



MEMORANDUM

PAC/Reso/760

To: All Members, Passenger Agency Conference
Accredited Representatives

From: Director, FDS Operations, GDC

Date: **30 April 2021**

Subject: **MAIL VOTE (A399)**
PAC (Mail A399)
Amendments to Resolution 812 Section 5

Background Information

During 2020 a holistic review on the Remittance Holding Capacity (RHC) framework was conducted in collaboration between PAPGJC and PSG representatives. Subsequently, a new RHC framework was adopted by PAConf in Mail Vote item A343. This paper aims to compliment the new Remittance Holding Capacity framework with an approach on how an Agent may voluntarily adjust their Remittance Holding Capacity.

Under the current provisions within Resolution 812, an Agent may decide to adjust their Remittance Holding Capacity, by voluntarily providing a different Financial Security amount from what has been requested. In such cases, based on the difference between the provided Financial Security amount less the amount required by IATA according to the Local Financial Criteria and Resolutions, an Agent's Remittance Holding Capacity would be adjusted upward or downwards by the same percentage.

Prior to PAConf/42, the provisions under section 5 of Resolution 812 stipulated that an Agent may have their Remittance Holding Capacity adjusted by an amount, through voluntarily increasing or decreasing the same amount of Financial Security provided to IATA. At PAConf/42, a change was adopted to change this to a percentage.

PSG had contemplated on whether using a percentage or taking the absolute value as a basis for the adjustment to Remittance Holding Capacity would be the concept which best fits the NGISS principles since PAConf/42.

It is important to keep in mind that the calculation of the Financial Security amount is based on Local Financial Criteria and the Remittance Holding Capacity as stipulated in Resolution 812.

On a high level, below are some key points being discussed over several working group and PSG meetings:

1- an adjustment by amount would be clear to how the RHC would be adjusted. However, it is possible that while maintaining similar sales levels, an Agent can lower or almost remove any Financial Security coverage, with its RHC adjusted accordingly, leaving a higher potential cash risk exposure than before the adjustment. Prior to the current provisions coming some Agents had discovered this "loophole" and been taking advantage of this mechanism creating unfair conditions in a market and higher risk to the wider market.

2- a percentage would mean that any increases and decreases are adjusted in proportion to the changes made to the Financial Security amounts thus lowering the risk in the found "loophole", however there are a few scenarios where exceptional rules would need to be defined to tackle the situation where an Agent

had no Financial Security and decided to provide some, it would not be sensible to calculate an increase based on zero.

The result would be either an infinite RHC amount, or a baseline would have to be set to ensure that this situation would not arise. Due to the different economic situation in each market, it is difficult to set a baseline that would work for all markets.

After weighing the pros and cons of the options, at its 118th meeting, PSG unanimously endorsed for a different approach that would take into consideration the pros and cons of using either an absolute value or percentage approach, as detailed in this paper.

Historic background of RHC and relevant adjustments

Through the exercise of reviewing the overall RHC framework earlier on, the IATA team started looking into archived documentation to try and understand the rationale of several decisions made for the Remittance Holding Capacity framework. Through this, it had been identified that the reason why neither a value nor percentage was the perfect solution was because the initial RHC framework did not contemplate an RHC amount that would be double of the "Amount at Risk".

By way of example, at the early stages of the drafting, the possibility to move the RHC amount upwards or downwards was to provide Agents with the flexibility given that their hypothetical RHC of "Amount at Risk + 5% or 15% " may not account for anticipated sales peaks or promotions that they have planned for the high season, hence the possibility to increase that capacity was made available, and the flexibility to lower it back afterwards was included.

The final decision was that the RHC formula would be the equivalent to "Amount at Risk + 100%", however the above option of adjustment was not re-discussed after this decision was made.

When having an RHC of "Amount at Risk +100%", very few Agents in actual fact had reached their 100% RHC on a regular basis during the last two years. The provisions became an opportunity for fraudsters to decrease their Financial Securities whilst keeping enough RHC to quickly make financial gains and exit the market without being detected, rather than honest Agents that had been forecasting their sales ahead of time.

At the same time, the Financial Security requested by IATA is already the result of a complex and individualized process to review the financial health and risk of an Agent, based on local and global criteria. The possibility in adjusting the Financial Security amount at any time to any amount regardless of the financial assessment results, undermined the requirements of the Local Financial Criteria, which is the work of local Councils considering local market conditions and distribution activities and thereby assessing Agencies and their risk profiles in the most appropriate manner and ultimately obtaining fair market conditions to all players.

An Agent would be able to circumvent those requirements by requesting a reduction to its RHC, and in these cases, undermine the true risk profile that had been thoroughly assessed based on the deliberations through such local criteria. And should this Agent fail, this may drive APJC discussions leading to more stringent conditions for the whole market.

More than often, when an important default takes place in a market, APJC receives pressure either from the market or from the wider community to review the LFC and find ways to tighten it, however since the required amount by LFC is not always respected based on the grey area described in the previous section, such pressure to further tighten the LFC requirements can also be considered unfair to the rest of the Agency community. Only if, and when, Agents Financial Security amount cannot deviate from, at minimal, what is required from them based on the LFC assessment, and still an important default takes place, would it warrant a review in whether LFC should be more stringent or not.

Reviewing the matter in a holistic manner

The IATA team provided PSG with an explanation on this finding during a risk management workshop, and the group reviewed the issue keeping in mind the long-term view for agency risk management within the Passenger Agency Programme, as agreed at ISSRMWG, PSG and PAPGJC - which was to ensure that the RHC was designed to be more fit for purpose, taking away a one-size-fits-all mindset by considering the Agents operational size and Risk Status, having different types of assessments for those Agents that have a larger risk profile than others.

It was thought that through the changes proposed for the new RHC framework, the Agents would result in an RHC that was proportionate to their business, and in such cases, be closer to the original spirit of the RHC. At the same time, it was important to ensure that the requirements from the Local Financial Criteria are respected, for effective and localized agency risk management framework.

The final recommendation to PSG was to contemplate any adjustments be made through a value up value down basis given the above arguments, whilst at all times requiring the Agent to respect the required Financial Security amount they had been assigned through the Local Financial Criteria as a minimum and not being able to circumvent the sophisticated risk management analysis for that agent based on local criteria through this adjustment mechanism.

Solution description

Concretely, it is proposed that an Agent will have the freedom to adjust their Remittance Holding Capacity by the same amount as any adjustments to the Financial Security amount of what IATA requires to the agent, but at all times not lower than the required amount, as determined in the Local Financial Criteria based on the risk assessment of the particular Agent. If the agent would like to provide a Financial Security lower than determined by the Local Financial Criteria, the RHC would be set at the level of the Financial Security.

In all cases, to always keep the option as indicated under Resolution 812, section 5.9.3, an Agent may at any time, request IATA to recalibrate its Remittance Holding Capacity by requesting for its calculation to be refreshed and kept up-to-date in case they start to experience large changes to their recent sales volumes.

Effective Date

The proposed effective date of these changes is 1 June 2021

Proposed Action

Conference to adopt the changes to Resolution 812 Section 5 as found in Attachment 'A' and the relevant amendments in the BSP Manual for Agents in Attachment 'B', with the effectiveness 1 June 2021.

The timetable for this Mail Vote is as follows:

Voting Period: 30 April - 14 May 2021

Filing Period: 17 May - 31 May 2021

Effectiveness: 1 June 2021

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

<https://www.surveymonkey.com/r/A399-426>

Please note that no other form of voting will be accepted. Voting will conclude at close of business MAD time on **Friday, 14 May 2021**. 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

5.5.4 Failure to Provide a Financial Security

Increase in Financial Security

5.5.4.1 Where the request relates to an increase in the amount of a Financial Security and IATA already holds a Financial Security for that Agent, failure to provide the increase in the amount of the Financial Security by the deadline will result in the Agent's Remittance Holding Capacity being reduced by the same ~~percentage amount~~ of increase in the Financial Security requested by IATA.

5.9.3 Reaching or Exceeding the Remittance Holding Capacity

5.9.3.1 If All Amounts Owing are, at any time, equal to or higher than the Remittance Holding Capacity, the Cash Payment Method will be removed from the Agent, (but other authorised Payment Methods, in accordance with section 2.1.2.1, will continue to be available), until the Agent has either:

(a) remitted in advance of, or on, the Remittance Date, to reduce All Amounts Owing below its Remittance Holding Capacity; or

~~(b) in the case of the Agent holding Standard Accreditation with Cash Facility or Multi-Country Accreditation with Risk Status A or B, provide an additional Financial Security amount, in which case its Remittance Holding Capacity will be increased in accordance to the applicable Financial Criteria to increase its Remittance Holding Capacity by the same amount of any additional Financial Security provided.~~

~~(i) subject to section 5.9.3.1(b)(ii) by the same percentage of additional Financial Security provided; or,~~

~~(ii) in the case of the Agent holding Standard Accreditation with Cash Facility, by such other amount as determined in accordance with the applicable Local Financial Criteria.~~

5.9.3.2 During the period where the Agent is restricted from using the Cash Payment Method under section 5.9.3.1, the Agent may continue to use the Customer Card Payment Method, Alternative Transfer Methods, if so authorised by the individual BSP Airlines, and IEP.

5.9.4 Management of Remittance Holding Capacity Where All Amounts Owing Are Less Than the Remittance Holding Capacity

5.9.4.1 ~~For Agents holding Standard Accreditation with Cash Facility or Agents holding Multi-Country Accreditation, if # All Amounts Owing are, at any time, lower than the Remittance Holding Capacity, the Agent may, subject to any minimum amount established in the applicable Local Financial Criteria or Multi-Country Financial Criteria, reduce the amount of the Financial Security provided in accordance with sections 5.5, 5.9.3.1(b) or any other section of this Resolution with the following conditions:~~

~~(a) provided that such amount will not be less than the required amount for the Agent, in accordance to the applicable Financial Criteria or section 5.11 of this Resolution, the Remittance Holding Capacity will be decreased;~~

~~(a) subject to section 5.9.4.1(b), by the same percentage amount of decrease in the Financial Security amount; or (b) in the case of the Agent holding Standard Accreditation with Cash Facility, by such other amount as determined in accordance with the applicable Local Financial Criteria; provided that All Amounts Owing do not equal or exceed the new Remittance Holding Capacity.~~

(b) if such amount will be less than the required amount for the Agent in accordance to the applicable Financial Criteria or section 5.11 of this Resolution, the Remittance Holding Capacity amount will be decreased to be equal to the Financial Security amount provided by the Agent, at all times respecting any minimum amount as required in the applicable Financial Criteria.

5.9.4.2 Notwithstanding any other provision under this section 5, the Agent may at any time increase its Remittance Holding Capacity by either:

~~1(a)~~ providing IATA with a Financial Security for a higher amount, or,

~~2(b)~~. for the Agent with Risk Status "A" in a market with no minimum Financial Security requirement, providing a new Financial Security.

The Remittance Holding Capacity will be increased:

~~(a) by the same percentage amount of the new or additional Financial Security amount provided, or subject to section 5.9.3.1 (b), or~~

~~(b) in the case of the Agent holding Standard Accreditation with Cash Facility, by such other amount as determined in accordance with the applicable Local Financial Criteria.~~

It is proposed to amend chapter 14 of the BSP Manual for Agents (Resolution 812 edition) as follows:

14.11 Amending the Remittance Holding Capacity

An Agent can amend its Remittance Holding Capacity by providing additional Financial Security. Unless otherwise specified in the applicable Local Financial Criteria, the Remittance Holding Capacity will be increased by the same monetary amount as the additional Financial Security provided.

Inversely, an Agent can reduce the total amount of Financial Security provided to IATA and as a consequence lower its total Remittance Holding Capacity. In such cases, the Remittance Holding Capacity will be decreased by the same monetary amount as the Financial Security is decreased, as long as the Financial Security provided is not less than the amount required by the Agent in accordance to the Financial Security calculation in the Local Financial Criteria.

An Agent may request for a decrease below the requested amount in accordance to the calculation of the Local Financial Criteria. In such cases, their Remittance Holding Capacity will be adjusted to be levelled with the amount of Financial Security provided to IATA.

In all cases, any decrease will be subject to minimum Financial Security requirements established in the applicable Local Financial Criteria.

~~**Example 1:** Agent has a Risk Status A, and per applicable Local Financial Criteria, no Financial Security is on hand with IATA. The Agent's Remittance Holding Capacity is USD 500,000. If the Agent provides IATA with a Financial Security of USD 100,000, the Agent will be able to increase its Remittance Holding Capacity by the equivalent USD 100,000 to a revised total of USD 600,000.~~

~~**Example 2:** Agent has a Risk Status B. As calculated per Local Financial Criteria, the Agent is required to provide a Financial Security of USD 125,000. The Agent's Remittance Holding Capacity is calculated at USD 325,000. If the Agent increases its Financial Security by USD 50,000 to USD 175,000, the Agent's Remittance Holding Capacity will be increased by USD 50,000 to USD 375,000.~~

~~**Example 3:** Agent has a Risk Status B, and is requested to provide a Financial Security in the amount of USD 200,000. The RHC calculated for the Agent is USD 400,000. If the Agent chooses to decrease the amount of Financial Security provided by USD 50,000 to USD 150,000, the Agent's Remittance Holding Capacity granted will be lowered by the same USD 50,000 to USD 350,000.~~

For Risk Status C Agents, Agents accredited with Cash Facility for less than 24 months, and for Agents reinstated following a default, the amount of Financial Security provided will automatically equal the amount of Remittance Holding Capacity granted. IATA may recommend a Financial Security amount based on historical Cash sales, but it will be up to each Agent to determine how much Financial Security it wishes to provide. Again, this will be subject to any minimum requirements established in Local Financial Criteria.