



MEMORANDUM

PAC/RESO/710

To: All Members, Passenger Agency Conference
Accredited Representatives

From: Director, FDS Operations, GDC

Date: **15 September 2020**

Subject: **MAIL VOTE (A349)**
PAC1 (Mail A349)
Temporary Changes to Local Financial Criteria – Central America

Background Information

APJC Central America met on 23 June 2020 following the recommendation of PSG and PAPGJC aimed to review local financial criteria and determine its applicability given impact of COVID-19's quarantines on Agents' financial position.

The APJC agreed on the merit of the LFC review and called upon the LFCAG to address the request. The LFCAG met on 30 June. Both airlines and Agents of the Advisory Group discussed each aspect of the criteria and areas where it was feasible to facilitate compliance with the annual financial review exercise and ease impact whenever financial securities would be requested. The Advisory Group's proposals were presented to the APJC at its next meeting.

On 28 July 2020, APJC-Central America met to review the proposals presented by the LFCAG which had been circulated to the Council well ahead of the meeting to ensure airline delegates had the opportunity to vet the proposals with their respective headquarters and Agent delegates had the opportunity to evaluate impact on their associates. At the meeting of the APJC, and by unanimous vote, the proposals that follow were approved.

APJC Central America, covering Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama unanimously approved changes that will facilitate and support the agency community in this region after current and continuing quarantines are lifted.

Effective Date

The proposed effective date of these changes is 1 November 2020, which will apply to the 2020 Agents' financial accounts reviews and also adjust the minimum financial security amount for the region until 31 December 2021.

Proposed Action

Conference to adopt the temporary changes to Local Financial Criteria for Central America as shown in Attachment 'A'

The timetable for this Mail Vote is as follows:

Voting Period: 15 September - 30 September 2020

Filing Period: 1 October - 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. Rodriguez', written in a cursive style.

Juan Antonio Rodriguez
Director – FDS Operations, GDC

BELIZE

(Effective 1 November ~~2019~~ 2020 – PAC/40-MV/349)

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

1.1 Financial Statements:

- Balance Sheet, Profit and Loss Statements and any other financial documents deemed appropriate by IATA to conduct the financial review
- must not be older than six months at the time of submission,
- must be ~~audited or~~ certified by an external public accountant – only applicable to 2020 financial accounts

2. CRITERIA FOR THE EVALUATION OF AGENTS' ACCOUNTS

2.1 Financial statements must reflect minimum Working Capital equivalent to USD20,000.

2.2 Financial Statements will be evaluated against ratio tests. The financial ratio analysis is 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.

2.2.1 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

2.2.2 Scale of Points per Ratio Test:

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

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

$$\text{Turnover Ratio} = \frac{\text{Net Receivables}}{\text{Total Sales}}$$

15 – 16 days	6 points
17 – 18 days	5 points
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27 – 29 days	1 point
Over 29 days	0 points

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

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

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

0.20	5 points
0.18	4 points
0.15	3 points
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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 SECURITY

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 of USD 20,000 (or the equivalent in local currency).

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4.4 Duration of guarantee:

- Two-years minimum for a New Applicant
- 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 related parties. Refer to definition of current assets
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Profit After Tax

Profit after taxes but before extraordinary items.

Total Assets

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

Total Liabilities

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COSTA RICA

(Effective 1 ~~September 2019~~ November 2020 – PAC/41 MV/349)

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

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Long-term Liabilities

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Profit After Tax

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Total Assets

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Total Liabilities

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EL SALVADOR

(Effective 1 ~~March 2019~~ November 2020 – PAC/41 MV/349)

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GUATEMALA

(Effective 1 ~~March 2019~~ November 2020 – PAC/41 MV/349)

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HONDURAS

(Effective 1 ~~March 2019~~ November 2020 – PAC/41 MV/349)

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NICARAGUA

(Effective 1 ~~March 2018~~ November 2020 – PAC/40 MV/349)

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21 – 23 days	3 points
24 – 26 days	2 points

27 – 29 days	1 point
Over 29 days	0 point

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

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

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

0.20	5 points
0.18	4 points
0.15	3 points
0.13	2 points
0.10	1 point
under 0.10	0 points

3. FINANCIAL SECURITY

FINANCIAL GUARANTEE REQUIREMENTS

New Applicants and/or Agents will be subject to the presentation of a financial guarantee as described below:

- **New Applicants:** Head Office and/or Branch Location are required to present a guarantee for a period of two years.
- **Payment related Irregularity** – financial guarantee is required whenever Agent short pays or fails to pay on remittance date.
- **Minor Error Rule** – An Agent shall be subject to two instances of irregularity following a short payment and/or late payment (pursuant to Resolution 818g), however, the financial criteria requirement to submit a financial guarantee will be waived once, in a twelve month period, whenever the Agent demonstrates satisfactory evidence from the bank, that total amount due was available in Agent's bank account on the date of remittance and the amount due was paid within the demand period.
- **Default** – financial guarantee is required as a condition for reinstatement to full credit privileges and once all outstanding monies have been paid in full.
- **Unsatisfactory Financial Standing** – financial guarantee is required when Agent's financial statements fail to comply with financial criteria established in this Manual.
- **Changes of Ownership** – financial guarantee is required whenever a change in ownership or control of the Agent is equivalent to 30% or more of the total stock issued.

Duration of guarantee:

- One-year minimum for Approved Agents. Prior to the expiry of the guarantee Agents will be requested to submit their financial statements for review.
- Two-years for Applicants subject to satisfactory results of financial review prior to expiry of the guarantee.

Amount of guarantee:

Accredited Agents:

Agent's average annual net cash sales of the previous 12 months equivalent to the number of "Days' Sales at Risk", with a minimum guarantee amount equivalent USD2010,000. This change is due to the impact of COVID-19 and will remain in effect until 31 December 2021.

The number of Days' Sales at Risk is to be counted from the beginning of the reporting period to the remittance date in respect of that reporting period plus a margin of five days. This criterion follows framework established by resolution 800f.

New Applicants (Head Office and/or Branch Locations):

Central America*:	USD 20,000
*Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama	

4. 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 related parties. Refer to definition of current assets
- Supplier deposits

Profit After Tax

Profit after taxes but before extraordinary items.

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.

PANAMA

(Effective 1 ~~March 2019~~ November 2020 – PAC/41 MV/349)

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

1.1 Financial Statements:

- Balance Sheet, Profit and Loss Statements and any other financial documents deemed appropriate by IATA to conduct the financial review
- must not be older than six months at the time of submission,
- must be ~~audited or~~ certified by an external public accountant - only applicable to 2020 financial accounts

2. CRITERIA FOR THE EVALUATION OF AGENTS' ACCOUNTS

2.1 Financial statements must reflect minimum Working Capital equivalent to USD20,000.

2.2 Financial Statements will be evaluated against ratio tests. The financial ratio analysis is 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.

2.2.1 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

2.2.2 Scale of Points per Ratio Test:

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

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

$$\text{Turnover Ratio} = \frac{\text{Net Receivables}}{\text{Total Sales}}$$

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

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

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
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over 1.49	0 points

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

0.20	5 points
0.18	4 points
0.15	3 points
0.13	2 points
0.10	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 SECURITY

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 of USD 20,000 (or the equivalent in local currency).

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 USD ~~2~~10,000, whichever is higher. This change is due to the impact of COVID-19 and will remain in effect until 31 December 2021.

4.4 Duration of guarantee:

- Two-years minimum for a New Applicant
- 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.

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

Profit After Tax

Profit after taxes but before extraordinary items.

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.
