



MEMORANDUM

PAC/RESO/720

To: All Members, Passenger Agency Conference
Accredited Representatives

From: Director, FDS Operations, GDC

Date: **15 September 2020**

Subject: **MAIL VOTE (A359)**
PAC2 (Mail A359)
Temporary Changes to Local Financial Criteria - Kazakhstan

Background Information

In this difficult time for our industry, IATA is there to support its Member Airlines, Accredited Agents and industry partners and to ensure the solidity of its financial settlement systems. IATA is implementing a series of actions to help BSP participants go through the crisis.

In order to prevent sufficient number of Agents' technical Defaults caused by their inability to renew Bank Guarantees (BG) based on existing Local Financial Criteria (LFC) and to secure Airlines' funds from Agencies insolvencies, having strong wish to keep Agency distribution channel sustainable and operational, Kazakhstan APJC met in virtual format on 12 August 2020 to review the Local Financial Criteria.

The proposed amendments focus on introducing a reduced minimum level for Financial Securities for Agents in Kazakhstan due to the impact that COVID-19 pandemic had brought to the market. To ensure that the financial risk can be monitored and Remittance Holding Capacity implementation in Kazakhstan.

A quorum was present from the Airlines and Agents.

The APJC voted by majority to recommend the amendments to Conference.

- In favour: 5 Airlines and 4 Agents
- Against: 2 Agents
- Abstained: 1 Airline

A summary of the changes proposed are:

1. BSP Agents will be able to provide financial security (FS) in the form of a Bank Guarantee in USD, or its equivalent in KZT as an cash deposit (if there is official letter from Agent's Bank with refusal of BG providence) calculated based on one of the below options chosen by the Agent:

Option 1. According to the current LFC KZ

Option 2. Based on CASH sales in 2020 year with 100% coverage of average 15 Days' Sales at Risk amount

2. IATA will implement a mechanism based on the concept of a Remittance Holding Capacity (RHC), for all IATA Accredited Agents in Kazakhstan no matter which Option from the above Agent has chosen for its FS calculation. As the result BSP Cash sales for Agents will be limited to any existing Financial Security and advance payments provided. After an Agent's sales reaches its RHC, the Agent will be restricted for further BSP Cash sales until they have made a payment to bring their outstanding balance down. Agent in any time can increase its RHC by providing additional FS and/or reduce RHC consumption by proceeding with the advance payments.

3. The minimum level of Financial Security will be USD 50,000 and applies only for active Accredited Agents (accredited till 1 August 2020) on a temporary basis, for the emergency period valid from 1 November 2020 until 30 April 2021, with rollback to current minimum Financial Security amount as indicated in the current LFC from 1 May 2021. For new participants (agents) the current LFC will be applied (option 1).

4. Agents who are unable to comply with requirements in the Items 1 or 3 above will be put on review and its Passenger Sales Agency Agreement will be terminated according to existing terms of IATA Passenger Agency Conference Resolutions.

Conference is requested to adopt the proposed changes to the Local Financial Criteria of KZ as indicated in Attachment 'A'.

Effective Date

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

Proposed Action

Conference to adopt the changes to the Local Financial Criteria 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

KAZAKHSTAN

(Effective 1 ~~September~~ November 2020 – MV/333359)

The following section is applicable from 1 November 2020 until 30 April 2021:

1. BSP Agents will be able to provide financial security (FS) in the form of a Bank Guarantee in USD, or its equivalent in KZT as an cash deposit (if there is official letter from Agent's Bank with refusal of BG providence) calculated based on one of the below options chosen by the Agent:

Option 1. According to the current LFC KZ

Option 2. Based on CASH sales in 2020 year with 100% coverage of average 15 Days' Sales at Risk amount

2. IATA will implement a mechanism based on the concept of a Remittance Holding Capacity (RHC), for all IATA Accredited Agents in Kazakhstan no matter which Option from the above Agent has chosen for its FS calculation. As the result BSP Cash sales for Agents will be limited to any existing Financial Security and advance payments provided. After an Agent's sales reaches its RHC, the Agent will be restricted for further BSP Cash sales until they have made a payment to bring their outstanding balance down. Agent in any time can increase its RHC by providing additional FS and/or reduce RHC consumption by proceeding with the advance payments.
3. The minimum level of Financial Security will be USD 50,000 and applies only for active Accredited Agents (accredited till 1 August 2020) on a temporary basis, for the emergency period valid from 1 November 2020 until 30 April 2021, with rollback to current minimum Financial Security amount as indicated in the current LFC from 1 May 2021. For new participants (agents) the current LFC will be applied (option 1).
4. Agents who are unable to comply with requirements in the Items 1 or 3 above will be put on review and its Passenger Sales Agency Agreement will be terminated according to existing terms of IATA Passenger Agency Conference Resolutions

New Applicants

New applicants must have been in operation for 12 months as an Air Travel Agent before applying to be an Agent. The applicant must be in possession of a valid license / certificate to relative types of activities (if required) issued by appropriate state authorities according to Kazakhstan legislation.

The complete file to be sent to the IATA Accreditation Office, consisting of the following:

- completed application form,
- certified copies of the certificate of state registration, tax payer certificate, copy of statute and constituent agreement,
- certified Balance Sheet, Profit & Loss account, Credit and Debt Statement and Cash Flow Account for the last financial year
- list of owners, managers and staff in the format of Part V(A) of the application,
- photographs of the interior and the exterior of the Agency,
- copies of certificates of courses and work experience of the staff,
- statement of International Sales confirmed by the concerned airlines or IATA accredited Agent,
- sample of the Agent's letterhead.

Completeness of applications

Submission of all application forms and financial documents must be done electronically in PDF format. Paper files can only be submitted upon request by IATA.

The Agent must submit the following documents for the most recent financial year, prepared in accordance with the Kazakhstan accounting practices both on paper and in an electronic format.

- Balance Sheet
- Profit and Loss Account
- Credit and Debt Statement.
- Cash Flow Account

Financial assessment of applicants and Agents can only be conducted by a financial assessor appointed by IATA. Such action can be requested only by IATA office.

The financial criteria will be analyzed to ascertain the suitability of the Agent-applicant to become an Agent or for an Agent to remain accredited, as well as determine any level of discount or supplement to the Financial Guarantee (as defined below under "Financial Guarantee"). The definitions of the financial criteria used for the evaluation are as follows:

1) Absolute **liquidity** ratio measures availability of an Agent's cash to pay its debt. Absolute liquidity ratio is used where only cash and bank balances are used for current assets and then divided by short-term liabilities and liabilities held for sale. Short-term liabilities include Loans, Derivative financial liabilities, Other short-term financial liabilities, Short-term trade and other payables, Short-term provisions, Current income tax liabilities, Remuneration to employees payable, Other short-term liabilities.

$$\text{Liquidity (Absolute ratio)} = \frac{\text{Cash and bank balances}}{\text{Total short-term Liabilities} + \text{Liabilities held for sale}} = \frac{\text{Cash and bank balances}}{\text{Loans} + \text{Derivative financial liabilities} + \text{Other short-term financial liabilities} + \text{Short-term trade and other payables} + \text{Short-term provisions} + \text{Current income tax liabilities} + \text{Remuneration to employees payable} + \text{Other short-term liabilities} + \text{Liabilities held for sale}} = \frac{\text{Line 010 from Form 1}}{\text{Line 300 from Form 1} + \text{Line 301 from Form 1}}$$

2) **Solvency** ratio measures the ability of an Agent to cover its long term debts. Equity here includes any Charter (share) capital, Additional paid-in capital, Purchased own equity instruments, Reserves, Retained earnings (retained loss). Total liabilities include Short-term loans, Short-term derivative financial liabilities, Other short-term financial liabilities, Short-term trade and other payables, Short-term provisions, Current income tax liabilities, Remuneration to employees payable, Other short-term liabilities, Liabilities held for sale, Long-term loans, Long-term derivative financial liabilities, Other long-term financial liabilities, Long-term trade and other payables, Long-term provisions, Deferred income tax liabilities, Other long-term liabilities.

Solvency =	$\frac{\text{Total equity}}{\text{Total short-term liabilities} + \text{Liabilities held for sale} + \text{Total long-term liabilities}}$	$\frac{\text{Charter (share) capital} + \text{Additional paid-in capital} + \text{Purchased own equity instruments} + \text{Reserves} + \text{Retained earnings (retained loss)}}{\text{Short-term loans} + \text{Short-term derivative financial liabilities} + \text{Other short-term financial liabilities} + \text{Short-term trade and other payables} + \text{Short-term provisions} + \text{Current income tax liabilities} + \text{Remuneration to employees payable} + \text{Other short-term liabilities} + \text{Liabilities held for sale} + \text{Long-term loans} + \text{Long-term derivative financial liabilities} + \text{Other long-term financial liabilities} + \text{Long-term trade and other payables} + \text{Long-term provisions} + \text{Deferred income tax liabilities} + \text{Other long-term liabilities}}$	$\frac{\text{Line 500 from Form 1}}{\text{Line 300 from Form 1} + \text{Line 301 from Form 1} + \text{Line 400 from Form 1}}$
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3) **Profitability** is a measure of an Agent's ability to generate profit out of its turnover. Net income in this ratio is the profit after tax and total revenue is the commission income (excluding ticket price) that an Agent receives before incurring expenses.

$$\text{Profitability} = \frac{\text{Profit for the year}}{\text{Gross revenue from Ticket commissions}} = \frac{\text{Line 300 from Form 2}}{\text{Line 010 from Form 2}}$$

4) **Cash flow** is the net cash movement (cash increase or cash decrease) in the statement of cash movement where both cash inflows and cash outflows within a period are reflected. This is line 130 in the Form 3A or line 500 in the Form 3B.

New Applicants

New applicants must present audited financial statements showing:

- Rate of Liquidity - over 0.5

- Rate of Solvency - over 0.5
- Rate of Profitability - over 10%
- Cash flow - positive

New applicants, whose financial results do not meet these criteria, will be refused accreditation.

Financial Guarantee

All Accredited Agents are required to present a Bank Guarantee or Insurance Bond/Certificate, issued by recognized bank/insurance company ("Financial Guarantee").

A recognized bank/insurance company is a financial institution authorized to issue Bank Guarantees or Insurance Bonds/Certificates for Agents in Kazakhstan and duly registered and licensed to operate without limitations in the Republic of Kazakhstan. The guarantees must be issued strictly according to IATA templates.

In the event that the financial institution that has provided the Bank Guarantee on behalf of the accredited agent, have a change in status whereby they either have their license to issue Bank Guarantees suspended by the national Bank of Kazakhstan, or their credit rating is withdrawn (including voluntary) or downgraded to the level of CCC/Caa2 or lower, the accredited agent shall provide IATA a new Bank Guarantee from a financial institution who does have a current license to issue Bank Guarantees and has a minimum credit rating B2 with Stable Outlook (by Moody's) or B Stable Outlook (by S&P or Fitch). If the financial institution is a subsidiary bank which does not have its own credit rating while its parent bank (owning majority of shares in the subsidiary bank) has a credit rating as mentioned above or higher such subsidiary bank's credit rating would be considered as meeting the above credit rating requirement. The new Bank Guarantee must be presented within 1 month of the notification from the Agency Services Manager of any such change in status.

Such documents must be issued for the Head Office of the Agent for coverage of the full Amount of Risk of the Head Office and all its Branch Offices/Locations, pursuant to any discounts or supplements to the Financial Guarantee which the Agent may be eligible for, or obliged to, under the scheme below.

Any Bank Guarantee will not be accepted if not authenticated by SWIFT through IATA's nominated bank. IATA will further retain the right to demand additional verification of validity and authenticity of the Bank Guarantee presented to IATA in any reasonable way it deems necessary.

IATA will not accept a bank guarantee or insurance bond/certificate if it does not fully comply with these conditions.

The Amount at Risk is calculated as 1/24 of the last 12 months net BSP cash sales and will be rounded up to the next 5,000 USD, but it cannot be less than 100,000 USD. In the case of a new applicant, the Amount at Risk is based on the declaration of the applicant about previous sales volumes.

Calculation of Amount at Risk for different categories of Agents:

Agents with an Amount at Risk over US\$ 200,000 and have more than 2 full calendar years trading as an IATA Accredited Agent, are entitled for discount of the amount of their Financial Guarantee subject to the criteria stated below.

Group A

Criteria 1: Rate of Liquidity	≥ 0.2
Criteria 2: Rate of Solvency	≥ 0.2
Criteria 3: Rate of Profitability	≥ 0%
Criteria 4: Cash flow	Positive
Separator 1: Amount at risk, in USD	> 200,000 (inclusive)
Separator 2: Default stand and existence on market	No default, over 3 years
Result	15% discount from BG, but >\$200,000

Group B

Criteria 1: Rate of Liquidity	≥ 0.3
Criteria 2: Rate of Solvency	≥ 0.3
Criteria 3: Rate of Profitability	≥ 5%

Criteria 4: Cash flow	Positive
Separator 1: Amount at risk, in USD	> 200,000 (inclusive)
Separator 2: Default stand and existence on market	No default, over 3 years
Result	20% discount from BG, but >\$200,000

Group C

Criteria 1: Rate of Liquidity	≥ 0.4
Criteria 2: Rate of Solvency	≥ 0.4
Criteria 3: Rate of Profitability	≥ 7%
Criteria 4: Cash flow	Positive
Separator 1: Amount at risk, in USD	> 200,000 (inclusive)
Separator 2: Default stand and existence on market	No default, over 3 years
Result	25% discount from BG, but >\$200,000

Group D

Criteria 1: Rate of Liquidity	≥ 0.5
Criteria 2: Rate of Solvency	≥ 0.5
Criteria 3: Rate of Profitability	≥ 10%
Criteria 4: Cash flow	Positive
Separator 1: Amount at risk, in USD	> 200,000 (inclusive)
Separator 2: Default stand and existence on market	No default, over 3 years
Result	30% discount from BG, but >\$200,000

The Agent must meet all the criteria within any single Group to qualify for that Group and accordingly receive discount for that Group.

Additional Agent Group Classifications:

Group E: For Agents who:

- (a) meet the criteria as defined in Group A and
 - (b) have never had a default and
 - (c) have an Amount at Risk less than US\$100,000
- the Agent must provide a guarantee for a minimum US\$100,000.

Group F: For Agents who:

- (a) meet the criteria as defined in Group A and
- (b) have not defaulted in BSP and
- (c) have an Amount at Risk greater than US\$100,000, but less than US\$200,000;

or

- (d) meet the criteria as defined in Group A (e) have defaulted once in BSP and
- (e) have an Amount at Risk that is greater than US\$100,000

no discount from the Financial Guarantee will be applied.

Group G: For Agents who:

- (a) have not defaulted in BSP previously and
 - (b) upon review one out of Criteria 1,2 or 3 are not met and
 - (c) have a positive Cash Flow
- a Financial Guarantee equal to 105% of the Amount at Risk is required.

In addition, for Agents who:

- (d) have not defaulted in BSP previously and
- (e) upon review two out of Criteria 1,2 or 3 are not met and
- (f) have a positive Cash Flow

a Financial Guarantee equal to 110% of the Amount at Risk is required.

Group H: For Agents who:

- (a) have defaulted in BSP once previously and
 - (b) upon review one out of Criteria 1,2 or 3 are not met and
 - (c) have a positive Cash Flow
- a Financial Guarantee equal to 110% of the Amount at Risk is required.

In addition, for Agents who:

- (d) have defaulted in BSP once previously and
 - (e) upon review two out of Criteria 1,2 or 3 are not met and
 - (f) have a positive Cash Flow
- a Financial Guarantee equal to 115% of the Amount at Risk is required.
Until IATA receives the additional Financial Guarantee from Agents in this Group H, the Agent will be suspended.

Group I: For Agents who:

- (a) have defaulted in BSP twice previously and
 - (b) upon review one out of Criteria 1,2 or 3 are not met and
 - (c) have a positive Cash Flow
- a Financial Guarantee equal to 120% of the Amount at Risk is required.

In addition, for Agents who:

- (d) have defaulted in BSP twice previously and
 - (e) upon review two out of Criteria 1,2 or 3 are not met and
 - (f) have a positive Cash Flow
- a Financial Guarantee equal to 130% of the Amount at Risk is required.
Until IATA receives the additional Financial Guarantee from Agents in this Group I, the Agent will be suspended.

Group J: For Agents who:

- (a) have defaulted in BSP more than twice or
 - (b) upon review, none of Criteria 1, 2 or 3 are met or
 - (c) have a negative Cash Flow
- approval for accreditation as an Agent will be refused (for new applicants) and existing Agents will be given notice of termination in accordance with Passenger Sales Agency Agreement.

Risk Evaluation and Bank Guarantee Amendments

Renewal of BG

Two months before the expiry date of the current Bank Guarantee or Insurance Bond/Certificates, IATA will inform the Agent about the Amount at Risk to be covered by the new guarantee, based on net BSP cash sales of the last 12 month period. Such new guarantee must be valid for at least 6 months.

Periodical review

Amount at Risk will be reviewed every six months, based on the calculations for the last 12 month period. During the process of regular financial review, it is not a requisite that agency financial reporting documents bear the stamp and signatures of local tax authorities. Notwithstanding, should as a result of the financial review an agency qualify for any discount to the level of financial guarantee, a third party audit of the annual reports must be provided by the agency. When such review shows substantial increase or decrease of the Amount at Risk, the Agency Service Manager shall require an amendment in the existing guarantee with 1 month pre-notice. Such amendment shall be requested only if the newly calculated Amount at Risk satisfies both criteria as specified below:

Amount at Risk band (USD)		
From / To	Criteria A	Criteria B (USD)
100,000 - 200,000	>25%	> 50,000
200,001 - 500,000	>20%	>100,000
500,001 - 1,000,000	>15%	>150,000
1,000,001 - 2,500,000	>10%	>250,000
Over 2,500,000	> 5%	>250,000

Criteria A is calculated as: $\frac{\text{New Amount at Risk} - \text{existing Amount of Guarantee}}{\text{Existing Amount of Guarantee}} \times 100$

Criteria B is calculated as: $(\text{New Amount at Risk}) - (\text{Existing Amount of Guarantee})$

Review after the financial assessment

After the Annual Financial Review is completed, all Agents are presented with their results. The conclusions of this Report will be implemented in the next scheduled Risk Evaluation, based on the calculations for the last 12 month period.

Early warning system

The Agency Services Manager is empowered to undertake an intermittent review of the Amount at Risk of any Agent, ahead of the scheduled review, should he/she ascertain from BSP Billings that the Amount at Risk during 3 consecutive months is 30% higher than the currently available Financial Guarantee (excluding discounts). In such cases, the Agency Service Manager shall require from the Agent to present within 30 days an additional or amended Bank Guarantee which covers the Amount at Risk calculated on the base of sales reported during these 3 months.

The Agency Services Manager is empowered to undertake an instant review of the Amount at risk, should he/she, ascertain from BSP Billings, that the Amount at risk for the present 1 month period, is 50% higher (excluding discounts), compared to the previous 1 month period.

The new or amended Bank Guarantee has to be provided, not later, than 30 days, after the date of presentation of the written request from IATA.
