



5 August 2019

M E M O R A N D U M
PAC/RESO/672

TO: All Members,
Passenger Agency Conference Accredited Representatives

FROM: Director, FDS Operations, GDC

SUBJECT: **MAIL VOTE (A313)**
PAC3 (Mail A313)
Changes to Local Financial Criteria –Sri Lanka

Background Information

NewGen ISS will be live in Sri Lanka tentatively on 1 December 2019. A review was conducted by the APJC on the Local Financial Criteria with the purpose to strengthen the risk management on Agents with Risk Status A, B and C, to remove ambiguities in interpretation and clarity to the financial security requirements.

The 27th APJC-LK (quorum met) met on 2 April 2019 to discuss the proposed changes to the Local Financial Criteria.

After due deliberation and consultation, members of APJC Sri Lanka unanimously proposed a recommendation to Conference to adopt the revised Local Financial Criteria - as documented in Attachment "A" hereto.

APJC Sri Lanka proposed the changes to the Local Financial Criteria to be the effective on the same live date of NewGen ISS implementation in Sri Lanka.

Effective date

The proposed effective date of these changes is NewGen ISS implementation in Sri Lanka.

Proposed Action

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

The timetable for Mail Vote A313 is as follows:

Voting Period:	5 – 19 August 2019
Filing Period:	20 August – 3 September 2019
Effectiveness:	Aligned with NewGen ISS implementation in Sri Lanka

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.



Juan Antonio Rodriguez
Director, FDS Operations, GDC

Attachment A:

It is proposed to change the Local Financial Criteria of Sri Lanka as follows:

SRI LANKA

~~(Effective 20 August 2014 – Mail Vote A250)~~ **Effectiveness of NEWGEN
ISS Implementation in Sri Lanka, MV/313**

1. GENERAL RULE

- 1.1. The Applicant must be in the airline trading business for not less than one year prior to application of becoming an IATA Accredited Agent.
- 1.2. The Applicant/Agent must be licensed by the Civil Aviation Authority of Sri Lanka for not less than 1 year at the time of application.
- 1.3. The Applicant/Agent must have a minimum paid up capital of LKR 500,000 and be in airline trading business of not less than one year prior to the application.

2. FINANCES

- 2.1. The Applicant/Agent must provide a certified and audited balance sheet and profit and Loss account not more than one year old at the time of submission.
- 2.2. When assessing whether the applicant/ Agent meets the financial standing the requirements in section 3 below shall be taken into account.

3. CRITERIA FOR EVALUATION OF AGENTS' ACCOUNTS

- 3.1 All financial information used in the financial assessment will be extracted from the Agent's Audited Accounts.
- 3.2 The following financial tests apply to the evaluation of an Agent's Audited Accounts:
 - 3.2.1 There must be positive Net Equity
 - 3.2.2 Net Equity divided by long-term debt and other long-term liabilities must be greater than 0.5.
 - 3.2.3 EBITDA (Earnings Before Interest, Taxation, Depreciation, Amortization and extraordinary items) must be positive
 - 3.2.4 The EBITDA must exceed the Interest Payable by a factor of minimum two.
 - 3.2.5 Adjusted Current Assets must exceed Current Liabilities.

4. ANNUAL FINANCIAL REVIEWS

- 4.1. All Agents must provide Audited Accounts no later than 12 months after each financial year end, of that Agent for the purposes of evaluation against the financial tests in section 3.

5. INTERIM FINANCIAL REVIEWS

- 5.1. For any Financial Review conducted for cause at a time other than in respect of an Agent's financial year end, IATA may conduct a Financial Review in accordance with section 3 as applicable to that Agent by reviewing the internal monthly management accounts of the Agent showing the results for each month since the last accounting date, the cumulative results to date and the latest balance sheet.

6. FINANCIAL SECURITY

6.1 Notwithstanding whether an agent obtains a satisfactory or unsatisfactory result in the financial review, all agents must submit a Financial Security. The level of such Financial Security will be the higher of:

a) LKR 2.5 million, or

b) the average cash sales over the previous 12 months for the number of days at risk (from the first date of the reporting period until the remittance date, plus a margin of two days; (i.e. Days at risk = 15 + 2 = 17 Days)

- 6.1. Notwithstanding the Risk Status of A or B, the Agent must furnish a minimum Financial Security for an existing agent is LKR2,500,000 or equivalent to 17/365 days' average sales based on the last 12 months activity, whichever is higher
- 6.2. Agents with Risk Status A and B must at all times provide a Financial Security which will equal their assigned Remittance Holding Capacity
- 6.3. An Applicant/Agent may at any time request to reduce or increase the Financial Security amount provided in accordance with Resolution 812 Section 5.9.4.
- 6.4. Financial Securities will be subject to a minimum notice period of ninety (90) days post expiry and be valid for a minimum of at least one year.
- 6.5. At any point in time, if the 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.
- 6.6. Amount at Risk is calculated by dividing the Day's Sales at Risk by 365 and applying that percentage to the BSP cash turnover, or cash turnover as applicable – Example:

$$\text{Amount at Risk} = \frac{17}{365} \times \text{BSP cash turnover last 12 month period}$$

7. SIGNIFICANT CHANGE IN GROSS BSP SALES

- 7.1 A significant change means any change in the business of the Agent which results in a change in gross BSP sales of more than 10% as compared to the previous 12 months. A change can be an increase or a decrease in gross BSP sales.
- 7.2 An interim Financial Review may also be initiated by IATA where IATA becomes aware of a significant change in gross BSP sales in accordance with Section 5.

8. DEFINITIONS OF TERMS USED IN THESE GUIDELINES

- a) **Adjusted Current Assets** – are defined as Current Assets as in the Balance Sheet of the Accounts after deducting:
 - b) Stocks and work in progress.
 - c) Deposits given to third parties other than IATA,
 - d) Loans to Directors, Associate Companies, (including any subsidiary, associate or company under common ownership)
 - e) Doubtful debtors,
 - f) Blocked funds, except for funds held in favour of IATA.
- g) **Current Liabilities** - are defined as Current Liabilities as in the Balance Sheet of the Accounts
- h) **EBITDA** – Earnings Before Interest, Taxation, Depreciation and Amortization
- i) **Financial Irregularity** means an irregularity applied as a result of any failure to adhere to the reporting and remittance procedures described in Resolution 818g Attachment “A” including but not limited to those irregularities described in Resolution 818g, Attachment A.
- j) **Financial Review** means a review of an Agent's financial position or the calculation of the amount of Financial Security required in accordance with these Criteria, Resolution 800f, or both.
- k) **Irregularity** means any irregularity applied under the Passenger Sales Agency Rules for non-compliance with those Rules including but not limited to Financial Irregularities.
- l) **Net Equity or Shareholders'/Owners' Funds** – consists of:
 - Share capital
 - Share premium
 - Retained earnings
 - Other distributable reserves

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- Shareholder's loans if subordinated less declared dividends:
- m) **Long Term Debt** – All debt liabilities where repayment is due more than twelve months after the end of the financial period.
 - n) **Long Term Liabilities** – all liabilities where repayment is due more than twelve months after the end of the financial period.
 - o) **Review** means any assessment or evaluation of an Agent's continuing compliance with the Passenger Sales Agency Rules.