANCES~~

~~1. Financial Statements~~

~~Audited annual financial statements duly certified by a certified public accountant disclosing airlines sales and aged debtors must be produced annually and supplied to the ASO as follows:~~

~~(a) Agents in Kenya: within 4 months of the agents financial year end~~
~~(b) Agents in Tanzania/Uganda: within 6 months of the agent's financial year end~~

~~The accounts should reflect a satisfactory financial standing i.e.:~~

~~(a) Positive Net Profit~~
~~(b) Positive liquidity ratio~~
~~(c) The minimum Share Capital should be:~~
~~(i) 1 % of the annual turnover for trading over 5 years~~
~~(ii) 2 % of the annual turnover for trading under 5 years.~~
~~(d) Should the audited accounts indicate that the Agent is insolvent, the Agent will be stopped from trading with immediate effect. If the position is not redressed within 60 days, the Agent's agreement will be terminated.~~

~~2. Financial Security~~

~~The Agent must provide a Financial Security as approved by IATA. This may include a Bank Guarantee, approved Insurance Bond or approved Default Insurance Programme.~~

~~3. Default Insurance Programme (DIP)~~

- ~~In the event that more than one (1) Provider for Default Insurance Programme is approved by IATA, all Agents must join the DIP~~
- ~~In the event that an Agent is not accepted by any of the approved Providers, it can meet the Financial Criteria by providing a Bank Guarantee~~

~~Agents under DIP trading above the agent limit:~~

- ~~Kenya and Uganda: During the time when DIP is operational, any Agent whose average 6 weeks' sales exceeds its maximum DIP limit must provide a Bank Guarantee, approved insurance bond cover or additional DIP cover for the excess amount;~~
- ~~Tanzania: During the time when DIP is operational, any Agent whose average 4 weeks' sales exceeds its maximum DIP limit must provide a Bank Guarantee, approved insurance bond cover or additional DIP cover for the excess amount;~~
- ~~This must be provided within 30 days from the date of notification by IATA.~~

~~4. Guarantee~~

~~(a) An acceptable bank guarantee or acceptable insurance bond will be based on average 6 weeks for Kenya and Uganda and 4 weeks for Tanzania Cash trading[1] less paid-up capital. This guarantee will be reviewed on yearly basis.~~

~~(b) Options for all agents will be frequent remittance for a reduction of 40% of the guarantee.~~

~~(c) IATA/BSP will have the right to request for additional guarantee if the average sales exceeds by 50% during a period of any 4 months.~~

~~(d) Bank guarantees and additional guarantees MUST be submitted to IATA within 4 weeks from the date of request.~~
~~(e) BSP will be mandated to remove Ticketing Authority and Traffic documents if the agent fails to provide additional guarantees as requested.~~
~~(f) All guarantees must be drawn as per the IATA guarantee specimen.~~
~~(g) The maximum paid-up capital to be used for reduction of the guarantee will be limited as follows:~~
  ~~(i) 2% of the annual turnover for agents trading over 5 years~~
  ~~(ii) 1% of the annual turnover for agents trading under 5 years~~

~~5. Reduction of Guarantee~~

~~The adjustment of the guarantee amount will depend on the following:~~

~~(a) The agent must have been an approved IATA travel agent for over 7 years.~~
~~(b) The agent should not have more than 2 instances of irregularities for late payment issued against the agency in the previous 12 months~~

~~(c) The agent must have a minimum liquidity ratio of 1.2:1~~
~~(d) The agent must not have been in default (due to the agent's own fault).~~
~~(e) A change of name will not affect the agent's record of irregularities over the last 12 months.~~
~~(f) In case of change of shareholding involving movement of stock of over 51%, Financial Review will be conducted and the agent will be entitled to no reduction in the bank guarantee.~~
~~(g) The disposal or acquisition by any person of stock representing 30% or more of the total issued share capital of the agent will involve a Financial Review~~

~~The reduction in the guarantee will be as follows:~~

~~**No. of years in business**~~	~~**Reduction in BG based on years of operation as an Accredited Agent (Monthly Remittance)**~~
~~0 to 7~~	~~0%~~
~~7 to 10~~	~~20%~~
~~10 to 12~~	~~40%~~
~~12 to 15~~	~~50%~~
~~Above 15 years~~	~~80%~~

~~(h) The Reduction in Bank Guarantee as per above ladder will apply on the agent's total sales. However, this will be restricted to a maximum of USD 1.0 million or equivalent local currency.~~

~~6. Default Agents~~

- ~~Where Default Insurance Programme (DIP) is in place, agents that default due to non-remittance must provide a bank guartantee for a period of 2 years from the date of re-instatement of credit.~~
- ~~The above does not apply for Agents on technical default due to accumulated irregularities.~~

~~7. New Applicants~~

~~Agent must have been in operation for 12 months as a travel agent before applying for IATA approval.~~

~~New applicant must join the Default Insurance Programme subject to approval by the Provider and also provide a bank guarantee for two years that will be based as follows:~~

~~(a) **Kenya**: Average 6 weeks cash trading less paid up capital or USD 50,000/Equivalent Kenya Shillings, whichever is higher. Option will be fortnightly remittance for a reduction of 40% of the guarantee.~~

~~(b) **Uganda**: Average 6 weeks cash trading less paid-up capital or USD 36,000, whichever is higher. Option will be fortnightly remittance for a reduction of 40% of the guarantee.~~

~~(c) **Tanzania**: Average 4 weeks cash trading less paid-up capital or USD 36,000, whichever is higher.~~

~~Applicants who show a negative liquidity will not be approved.~~

~~**8. Staff**~~

~~The Agent must have in employment competent and qualified staff able to sell international air transportation and correctly issue electronic travel documents and report these to the BSP.~~

~~[1] *Cash trading means all sales less credit card sales.*~~

East Africa – (Kenya, Tanzania and Uganda)

(Effective 1 October 2019 – MV/308)

1. GENERAL RULES

1.1. An Applicant must have been in operation for 12 months as a travel agent before applying for IATA Accreditation.

1.2. All Applicants must provide Audited Accounts not more than 12 months old at the time of submission to become an Agent for the purposes of evaluation against the financial tests in Section 2 of this Local Financial criteria.

2. CRITERIA FOR EVALUATION OF AGENTS' ACCOUNTS

2.1. All financial information used in the financial criteria will be extracted from the Agent/s Audited accounts

2.2. The following financial tests apply to the evaluation of an Agent's Audited accounts:

2.2.1. There must be a positive Net Equity

2.2.2. Net Equity divided by long-term debt and other long-term Liabilities must be greater than 0.5

2.2.3. EBITDA (Earnings before Interest, Taxation, Depreciation, Amortisation and extraordinary items) must be positive.

2.2.4. The EBITDA must exceed the Interest Payable by a factor of a minimum of two

2.2.5. Adjusted Current Assets must exceed Current Liabilities.

2.3. An Agent will obtain a satisfactory result on the financial review when all provisions in section 2 of these criteria have been met.

3. ANNUAL FINANCIAL REVIEWS

3.1. Agents accredited for more than two years:

All Agents must provide Financial Accounts certified by a certified accountant / auditor no later than 6 months after each financial year end or as required by legislation, of that Agent for the purposes of evaluation against the financial tests in Section 2 of these criteria.

3.2 Agents Accredited for two years or less:

3.2.1 All applicants must provide Audited Accounts not more than 12 months old at the time of submission to become an Agent for the purpose of evaluation against the financial tests in Section 2 of these criteria.

3.2.2 All Agents must provide Audited Accounts not later than 6 months after each financial year end, during the first two years of accreditation for the purpose of evaluation against the financial tests in Section 2 of the criteria.

4. FINANCIAL SECURITY

4.0 An Agent will not be accredited or will not continue to be accredited until any Financial Security required to be provided to IATA has been received by IATA and confirmed to IATA by way of written confirmation received directly from the third party supporting the Financial Security that the Financial Security was issued by that third party and is valid.

4.1 Financial Securities in a form of a Bank Guarantee will be subject to a minimum notice of termination period on the part of the Financial Security Provider of ninety (90) days and ideally be valid for an unlimited period or to be valid for a minimum of at least one year.

4.2 Financial security formula:

Formula for the Financial Security
"Amount at Risk = "Days Sales at Risk X (highest 3 months net cash sales/90)

Subject to a minimum of USD 50,000.00 (Fifty Thousand US Dollars), (or the equivalent in local currency) .

4.2.1 "Days Sales at Risk" means the number of days from the beginning of the agent's reporting period to the remittance date in respect of that reporting period or periods, plus a margin of 3 days.

- Bi-Monthly – 35 days
- Weekly – 20 days

5. RISK STATUS BASED ON FINANCIAL SECURITY

The assignment of an agent risk status (A, B or C) is based on the financial and the risk history assessments

Agents with Risk Status A

5.1 For Agents with Risk Status A – the amount of the financial security must cover 50% of the Amount at Risk calculated as per section 4.2, or the minimum amount indicated in 4.2, whichever is higher.

5.2 If an existing Financial Security is insufficient to cover the Amount at Risk, the amount of the Financial Security required will be increased to cover the Amount at Risk.

Agents with Risk Status B

5.3 For Agents with Risk Status B, the amount of the Financial Security required must cover the Amount at Risk calculated as per Section 4.2, or the minimum amount indicated in 4.2, whichever is higher.

5.4 If an existing Financial Security is insufficient to cover the Amount at Risk, the amount of the Financial Security required will be increased to cover the Amount at Risk.

Agents with Risk Status C

For Agents with Risk Status C, the amount of the Financial Security required must cover the Amount at Risk calculated as per Section 4.2 or the minimum amount indicated in 4.2, whichever is higher.

5.5 If an existing Financial Security is insufficient to cover the Amount at Risk, the amount of the Financial Security required will be increased to cover the Amount at Risk.

6. New Applications

New Applications are required to provide a Financial Security equal to:

Days Sales at Risk" x (Estimated Annual Sales / 365)

Subject to a minimum of USD 50,000.00 (Fifty Thousand US Dollars), (or the equivalent in local currency).

7. DEFINITIONS OF TERMS USED IN THESE GUIDELINES

Audited Accounts - means the Agent's financial and accounting records and procedures that have been reviewed and certified by an auditor recognized as competent by the regulatory authority in that country to perform an audit that are provided to IATA

Adjusted Current Assets - are defined as Current Assets as in the balance sheet of the accountants after deducting:

- Stocks and work in progress
- Deposits given to third parties other than IATA
- Loans to Directors, Associate Companies, (including any subsidiary, associate or company under common ownership)
- Doubtful debtors as revealed in the Accounts.
- Blocked funds except for funds held in favor of IATA.

Current Liabilities - are defined as current liabilities in the balance sheet of the accounts

EBITDA - Earnings before Interest, Taxation, Depreciation and Amortization.

Net Equity or Shareholders'/owners' Funds-Consists of:

- Share capital
- Share Premium
- Retained earnings

Other distributive reserves

- Shareholder's loans if subordinated less declared dividends

Long Term Debt - All debt liabilities where repayment is due more than twelve months after the end of the financial period

Long Term Liabilities - all liabilities where repayment is due more than twelve months after the end of the financial period.