MEMORANDUM
PAC/RESO/1020

To: All Members, Passenger Agency Conference Accredited Representatives

From: Director, FDS Operations, GDC

Date: 31 October 2023

Subject: MAIL VOTE (A651) PAC1 (Mail A651)
Proposal for Changes to Local Financial Criteria for Agents in Canada and Bermuda

Background Information

Submitted by APJC Canada and Bermuda

The 91st Meeting of the APJC comprising Canada and Bermuda was held on 27 April 2023. The APJC reviewed PAC/45 Agenda, the Airline Risk Management Framework and the Days Sales at Risk global alignment with the provisions of Resolution 812.

The APJC reviewed the provisions of Resolution 812 requiring BSPs with more than 2 reporting periods per month to comply with a remittance frequency of 5-business days after the close of the reporting period.

BSP Canada historical remittance frequency has been 10 calendar days after the close of the reporting period, and BSP Bermuda, 15-calendar days after the close of the reporting period. It was clear to the APJC the need to reach a consensus towards bringing the two markets into compliance.

Following a series of communications to ensure market readiness, the APJC unanimously approved 1 January 2024 as the date to implement the change to remittance frequency to 5 days after the close of the reporting period for Agents in Canada and Bermuda. This proposal was submitted to PACConf and was later approved as Mail Vote A621.

Following the approval of the remittance change, the APJC also agreed to update the Local Financial Criteria for Agents in Canada and Bermuda to ensure that the calculation for the financial security amount would be aligned with the newly adopted shorter remittance cycle.

On 14 September 2023, the APJC approved, by majority support of each constituency, changes of the Local Financial Criteria related to the calculation of the financial security as indicated under Attachment ‘A’.

Proposed Solution

Amend the Local Financial Criteria related to the calculation of the financial security in alignment with the shorter remittance cycle for Agents in Canada and Bermuda, effective 1 January 2024.
Effective Date
The proposed effective date of these changes is **1 January 2024**.

Proposed Action
Conference to adopt changes to the Local Financial Criteria.

Voting Period: 31 October-15 November 2023  
Filing Period: 16-30 November 2023  
Effectiveness: **1 January 2024**

To cast a vote, Members are asked to access the application from the following link:  
[https://forms.office.com/e/GNaQBgexpH](https://forms.office.com/e/GNaQBgexpH)  
Please note that no other form of voting will be accepted. Voting will conclude at close of business MAD time on **Wednesday, 15 November 2023**. 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 Passenger Governance team by email to pac-gov@iata.org.

Juan Antonio Rodriguez  
Director – FDS Operations, GDC
1. CRITERIA FOR EVALUATION OF AGENTS’ ACCOUNTS

1.1 Ratio Tests

The following ratio tests are performed on all financial statements and points are attributed accordingly, as indicated.

The maximum number of points obtainable is 30 made up as follows:

- **Current Ratio**: 8 points
- **Quick Ratio**: 4 points
- **Efficiency Ratio**: 5 points
- **Debt Ratio**: 9 points
- **Profitability Ratio**: 4 points

### 1.1.1 CURRENT RATIO: Current Assets / Current Liabilities

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

- Over 1.99: 8 points
- 1.50 - 1.99: 7 points
- 1.25 - 1.49: 6 points
- 1.00 - 1.24: 5 points
- 0.95 - 0.99: 4 points
- 0.90 - 0.94: 3 points
- 0.85 - 0.89: 2 points
- 0.80 - 0.84: 1 point
- under 0.80: 0 points

### 1.1.2 QUICK RATIO: Cash & Accounts Receivable / Current Liabilities

This ratio measures the ability of the entity to pay short-term debts "instantly".

- Over 1.59: 4 points
- 1.40 - 1.59: 3 points
- 1.20 - 1.39: 2 points
- 1.00 - 1.19: 1 point
- under 1.00: 0 points
1.1.3 EFFICIENCY RATIO: \((\text{Accounts Receivable / Gross Sales}) \times 360\)

This ratio is a measure of the average number of days taken to collect an account receivable.

- Under 10 days: 5 points
- 10 - 11.99 days: 4 points
- 12 - 14.99 days: 3 points
- 15 - 17.99 days: 2 points
- 18 - 19.99 days: 1 point
- Over 19.99 days: 0 points

1.1.4 DEBT RATIO: \(\text{Total Debt / Net Tangible Assets}\)

This ratio measures the amount of assets provided by creditors for each dollar of Tangible Assets.

- Under 0.4: 9 points
- 0.4 - 0.49: 8 points
- 0.5 - 0.59: 7 points
- 0.6 - 0.69: 6 points
- 0.7 - 0.79: 5 points
- 0.8 - 0.89: 4 points
- 0.9 - 0.99: 3 points
- 1.0 - 1.19: 2 points
- 1.2 - 1.29: 1 point
- Over 1.29: 0 points

1.1.5 PROFITABILITY RATIO: \(\frac{\text{Net Profit after tax}}{\text{Tangible Net Worth}} \times 100\)

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

- Over 19.99: 4 points
- 15 - 19.99: 3 points
- 10 - 14.99: 2 points
- 0 - 9.99: 1 point
- Under 0: 0 points

1.1.6 If an Accredited Agent submits financial statements that indicates a zero or negative Cash position, combined with the Efficiency Ratio for the collection of receivables greater than 10 days, the result of the financial review will be considered as failed.

1.2 Applicants and Accredited Agents

1.2.1 Working Capital

<table>
<thead>
<tr>
<th>Working Capital</th>
<th>Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAD 15,000 (or the equivalent in Bermudian dollars for Accredited Agents based in Bermuda)</td>
<td>&lt; CAD 2,000,000 (or the equivalent in Bermudian dollars for Accredited Agents based in Bermuda)</td>
</tr>
<tr>
<td>CAD 25,000 (or the equivalent in Bermudian dollars for Accredited Agents based in Bermuda)</td>
<td>Between CAD 2,000,000 and CAD 5,000,000 (or the equivalent in Bermudian dollars for Accredited Agents based in Bermuda)</td>
</tr>
</tbody>
</table>
CAD 35,000 (or the equivalent in Bermudian dollars for Accredited Agents based in Bermuda)  >CAD 5,000,000 (or the equivalent in Bermudian dollars for Accredited Agents based in Bermuda)

1.2.2 Tangible Net Worth

<table>
<thead>
<tr>
<th>Tangible Net Worth</th>
<th>Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAD 25,000 (or the equivalent in Bermudian dollars</td>
<td>&lt;CAD 2,000,000 (or the equivalent in Bermudian dollars for Accredited Agents in Bermuda)</td>
</tr>
<tr>
<td>CAD 35,000 (or the equivalent in Bermudian dollars</td>
<td>Between CAD 2,000,000 and CAD 5,000,000 (or the equivalent in Bermudian dollars for Accredited Agents in Bermuda)</td>
</tr>
<tr>
<td>CAD 45,000 (or the equivalent in Bermudian dollars</td>
<td>&gt;CAD 5,000,000 (or the equivalent in Bermudian dollars for Accredited Agents in Bermuda)</td>
</tr>
</tbody>
</table>

1.2.3 Ratio Points

<table>
<thead>
<tr>
<th>Ratio Points</th>
<th>Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>&lt; CAD 2,000,000 (or the equivalent in Bermudian dollars for Accredited Agents in Bermuda)</td>
</tr>
<tr>
<td>15</td>
<td>Between CAD 2,000,000 and CAD 5,000,000 (or the equivalent in Bermudian dollars for Accredited Agents in Bermuda)</td>
</tr>
<tr>
<td>15</td>
<td>&gt;CAD 5,000,000 (or the equivalent in Bermudian dollars for Accredited Agents in Bermuda)</td>
</tr>
</tbody>
</table>

1.2.4 If either the Working Capital, or Tangible Net Worth, or the Ratio Points of the Accredited Agent or Applicant falls below the threshold in the table above, the Accredited Agent/Applicant will be considered as having failed the Financial Review.

1.2.5 (Applicable to Applicants only) Short Accounting Period: Where the financial statements reflect a short accounting period i.e. less than 12 months, the Profitability Ratio will not be appropriate. As a result, the total point score would be reduced to 26 and the acceptable minimum to 13.

2. ANNUAL FINANCIAL REVIEWS

2.1 Documents required:

2.1.1 An Applicant and an Accredited Agent must provide financial statements, including but not limited to income statement, balance sheet, statement of cash flow and notes to the financial statements. The financial statements must be prepared in accordance with generally accepted accounting principles and prepared by a regulated Licensed Public Accountant or firm as it applies in Canada and Bermuda. Any interest by the accountant in the ownership of the agency must be divulged. If the financial statements are not audited, they must be accompanied by the accountant’s Review Engagement Report (in accordance with the Canadian Standards for Review Engagement (CSRE) Section 2400).

2.1.2 A Notice to Reader or a Compilation Report is not acceptable.

2.1.3 All Accredited Agents must submit a scanned copy of their financial statements to IATA upon request.

2.1.4 Year-end financial statements must be received within 90 days of the Accredited Agent's financial year-end. All other financial statements submitted must reflect a financial position not older than 90 days.

2.1.5 All Accredited Agents must notify IATA of any change or alteration to their fiscal year end and of any legal or governmental procedure that may affect their fiscal year end. This notice must be in writing and be accompanied by a legal or government issued document which confirms the change or alteration to the Accredited Agent's fiscal year end.

3. FINANCIAL SECURITY

3.1 Applicants

3.1.1 Applicants must provide a Financial Security equivalent to the Applicant’s average net cash sales of the last 12 months based on assumed net cash sales turnover, with a minimum of CAD 35,000 or the equivalent in Bermudian dollars for Applicants based in Bermuda.
3.1.2 Once accredited, the amount of the Financial Security required must cover the agent’s average net cash sales of the last 12 months times the number of Days’ Sales At Risk’ (17 days) based on the Accredited Agent’s actual net cash sales turnover, with a minimum of CAD 35,000, or equivalent in Bermudian dollars for Accredited Agents based in Bermuda.

3.2 Accredited Agents

Agents with Risk Status A:

For Accredited Agents with Risk Status A, no Financial Security will be required, except as indicated in Resolution 812, Section 5.11.

Agents with Risk Status B:

For Accredited Agents with Risk Status B the Financial Security will be calculated based on the Agent’s average net cash sales of the last 12 months times the number of “Days’ Sales At Risk’ (17 days) a minimum amount of CAD 35,000 or the equivalent in Bermudian dollars for Agents based in Bermuda.

Agents with Risk Status C:

For Accredited Agents with Risk Status C, the Financial Security will be calculated based on the Agent’s average net cash sales of the last 12 months times the number of “Days’ Sales At Risk’ (17 days), with a minimum amount of CAD 35,000 or the equivalent in Bermudian dollars for Accredited Agents based in Bermuda.

Note: Please refer to Resolution 812 – Operation of Remittance Holding Capacity for details.

3.3 If an existing Financial Security is insufficient to cover the amounts calculated under 3.1 and 3.2, the amount of the Financial Security required will be increased to cover the Amount at Risk.

3.4 IATA will return the Financial Security to the Accredited Agent with Risk Status A upon the expiry date of the Financial Security commitment.

4. DEFINITIONS

4.1 Additional Financial Information and Definitions

4.1.1 Accounts Payable - this amount should be broken down to reflect separately:
- amounts due to airlines through BSP;
- amounts due to all suppliers payables;
- customer deposits (if not listed separately);
- other payables.

4.1.2 Accounts Receivable - this amount should be broken down to reflect separately:
- Trade receivables net of provision for bad debts;
- Commissions receivable;
- Receivables from related parties (see definition of current assets);
- Supplier deposits;

4.1.3 Bank Loans or Bonds
Interest rate, repayment terms and security, if any, pledged as collateral must be indicated.

4.1.4 Capital Stock
If shares are issued for other than cash, full details of the consideration must be given.

4.1.5 Cash
Includes cash and bank balances plus cash equivalents such as certificates of deposit, government bonds, etc. excluding Cash and Term Deposits pledged for security.
4.1.6 Commingling Assets

Assets not related to the operation of the agency (i.e. owners or partners property, land, automobile, securities, etc.) will not be considered in the evaluation and will be deducted in the computation of the Working Capital and Tangible Net Worth.

4.1.7 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.

4.1.8 Current Liabilities

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

4.1.9 Financial Security

All acceptable Financial Security types are available in IATA Resolution 850p.

4.1.10 Gross 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.

4.1.11 Investments

If there are any investments in associated companies or other companies, the names of such companies must be given together with the nature of their business and the basis used in accounting for this investment, i.e. cost or equity method. Investments in related companies must be excluded in the computation of working capital and tangible net worth.

4.1.12 Net Cash Sales

Net cash sales is equal to the total of Accredited Agent’s BSP net remittance.

4.1.13 Net Income or Loss After Tax

Net income or loss after taxes but before extraordinary items.

4.1.14 Net Tangible Assets

Total assets, less intangible assets such as goodwill, franchise fees, covenants not to compete, client lists, etc.

4.1.15 Tangible Net Worth

This is calculated by summing common and/or preferred stock, paid-in/contributed capital, subordinated shareholders’ loan plus retained earnings (minus deficit), less intangible assets such as goodwill, franchise fees, mailing/client lists and covenants not to compete; receivables from related parties, including shareholders, officers and employees are excluded when calculating the tangible net worth.

4.1.16 Total Debt

Includes current liabilities and all loans from third parties. It does not include noncurrent loans provided by shareholders or proprietors. Loans from related parties are included, unless subordinated to other parties.

4.1.17 Working Capital

Working capital is the difference between Current Assets and Current Liabilities.

4.1.18 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, plus a margin of five days (17 days).