5 August 2019

M E M O R A N D U M

PAC/RESO/678

TO: All Members,
Passenger Agency Conference Accredited Representatives

FROM: Director, FDS Operations, GDC

SUBJECT: **MAIL VOTE (A319)**
PAC1 (Mail A319)
Amendment to Paid Up Capital in Venezuela

Background Information

In 2015, Venezuela had over 100% inflation—the highest in the world and the highest in the country's history at that time. According to independent sources, the inflation rate increased to ~4,000% in 2017, ~1.000.000% in 2018 and is estimated to reach between 5M to 9M% in 2019. Venezuela has been spiraling into hyperinflation while the population poverty rate rose between 76% and 87%.
In a 2014 report by Bloomberg, Venezuela was ranked as the riskiest emerging market in the world. Many companies such as Toyota, Ford Motor Co., General Motors Company, Air Canada, Air Europa, American Airlines, Copa Airlines, TAME, TAP Airlines and United Airlines slowed or stopped operation due to the lack of hard currency in the country with Venezuela owing such foreign companies billions of dollars.
Venezuela also dismantled CADIVI, a government body in charge of currency exchange. CADIVI was known for holding money from the private sector. From the airline industry, CADIVI held an excess of USD3 billion.
The increasing economic crisis, the steep currency devaluation over the past three years and carriers' inability to repatriate funds have all been key reasons for BSP participating carriers to suspend their operations from BSP-Venezuela. In 2019 only 2 carriers are active in the BSP with limited sales in local currency.

To complete this panorama, following some specific facts regarding the travel industry:

- As of July 2018, there were 587 BSP Accredited Locations. Figures shared during the APJC meeting in Miami in March 2019 pointed out that there are less than 400.
- As of Mach 2019 only two carriers continue to operate in the BSP.
- BSP sales over the past three years have dropped as shown below:

Year	% Cash	% Credit	Gross Sales USD (Monthly 5 Day Rate)	Cash Sales (USD)	Credit Card Sales USD (Monthly 5 Day Rate)
2016	94,83%	5,17%	1.884.249.991,99	1.799.984.699,38	84.265.292,60
2017	98,52%	1,48%	311.839.235,44	304.211.557,24	7.627.678,20
2018	99,87%	0,13%	149.711.061,58	149.538.509,28	172.552,31

- All Agents are subject to annual and ad-hoc financial reviews and financial securities are requested based on Agent's sales at risk.
- In 2018 default declarations have been minimal with 100% recovery of funds as shown below:

Total Defaults	Recovered		Outstanding	
461.72	461.72	100.00%	0.00	0.00%

Problem

Current socio-economic environment, as described above, is making a significant impact in travel distribution. Agents will increasingly find it more difficult to comply with BSP requirements (which are in normal economic conditions) and not adapted to current unprecedented economic environment in Venezuela.

One of these requirements is the increase of paid Capital for Travel Agencies to US$5,000; these are some facts that make this requirement virtually impossible to comply with:

- From the economic stand point, this excessive increase of paid capital is not in line with the financial reality in the country (at current sales volume this would mean that the full gross revenue from average sales per agency should be allocated for paid Capital); also all indicators in the short/mid-term lead us to believe that air sales through BSP in real value (US$) most likely will decrease, therefore there is no logical rational to make such and onerous increase in paid Capital;

- From the legal stand point, the official entity that legally regulates the activity of Travel Agencies in Venezuela, Ministerio del Poder Popular para el Turismo, issued on June 8 2018 under Gaceta Oficial # 41.415 (Article 13) the new regulation for Travel Agencies which indicates that the paid Capital for this type of entities is 15.000 UT's (Tax Units).

From the administrative stand point, it is not manageable to index the paid capital to the exchange rate to the US$ given the extreme volatility of the US$ to the VES. Should this be the case, agencies would have to change the paid capital almost on a weekly basis (paid capital has to be registered in VES) and considering the difficulties to register those processes with relevant government authorities will make it virtually impossible.

In light of presented background and problem we request that IATA's requirement to hold paid Capital for Travel Agencies in Venezuela adheres to local regulation issued by Ministerio del Poder Popular para el Turismo as stated above, which is in line with regulations in Venezuela, in the legal currency and also index to a variable (UT) which is adjusted on a regular basis by the government to reflect to a certain extent the economic reality of the country.

APJC CO-EC-VE requests Conference to consider the approval of this temporary exception. This measure would apply for a one-year term. If approved, at the end of the one-year term, APJC

CO-EC-VE would review the economic situation of Venezuela and report to PAConf along with its recommendation. PAConf could then decide to ratify, amend or revoke the temporary measure.

Effective date

The proposed effective date of these changes is 1 January 2020.

Proposed Action

Conference to approve the temporary exception indicated in this paper and adopt changes to Local Financial Critiera for Venezuela as found in Attachment 'A', as twice per month.

The timetable for Mail Vote A319 is as follows:

Voting Period:	5 – 19 August 2019
Filing Period:	20 August – 3 September 2019
Effectiveness:	1 January 2020

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

VENEZUELA

(Effective 1 March 2019 – ~~PAC/41~~ MV/319)

1. GENERAL RULE – (Accounts / Documents to be provided*)*

1.1 Financial Statements should be prepared and signed by a certified accountant.

1.2 Financial Statements must be prepared in accordance with generally accepted accounting principles for evaluation.

1.3 Financial Statements must not be older than 6 months at the time of submission to IATA.

2. CRITERIA FOR THE EVALUATION OF AGENTS' FINANCIAL ACCOUNTS

2.1 Agent's total paid-up capital shall be equivalent to ~~USD5,000~~ 15,000 Tax Units or as stipulated and published by the Ministry of Tourism, the official entity that regulates the activity of Travel Agencies in Venezuela.

2.2 Financial Statements will be evaluated against ratio tests. Financial ratio analysis measured by the application of four ratio tests against which points are allocated. A maximum of 40 points may be attained. For the financial results to be considered as a Satisfactory result, a minimum of 22 points must be scored.

Ratio Tests used and maximum number of points obtainable per ratio test:

Ratio	**Points**	
Liquidity ratio	14	A measure of the short-term solvency of the entity
Debt ratio	14	Amount of assets provided by creditors for each dollar of total assets
Turnover ratio	7	The average number of days to collect a receivable
Cash flow ratio	5	Level of debt versus profits

Scale of Points per Ratio Test:

$$\textbf{Liquidity Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Over 1.99	14 points
1.50 – 1.99	12 points
1.25 – 1.49	10 points
1.00 – 1.24	8 points
0.96 – 0.99	6 points
0.91 – 0.95	4 points
0.86 – 0.90	2 points
under 0.86	0 points

Turnover Ratio = Net Receivables

Total Sales
For BSP countries with sales remittance cycles up to 10 days

Under 15 days	7 points
15 – 16 days	6 points
17 – 18 days	5 points
19 – 20 days	4 points
21 – 23 days	3 points
24 – 26 days	2 points
27 – 29 days	1 point
Over 29 days	0 points

Debt Ratio = $\frac{\text{Total Liabilities}}{\text{Total Assets}}$

Under 0.4	14 points
0.4 – 0.59	12 points
0.6 – 0.89	10 points
0.9 – 0.99	8 points
1.0 – 1.19	6 points
1.2 – 1.34	4 points
1.35 – 1.49	2 points
over 1.49	0 points

Cash Flow Ratio = $\frac{\text{Profit After Tax}}{\text{Long-term Liabilities}}$

0.19 - 0.20	5 points
0.16 - 0.18	4 points
0.14 - 0.15	3 points
0.12 - 0.13	2 points
0.10 - 0.11	1 point
under 0.10	0 points

3. ANNUAL FINANCIAL REVIEWS

3.1 All Agents are subject to annual financial reviews. Details are described in Resolution 812, Section 5.4.

4. FINANCIAL GUARANTEE REQUIREMENTS

4.1 Financial Securities will be requested based on the Risk Status of the Agent as described in Resolution 812, Section 5.5:

4.1.1 Agents with Risk Status A – are not required to present a financial security

4.1.2 Agents with Risk Status B – will be required to present a financial security

4.1.3 Agents with Risk Status C – will be required to present a financial security

4.2 New Applicants will be required to provide a minimum Financial Security equivalent to USD10,000.

4.3 When Accredited Agents are required to provide a Financial Security, the Financial Security will be calculated based on the Agents' own Day's Sales at Risk. Days Sales at Risk is calculated based on the number of days in the reporting period plus the number of days to remittance date plus a margin of 5 days, the result is then multiplied by the daily average BSP net cash sales of the Agent's previous 12 months' sales or a minimum Financial Security equivalent to USD10,000, whichever is higher.

4.4 Duration of guarantee:

- Two-years minimum for New Applicants
- One-year minimum for Accredited Agents.

5. FINANCIAL INFORMATION DEFINITIONS

Current Assets

This amount excludes notes or receivables from related parties, including shareholders, employees, officers, associates as well as Cash and Term Deposits pledged for security.

Current Liabilities

This amount must include the current portion of long-term debt.

Gross or Total Sales

In the event this figure is not specifically identified in the financial statements, please provide the gross sales figures for the period including ticket sales, package tours, hotels, car rental, insurance, miscellaneous income, etc., net of tax.

Long-term Liabilities

All long term loans from third parties. It does not include non-current loans provided by shareholders or proprietors.

Net Receivables

This amount should be net of bad debt and should be broken down to reflect separately,

- Trade receivables net of provision for bad debt
- Commissions receivable
- Receivables from elated parties. Refer to definition of current assets
- Supplier deposits

Profit After Tax

Profit after taxes but before extraordinary items.

Registered Capital

This is the capital that the partners commit to pay and maintain into the business. Registered Capital is comprised of Subscribed Capital and Paid-In Capital.

- Subscribed Capital – The payment of the Subscribed Capital can be in cash or by installments within a period not exceeding one year.
- Paid in Capital is the part of the subscribed capital that actually must be paid at the time of incorporation. It is the capital that the company can count at the time of its constitution.

Total Assets

Total assets including intangible assets such as goodwill, franchise fees, client lists, etc.

Total Liabilities

Include current liabilities and all loans from third parties. It does not include non-current loans provided by shareholders or proprietors. Loans from associate parties are included, unless subordinated to other parties.