

CHANGES TO LOCAL FINANCIAL CRITERIA SPAIN

Submitted by APJC Members

Background Information

As mandated by the APJC, members of the LFCAG group have been tasked with enhancing the LFC to safeguard the market and standardize the remittance frequency.

Despite efforts since 2020, negotiations to update the LFC through the LFCAG have been unsuccessful.

Finally, after four years of continuous negotiations, and considering that Spain was the only BSP market with a remittance frequency 3 times per month, the APJC unanimously approved the standardization of the weekly remittance frequency in line with other BSP markets worldwide. The corresponding amendments to the Local financial criteria are shown in the Attachment 'A'.

Given this alteration, and to avoid frequent changes in conditions without proper justification, it was considered that the APJC would require sufficient time to evaluate the impact of this implementation before new changes were discussed again at the local level. However, it was made clear that any event that significantly affected the market would trigger a reassessment.

These changes will become effective from 1 January 2025.

The amended text of the Local Financial Criteria is shown in Attachment 'A'.

Proposed Solution

To propose the adoption of the amendments voted at the APJC Spain to become effective on 1 January 2025.

Proposed Action

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

SPAIN

(Effective 1 January ~~2022~~ 2025)

1. GENERAL RULE (Accounts / Documents to provide)

1.1 Accreditation of new agent

Provided below is a description of the original documents required to become an Accredited Agent. These documents must not be older than three (3) months from the date of the Agent accreditation application described in the official form.

- Certified photocopy of the National Identity Document or Foreigners' Identity Number (NIE) of the administrator(s), Managing Director, legal representative(s) and director(s) of the new Agent.
- Original criminal record certificate [certificado de penales] of the administrator(s), Managing Director, legal representative(s) and director(s) of the new Agent.
- Original, or certified copy from the General Treasury of the Social Security Office confirming that the new Agent is up to date with the payment of social security contributions.
- Financial statements of the previous financial year submitted to the Trade Registry (attaching the proof of deposit of the accounts in the Trade Registry) or audited accounts by an auditor member of the Official Registry of Auditors (ROAC), and interim financial statements for the period comprised from the start date of the current financial year to the date of the Agent accreditation application. If the Agent is a newly formed company without financial statements due to its short period in operation, the new Agent must provide an opening balance sheet.
- Certified photocopy of the Company's formation deed in which the names of the new Agent's administrator(s) and legal representative(s) are clearly specified.
- If the new Agent has had any change in ownership at any time after the formation of the company and prior to the Agent accreditation application, the new Agent must provide a copy of the change in ownership deed or the change in administrator(s), legal representative(s) and director(s) deed certified by the auditor or a notary.
- If the administrator(s) and director(s) of the new Agent are not EU citizens, they will have to provide a certified copy of their valid long-term Spanish Resident's Permit, ~~which must be valid for a minimum period of four (4) years.~~
- Certified photocopy of the new Agent authorization issued by the competent authorities or the ***Declaración Responsable*** presented by competent body.
- Certified photocopy of the business tax (IAE) payment receipt (***Impuesto de Actividades Económicas***, IAE).

- Certified photocopy of the contract (excluding financial terms) with an accredited reservations system or otherwise a letter from the GDS confirming the installation of the system in the Agent's premises.

1.2 Accredited agents

1.2.1 Agencies evaluated with rating report

A/ Agent whose average ~~23~~ 22 days' cash sales, taking the past 12 months as a reference, is more than two hundred and sixty-seven thousand Euros (€267,000) on the date the continuity analysis is performed.

IATA will appoint two independent rating companies specialized in risk and solvency analysis to perform impartial risk and solvency analysis of the Agent, and which have no conflict of interest with either travel agents and/or airlines,

Agents are evaluated twice a year through an impartial risk and solvency analysis:

- the first time: 46 days after the deadline established by law for submitting the annual accounts duly signed by the administrators. Annual accounts duly signed by the administrators will be evaluated.
- the second time: 46 days after the deadline established by law for submitting the annual accounts at the Trade Registry. Annual accounts to the Trade Registry will be evaluated.

The Agent will also have the option to send directly to IATA a rating report prepared by either of the two companies designated by IATA, at the choice of the Agent. These reports must be:

- 1) send to IATA no later than 45 days after the deadline established by law for submitting the annual accounts duly signed by the administrators or depositing the annual accounts at the Trade Registry,
- 2) (b) must not be older than seven (7) days from the presentation deadline.

If the voluntary report is sent by the Agent in accordance with the timeframes specified in this criterion, IATA will not request any report and will use the analysis in the report sent by the Agent as a reference.

If the Agent's year-end is not 31 December, the Agent must notify IATA before the closing date of its accounts.

For the results of each of the default and insolvency analysis to be valid, the Agent must have submitted the annual accounts duly signed by the administrators or submitted annual accounts to the Trade Registry within the deadline established by law.

A1/If the Agent has not sent a risk and solvency report on a voluntary basis, IATA will request a report to COMPANY 1

A2/ If the Agent has sent a risk and solvency report on a voluntary basis in accordance with the criteria described above, the results provided in the report will depend on the company chosen by the Agent.

1.2.2 Agencies evaluated with financial ratios

Agents whose average ~~23~~ 22 days' cash sales, taking the past 12 months as a reference, is below two hundred and sixty-seven thousand Euros (€267,000) on the date the annual financial assessment is performed, it will be required to provide the following financial documents on a yearly basis:

- Copy of the annual accounts prepared and duly signed by the administrators in the month following the deadline established by law for preparing the accounts
- Copy of the duly completed annual accounts submitted to the Trade Registry in the month following the deadline established by law for submitting the annual accounts to the Trade Registry

- In the case of companies required to audit their accounts, a copy of the audit.

1.3 Change of ownership

Described below are the original documents required by IATA for a change in the ownership of an Agent or in its shareholders (if the change involves a change in the control of the company) to become valid. These documents must not be older than three months from the date of the application for changes in ownership authorisation described in the official form:

- A certified photocopy by the auditor of the National Identify Document or Foreigners' Identify Number (NIE) of the new administrator(s), Managing Director, legal representative(s) and director(s) of the Agent.
- An original criminal record certificate [certificado de penales] of the new administrator(s), Managing Director, legal representative(s) and director(s) of the Agent.
- Original, certified or attested certificate from the General Treasury of the Social Security Office confirming that the new Agent is up to date with the payment of Social Security contributions.
- Audited accounts from the previous financial year submitted to the Trade Registry and interim financial statements for the period between the start date of the current financial year to the date of the application for the change in ownership. In case it is not possible, the Agent will be required to submit accounts accompanied by a certificate of conformity signed by the CEO, CFO, or equivalent Executive Director. When submitting non-audited accounts, the Agent will automatically be set with a condition of RHC=FS, regardless of the qualification of its risk status.
- Certified photocopy of the change in ownership deed in which the names of the new administrator(s), Managing Director, legal representatives and director(s) of the Agent are clearly specified.
- If the new administrator(s), Managing Director, legal representative(s) and director(s) of the travel Agent are not EU citizens, they will have to provide a certified copy of their valid long-term Spanish Resident's Permit, ~~which must be valid for a minimum period of four (4) years.~~
- A certified photocopy of the Agent's permit/authorization issued by the autonomous regional authorities.

2. CRITERIA FOR THE EVALUATION OF AGENTS' ACCOUNTS

2.1 New Agents

2.1.1 For newly formed Agents (less than one (1) year since the formation of the company)

In case of having submitted an opening balance, the new Agent will be assigned a FAIL in his financial review.

2.1.2 Agents with more than one (1) year since the formation of the company

IATA will appoint a company specialized in risk and solvency analysis which does not pose a conflict of interest with an Agent or Airline to perform impartial risk and solvency analyses on the new Agent.

The results of the analysis will be given a score between zero (0) to ten (10), where ten (10) is the highest score and zero (0) the lowest. Likewise, the external company will perform a creditworthiness assessment and a RAI (*Registro de Aceptaciones Impagadas*, Unpaid Receivables Registry) incidents analysis on the new Agent.

For the results to be valid, the new Agent must have submitted the accounts for the most recent financial year to the Trade Registry by the deadline established by law.

If the Agent has been in operation for more than one (1) year but has not yet been required to submit its accounts to the Trade Registry, the Agent must provide its limited audited provisional accounts to the external company performing the analysis. Otherwise, the results of the solvency ratio analysis will be considered to be zero (0).

The result of the Agent's financial review will be considered **PASS** if it complies with all the following requirements:

- minimum score of five (5) in the results of each of the risk and solvency analysis
- in case the score is less than five (5) only Go Lite accreditation, option will be available for the Agent
- Agent is also required to be given a creditworthiness rate above six thousand (€6,000) euros
- no incidents in the RAI (Unpaid Receivables Registry)

2.2 Accredited Agents evaluated with risk and solvency (rating) report

The result of the financial review of the agent will be considered PASS if all following criteria are met:

- COMPANY 1: agent is required to achieve a score of six (6) in the results of the risk analysis and six (6) in the results of the solvency analysis
- COMPANY 2: Agent is required to achieve a score of eleven (11) in the results of the risk and solvency analysis

COMPANY 1:

- If the minimum valuation obtained is 5, either in the default analysis, solvency analysis or in both, the agent will have to present a bank guarantee for ~~30~~ 20% of the amount of sales at risk.
- If the minimum valuation obtained is 4, either in the default analysis, solvency analysis or in both, the agent will have to present a bank guarantee for ~~65~~ 55% of the amount of sales at risk.
- If the minimum valuation obtained is 3 or lower, either in the default analysis, solvency analysis or in both, the agent will have to present a bank guarantee for 100 % of the amount of sales at risk.

COMPANY 2:

- If the valuation obtained is 10, the Agent will have to present a bank guarantee for ~~30~~ 20% of the amount of sales at risk.
- If the valuation obtained is 9, the Agent will have to present a bank guarantee for ~~65~~ 55% of the amount of sales at risk.
- If the valuation obtained is 8 or lower, the Agent will have to present a bank guarantee for 100 % of the amount of sales at risk.

2.3 Agents evaluated by IATA's Global Financial Assessor

The result of financial review of the Agent will be considered as **PASS** if all following criteria are met:

Capital/Equity

The Agent's equity must:

- not be less than 80 per cent of the authorized and paid-up capital; and
- not be less than forty-eight thousand and eighty euro and ninety seven cents (€48.080,97).

Short-Term Solvency

Short-term solvency = Current assets/ short-term debts (current liabilities).

A weighting ratio of short-term solvency will be applied, based on the result of comparing Equity with Authorised and Paid-up Capital.

To do this, the following table is applied:

Equity/Share Capital	Weighting Ratio
>1,3	1,10
1,2	1,075
1,1	1,05
1	1
0,9	0,95
0,8	0,925

The weighting ratio resulting from applying the table is multiplied by the short-term solvency ratio and the result should be 1 or above.

Earnings

~~Agent will be able to report annual pre-tax losses within a maximum of 15,000 Euros annually or 20% of its equity.~~

- 1) The agent may incur pre-tax losses, provided they do not exceed 25% of its equity.
- 2) The possibility of incurring losses, as per point 1, is limited to a maximum of 2 consecutive years.
- 3) If losses continue into the third consecutive year, they cannot exceed 15,000 Euros annually or represent more than 25% of its equity. In such cases, the financial evaluation result will be considered fail.

3. ANNUAL FINANCIAL REVIEW

Annual financial review will be performed according to sections 1.2, 2.2, 2.3 of this document.

4. FINANCIAL SECURITY

4.1 Validation of Financial Security

The Agent will not be accredited or will not continue accredited until IATA receives the requested financial security and until the issuing entity of the guarantee confirms directly to IATA in written that it recognizes the issuance, validity and authenticity of the financial guarantee.

4.2 Calculation of the financial guarantee

With the objective to calculate the amount of Financial Security, the following definitions apply:

Remittance frequency	Days at risk
Every 10 days <u>4 times per month</u>	23 <u>22</u>

4.2.2 The amount of "sales at risk" is calculated using the amount of BSP cash sales that agent had in the last 12 months, as follows

$$\text{Sales at Risk} = \frac{\text{Days of sales at risk} \times \text{BSP Cash sales in the last 12 months}}{365 \text{ days}}$$

The amount of the Financial Security will be rounded to the following + 1,000 EUR

4.3 Financial security level

4.3.1 New Agents and Agents accredited for less than 2 years

Agents will be required to submit a financial security calculated in accordance with section 4.2.2, with minimum amount of ~~40,000~~ 38,000 EUR

4.3.2 Agents accredited for more than two years

Agents with Risk Status A

Financial Security will not be required

Agents with Risk Status B

Agents with Risk Status B will be required to submit a Financial Security calculated according to section 4.2.2. or 2.2. as applicable, with minimum amount of 10,000 EUR.

Agentes con Estado de Riesgo C

Agents with Risk Status C will be required to submit a Financial Security calculated according to section 4.2.2. or 2.2. as applicable, with minimum amount of 10,000 EUR.

B/ Financial Requirements

B1/ A New Agent is a newly formed Agent (less than one (1) year since the formation of the company):

New Agents will be required to submit a financial guarantee of forty thousand euros (~~40,000~~ 38,000 EUR)

B/2 Agents with more than one (1) year since the formation of the company

IATA will appoint a company specialized in risk and solvency which does not pose a conflict of interest with an Agent or Airline to perform impartial risk and solvency analyses on the Agent. The results of the analysis will give a score between zero (0) to ten (10), where ten (10) is the highest score and zero (0) the lowest. Likewise, the external company will perform a creditworthiness analysis and a RAI (Unpaid Receivables Registry) incidents analysis on the Agent.

For the results to be valid, the Agent must have submitted their accounts for the most recent financial year to the Trade Registry by the deadline established by law.

In case of Agents with over one year of activity which has not been required to present its accounts to the Trade Registry, the Agent will have to present audited provisional accounts. Otherwise, the result of the risk and solvency analysis will be considered to be zero (0).

An Agent needs to reach a minimum score of five (5) in the results of the analysis at the moment of applying for accreditation, in order to obtain qualification of **PASS**. In case Agent scores less than five (5) the qualification will be **FAIL**.

At the same time the Agent is also required to have a creditworthiness rate above six thousand (€6,000) euros without any incident in the RAI (*Registro de Aceptaciones Impagadas*, Unpaid Receivables Registry)

Once fulfilled the evaluation criteria, the new agent will be required to submit a financial security for the amount of ~~forty~~ thirty-eight thousand EUR (~~40,000~~ 38,000 €).