



MEMORANDUM

PAC/RESO/701

To: All Members, Passenger Agency Conference
Accredited Representatives

From: Director, FDS Operations, GDC

Date: **2 July 2020**

Subject: **MAIL VOTE (A340)**
PAC2 (Mail A340)
Changes to Local Financial Criteria – Mozambique

Background Information

Mozambique APJC met on 12 March 2020 to discuss the proposed changes for the LFC of Mozambique in line with Resolution 812 and NewGen ISS implementation.

The changes focused on the Financial Security and introducing the categorizing levels of Agent's Risk Statuses A, B & C.

A quorum was present (5 Airlines and 4 Agents). The composition of this council consists of 6 Airlines and 6 Agents.

The APJC voted unanimously to recommend the changes to Conference.

Effective Date

The proposed effective date of these changes is 1 September 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: 2 – 16 July 2020

Filing Period: 17 – 31 July 2020

Effectiveness: 1 September 2020

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

<https://www.surveymonkey.com/r/A333-341>

Please note that no other form of voting will be accepted. Voting will conclude at close of business MAD time on **Thursday, 16 July 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

MOZAMBIQUE

(Effective ~~1 January 2016~~ 1 September 2020 – PAC/38 MV/340)

1. Financial Reviews

~~(a) An Agent applying for IATA accreditation must have been in operation as a Travel Agency for a minimum of 12 consecutive months.~~

~~(b) New applicants for IATA approval must submit an audited Balance Sheet and Profit And Loss Statement, duly certified by an external public accountant/auditor and must not be older than 6 months.~~

~~(c) With the exception of new Agents (within the past 6 months), all Agents will be subject to an annual financial review and are obliged to submit a copy of their report and annual accounts within 3 months of the end of the financial year and which must be duly certified by a government registered accountant.~~

~~(d) IATA can at any time request an Agent to provide the latest Audited Financial Statements in accordance with the Passenger Sales Agency Rules. In the case of private or individually owned organizations (not LTD) a certified statement of the owner's capital assets must be submitted together with the Audited Financial Statements.~~

2. Criteria for Evaluation of Agents' Accounts

SOLVENCY

- ~~• Current ratio (current assets to current liabilities) 1:1 Minimum~~
- ~~• The amount of Net Current Assets must exceed the Agent's amount at risk~~
- ~~• Positive net worth/shareholders interest:~~

NET EQUITY

~~The Net Equity must exceed the sum of Long-term Debt and other Long-term Liabilities~~

3. Financial Security

~~a) A minimum amount of bank guarantee amount must be provided by all new and existing Agents as follows depending on the payment cycle:~~

- ~~i. Weekly USD 45,000.00~~
- ~~ii. Fortnightly USD 90,000.00~~

~~b) The bank guarantee levels will be calculated as follows:~~

~~Except where an Agent is being reinstated after default, the following will determine the amount of the guarantee for a period of one year from the date of such notice by IATA:~~

- ~~1. Based on the most recent 12 months sales, an average of two weeks' (for Agents on weekly cycle) and four weeks' (for Agents on fortnightly cycle) net BSP cash sales are covered by the minimum Guarantee provided to IATA.~~
- ~~2. The amounts will be calculated based on the prevailing exchange rate. The financial security document must be provided in the standard form accepted by IATA.~~
- ~~3. A six month financial review will be undertaken for all new Agents to ensure that the average two weeks' (for Agents on weekly cycle) and four weeks' (for Agents on fortnightly cycle) net BSP cash sales are covered by the minimum Guarantee provided to IATA.~~

~~c) The guarantees must be obtained from financial institutions acceptable to IATA.~~

REDUCTION OF GUARANTEE

To qualify for any reduction in the guarantees the Agent must comply with all of the following:

- ~~Must meet the solvency criteria (Minimum Liquidity ratio 1:1).~~
- ~~The Agent must have been an Agent for more than 10 years.~~
- ~~The agent must not have more than 2 recorded instances of irregularities for late payment against the Agent in the previous 12 months;~~
- ~~The Agent must not have been placed in default or technical default during the preceding 5 years of trading.~~

The reduction of the guarantee will be as follows:

No. of years as IATA Accredited Agent (inclusive)	% Reduction	Liquidity Ratio
0-10	Nil	1:1
1-15	5%	1:1
16-20	20%	1.2:1
21+	30%	1.5:1

1. GENERAL RULE

1.1 An Agent must provide Audited Accounts to IATA. Audited Accounts means accounts reviewed by an auditor recognized as competent by a regulatory authority in the country to perform an audit.

2. CRITERIA FOR THE EVALUATION OF AGENTS ACCOUNTS

2.1 All financial information used in the financial review will be extracted from the Agent's Audited Accounts.

2.2 The following financial tests apply to the evaluation of an Agent's Audited accounts:

2.2.1 There must be a positive Net Equity

2.2.2 There must be a positive net profit

2.2.3 Net Equity divided by Long Term Debt and other Long-Term Liabilities must be greater than 0.5

2.2.4 EBITDA (Earnings before Interest, Taxation, Depreciation, Amortization and extraordinary items) must be positive

2.2.5 The EBITDA must exceed the Interest Payable by a factor of a minimum of two

2.2.6 There must be a positive net worth

2.2.7 The liquidity ratio must be greater than 1.1

2.2.8 The Current Assets must be in excess of the "Amount at Risk" as per section 4.3.2

2.3 An Agent to qualify as Risk Status A will pass the financial review when all provisions in section 2.2 of these criteria have been met.

3. ANNUAL FINANCIAL REVIEWS

3.1 All Applicants must provide Audited Accounts not more than 12 months old at the time of accreditation application to become an Agent to be assessed in accordance with section 2 of these criteria.

3.2 If an Agent has been in business for less than 12 months at the time of accreditation application, an audited opening balance sheet must be provided.

3.3 All Agents must provide an Audited Accounts for the last financial year, no later than 6 months, or as required by legislation, of that Agent for the purposes of evaluation against the financial tests in Section 2 of this criteria.

4. FINANCIAL SECURITY

4.1 An agent will not be accredited or will not continue to be accredited until IATA receives the Financial Security issued by the organization, a validation by written confirmation of the authenticity of the said Financial Security issued.

4.2 Financial Securities will be subject to a minimum notice of termination period on the part of the Financial Security Provider of ninety (90) days and ideally be valid for an unlimited period but will be expected to be valid for a minimum of at least one year.

4.3 For the purposes 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:

<u>Remittance Frequency</u>	<u>Days' Sales at Risk</u>	<u>Days in reporting period</u>
<u>Two times per month</u>	<u>35</u>	<u>16</u>
<u>Four times per month</u>	<u>20</u>	<u>7</u>

4.3.2 Amount at Risk is calculated as following:

Amount at Risk = Days Sales at Risk X (highest 3 months net cash sales) /90

4.4 A minimum Financial Security amount will be USD 45,000 for Agents on four times per months Remittance and USD 90,000 for Agents on two times per month Remittance (or the equivalent in local currency) and is mandatory to all travel agencies.

4.5 All Financial Securities must be provided per the format provided by IATA.

4.6 All New Applicants are required to provide a Financial Security equal to:

("20 Days Sales at Risk" x Estimated Annual Sales) / 365, subject to the minimum amount as defined in section 4.4, whichever is higher.

4.7 Accredited Agents:

4.7.1 Agents with Risk Status A:

Agents are required to provide a Financial Security in USD or the equivalent in local currency covering 75% of their Amount at Risk calculated as per Section 4.3.2, or minimum Financial Security as per section 4.4, whichever is higher.

4.7.2 Agents with Risk Status B:

Agents are required to provide a Financial Security in USD or the equivalent in local currency covering 90% of their Amount at Risk as per section 4.3.2, or minimum Financial Security as per section 4.4 whichever is higher.

4.7.3 Agents with Risk Status C:

Agents with Risk Status C must provide a Financial Security calculated as per section 4.3.2, equal to their assigned Remittance Holding Capacity (RHC) with a minimum amount) in accordance to section 4.4, whichever is higher.

5. DEFINITIONS OF TERMS USED IN THESE CRITERIA

EBITDA - Earnings before Interest, Taxation, Depreciation and Amortization.

Financial Review means a review of an Agent's financial position or the calculation of the amount of Financial Security required in accordance with this local Financial Criteria.

Net Equity or Shareholders'/owners' Funds-Consists of:

- Share capital
- Share Premium
- Retained earnings
- Other distributive reserves
- Shareholder's loans if subordinated less declared dividends

Long Term Debt - All debt liabilities where repayment is due more than twelve months after the end of the financial period.