



MEMORANDUM

PAC/RESO/706

To: All Members, Passenger Agency Conference
Accredited Representatives

From: Director, FDS Operations, GDC

Date: **15 September 2020**

Subject: **MAIL VOTE (A345)**
PAC2 (Mail A345)
Temporary Changes to Local Financial Criteria - United Kingdom

Background Information

Following the recommendation issued by PSG to review the Local Financial Criteria for COCOVID-19 impact, the APJC UK met on 28May2020 and evaluated the issue, with a view to support Travel Agents during this unprecedented period, while maintaining a strong control on risk to Airline BSP funds.

The APJC members decided immediately to form an LFC Advisory Group (LFC AG), made of 4 Airlines and 4 Travel Agent representatives. Its mandate was to consider the impact of Covid 19 Crisis and **recommend temporary changes to UK Local Financial Criteria** and report at the next APJC UK meeting on 15July2020.

The LFC AG met four times, on 10June, 24June, 07July and 10July2020. All meetings took place online and Notes were issued and circulated accordingly. The final report was distributed to members in advance and discussed at the APJC meeting on 15July 2020, as scheduled.

Following the discussion by the Council members and an unanimous vote recorded in the Minutes, **temporary changes** are recommended to PAC delegates for vote and are included in the attached text of the Local Financial Criteria for UK under paragraph 2.5.

Effective Date

The changes recommended are **effective for a year, from 1 November 2020 to 31 October 2021. Members agreed unanimously that a follow up review will take place no later than 31 March 2021.**

Proposed Action

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

The timetable for this Mail Vote is as follows:

Voting Period: 15 – 30 September 2020

Filing Period: 1 – 15 October 2020

Effectiveness: 1 November 2020

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

<https://www.surveymonkey.com/r/A342-359>

Please note that no other form of voting will be accepted. Voting will conclude at close of business MAD time on **Wednesday, 30 September 2020**. 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.

A handwritten signature in black ink, appearing to read 'J.A. Rodriguez', written in a cursive style.

Juan Antonio Rodriguez
Director – FDS Operations, GDC

UNITED KINGDOM

(Effective 1 ~~October~~ November 2020 – PAC/42MV/345)

1. GENERAL RULES

ACCOUNTS

1.1 Audited Accounts means Accounts prepared by a statutory Auditor, recognized as competent by the regulatory authority in that country to perform an audit, that are provided to IATA.

1.2 Where Accounts are required to be provided, all Agents must provide **Audited Accounts**.

1.3 Newly formed companies that have traded for less than 12 months at the time of application for accreditation must submit an opening balance sheet, prepared by their statutory Auditor.

1.4 Notwithstanding the provisions above, sole traders, partnerships and UK registered limited companies, that meet the conditions for exemption from audit as a small company as defined by the UK Companies Act, may submit **Certified Accounts**, provided that (i) the certification is issued by an independent Reporting Accountant (see Note 1) and (ii) the Agent settles its BSP liabilities four times monthly, according to the published BSP Reporting Calendar.

1.5 The statutory Auditor and/ or the Reporting Accountant must hold a current Practising Certificate issued by a recognized accountancy body (see note 1 for accepted bodies). A valid copy of the Practising Certificate must be provided with the Annual Accounts and must not be older than one year from the date of signing of the audit report to the Accounts.

SETTLEMENT DATES

1.6 The Settlement Dates in the United Kingdom are:

- The 1st and 15th of the month following the month of sale for Agents settling their BSP liabilities twice per calendar month. The reporting periods are: 1-15th and 16th to the end of calendar month.
- 10 (ten) days after each reporting period for Agents settling their BSP liabilities every 10 (ten) days per calendar month. The reporting periods are 1-10th, 11th- 20th and 21st to the end of calendar month.
- 8 days after each reporting period for Agents settling their BSP liabilities four times per calendar month. The reporting periods are: 1-7th, 8-15th, 16-23rd and 24th to the end of the calendar month.

A yearly BSP Reporting Calendar is published and can be found on the IATA Customer Service website.

2. CRITERIA FOR THE EVALUATION OF AGENTS' ACCOUNTS

2.1 All financial information used in the Financial Criteria tests will be extracted from the Agent's Accounts.

2.2 The following Financial Criteria tests apply to the evaluation of an Agent's Accounts:

2.2.1 There must be **positive Net Equity** at the end of an accounting period.

2.2.2 Operating Profitability: The Accounts must show that the Agent has made an operating profit at the end of an accounting period.

2.2.3 Net Profitability: The Accounts must show that the Agent has made a positive net result at the end of an accounting period.

2.2.4 Cash Ratios

2.2.4.1 Definitions

For the purpose of this section the following definitions apply:

$$\text{Quick Ratio} = \frac{\text{Cash + Cash Equivalents + Trade Debtors (excl. related parties)}}{\text{Trade Creditors}}$$

$$\text{Cash Cover Ratio} = \frac{\text{Cash + Cash Equivalents (including remaining Overdraft or RCF remaining)}}{\text{BSP Outstanding Cash Sales at financial year end (FYE)}}$$

Overdraft or RCF (Revolving Credit Facility) Remaining = remaining authorised or arranged Overdraft or RCF, held in the name of the IATA Accredited Agency. The lender must be a Financial Services Provider, investment firm or consumer credit firm who has been authorised by the UK Financial Conduct Authority.

- The above statement needs to be outlined in the Agent's Accounts or in a separate document signed by the Auditor, so it can be taken into account in the outlined criteria.
- The Overdraft or RCF remaining is optional – if an Agent does not require an overdraft or RCF in order to meet the Cash Cover Ratio, then this does not need to be included in their Accounts.

BSP Outstanding Cash Sales at FYE: this figure must be declared by the Auditor in the Accounts or in a separate statement.

2.2.4.2 If the review shows that both Quick Ratio and Cash Cover Ratio are at a level of 1 or above, the Agent can continue to settle its BSP Cash reported sales twice per month.

2.2.4.3 If the review shows that both Quick Ratio and Cash Cover Ratio are at the level of 0.75 or above, but below 1, the Agent must settle its BSP Cash reported sales every ten days, unless they provide a Financial Security to cover the amount at risk to settle twice per month.

2.2.4.4 If the review shows that both Quick Ratio and Cash Cover Ratio are at the level of 0.5 or above, but below 0.75, the Agent must settle its BSP Cash reported sales four times per month, unless they provide a Financial Security to cover the amount at risk to settle either every ten days or twice per month.

2.2.4.5 If either the Quick Ratio or the Cash Cover Ratio are under 0.5, this Criteria is considered as **FAILED**.

2.2.4.6 An Agent Accounts must disclose the nature of company Debtors (trade, related parties, etc.) and their corresponding values. Failure to do so will result in further investigation by IATA and the total value of Debtors may not be taken into account for the purpose of calculation of the above ratios.

2.3. The Financial Criteria tests detailed under 2.2 above will be applied for all reviews of Agents' Accounts with a financial year end on/ after 01 April 2020.

2.4. The Agent Financial Review will be considered as **PASSED** as defined in Resolution 812 when all the Financial Criteria tests under 2.2.1, 2.2.2, 2.2.3 and 2.2.4 above are met.

2.5 TEMPORARY CRITERIA for Agents' Financial reviews during period 01 November 2020 – 31 October 2021

If an Agent fails either or both Profitability criteria under 2.2.2 and 2.2.3, the Agent's Financial Review will still be considered as PASSED, if their Accounts will meet the conditions stipulated in this section.

2.5.1 There must be **positive Net Equity** at the end of an accounting period.

2.5.2 Profitability: The Agent must demonstrate that it has made a positive net result at the end **of the two previous accounting periods.**

2.5.3 Quick and Cash Ratios (as defined in Section 2.2.4.1 above):

2.5.3.1 If the review shows that both Quick Ratio and Cash Cover Ratio are at a level of 1.10 or above, the Agent can continue to settle its BSP Cash reported sales twice per month.

2.5.3.2 If the review shows that both Quick Ratio and Cash Cover Ratio are at the level of **0.85** or above, but below 1.10, the Agent must settle its BSP Cash reported sales every ten days, unless they provide a Financial Security to cover the amount at risk to settle twice per month.

2.5.3.3 If the review shows that both Quick Ratio and Cash Cover Ratio are at the level of **0.6** or above, but below 0.85, the Agent must settle its BSP Cash reported sales four times per month, unless they provide a Financial Security to cover the amount at risk to settle either every ten days or twice per month.

2.5.3.4 If either the Quick Ratio or the Cash Cover Ratio are **under 0.6**, this Criteria is considered as FAILED.

2.5.4 The Agent Financial Review will be considered as **PASSED** as defined in Resolution 812 when all the Financial Criteria tests under 2.5.1, 2.5.2 and 2.5.3 above, are met.

3. ANNUAL FINANCIAL REVIEWS

Agents accredited for two years or less

3.1 All Agents must provide Audited Accounts not more than 6 months old at the time of application to become an Agent, for the purpose of evaluation against the Financial Criteria tests in Section 2 of this document. The Audited Accounts must cover a period of least 12 months of trading. If an Agent has been in business for less than 12 months at the time of application, it must submit an opening balance sheet, prepared by their statutory auditor.

Agents accredited for more than two years

3.2 All Agents must provide Audited Accounts not later than 6 months after each financial year end of that Agent for the purposes of evaluation against the Financial Criteria tests in Section 2 of this document. The Audited Accounts must cover a period of at least 12 months of trading.

4. FINANCIAL SECURITY

4.1 An Agent will not be accredited or will not continue to be accredited until a Financial Security required to be provided to IATA has been:

- (a) received by IATA; and
- (b) 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.

4.2 Financial Securities must be for an unlimited period and subject to a minimum notice period of cancellation of ninety (90) days.

4.3 For the purpose of calculating the amount of a Financial Security the following definitions apply:

4.3.1 "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 five days.

4.3.2 "Amount at Risk" is calculated by dividing the Days' Sales at Risk by 90 days and applying that percentage to the BSP net to be paid turnover, the Agent made in the three month period referred to in Section 4.6, as applicable.

Thus the formula to calculate the "Amount at Risk" is:

$$\text{"Amount as Risk"} = \frac{\text{"Days' Sales at Risk"} \times \text{BSP Cash Turnover in applicable 3 month period}}{\text{90}}$$

90

4.4 The following Financial Securities are accepted as per Resolution 850p:

- Bank guarantees arranged through a bank registered in the UK, Channel Islands or Isle of Man under the statutes of the UK/Channel Islands/Isle of Man
- Insurance bonds arranged through IATA approved Insurance Companies
- Global Default Insurance

4.5 New Applicants

All Agents must provide a Financial Security, with a minimum amount of GBP50,000 during the first two (2) years as IATA accredited Agent and must settle their liabilities four times per calendar month.

4.6 Existing Agents

4.6.1 Agents with Risk Status A

For Agents with Risk Status A no Financial Security will be required, unless the Agent voluntarily opts to provide one as per 2.2.4.3 and 2.2.4.4 above.

4.6.2 Agents with Risk Status B

Agents with Risk Status B are required to provide a Financial Security that covers at a minimum the Amount at Risk calculated as per Section 4.3 using the cash turnover amount of the 3 month highest BSP net to be paid turnover in the previous 12 months period, or GBP 25,000, whichever is higher.

4.6.3 Agents with Risk Status C

Agents with Risk Status C are required to provide a Financial Security that covers at a minimum the Amount at Risk calculated as per Section 4.3 using the cash turnover amount of the 3 month highest BSP net to be paid turnover in the previous 12 months period, or GBP 25,000, whichever is higher.

5. CHANGES IN FINANCIAL YEAR END

5.1 An Agent must notify IATA immediately of a change in its financial year-end.

5.2 If the Agent prepares Accounts for a period of more than 12 months (but less than 18 months), the Agent must provide Audited Accounts within 6 months of the original financial year-end.

5.3 If an Agent extends their financial year-end by the full six months allowed under UK Company Law, exceptionally a maximum of a further two months extension may be granted for final submission of Accounts.

5.4 If the Agent prepares Accounts for a period of less than 12 months, the Agent must provide them within six months of the new financial year-end.

5.5 IATA will conduct the Financial Review applicable to the Agent.

Note 1 - Reporting Accountant

The Reporting Accountant shall be either a Statutory Auditor, which in the UK means a person eligible for appointment as a statutory Auditor as set out in Part 42 Statutory Auditors of the Companies Act 2006 or an independent qualified Accountant holding a current Practising Certificate (see Section 1.5 above) with a recognised accountancy body. We list below the accepted recognised accountancy bodies:

- Institute of Chartered Accountants of England & Wales
- Institute of Chartered Accountants of Scotland
- Institute of Chartered Accountants of Ireland
- Association Chartered Certified Accountants
- Association of Authorised Public Accountants
- Chartered Institute of Management Accountants
- Association of Accounting Technicians
- Association of International Accountants
- Institute of Chartered Secretaries and Administrators
- Institute of Financial Accountant