



MEMORANDUM

PAC/Reso/767

To: All Members, Passenger Agency Conference
Accredited Representatives

From: Director, FDS Operations, GDC

Date: **30 April 2021**

Subject: **MAIL VOTE (A406)**
PAC2 (Mail A406)
Temporary Changes to the Local Financial Criteria - Lebanon

Background Information

Lebanon has been suffering the consequence of capital controls which forbid transferring funds abroad, that led to the termination of the ICCS in the Lebanon BSP from June 2020.

However, current capital controls rules enable the possibility to transfer funds from abroad, if these are "new funds" in the financial system (hereinafter "fresh funds"). Based on this possibility, banks are giving the option to their customers to open "fresh US dollar" accounts that would not be subject to capital controls. In addition, the Central Bank of Lebanon has officially allowed the airlines to use "Fresh US Dollars" as a form of payment.

Since November 2020, IATA and the airlines have been assessing possible solutions given the operational complexities to support the airlines and the industry in the country, including a proposal to operate a dual currency BSP operation, managing current regular and "fresh" US dollars in parallel.

Several meetings have been held with a local task force, formed by BSP airlines from the Lebanon LCAG-P members, the latest position taken by the airlines is to implement a pseudo-dual currency operation limiting funding of BSP Hinge account to "Fresh USD" and leaving IATA EasyPay wallet to be funded in "Legacy USD".

- BSP Cash sales would be settled to a new "Fresh USD" account to be provided by the Airline. IEP sales would be settled using current Airlines' bank accounts in already in place
- Airlines would have an option to collect Fresh USD by bilaterally negotiating with the agents the Form of Payment (FoP) used to issue tickets. Airlines will have the possibility restrict selling tickets in "Legacy USD" by opting out of the use of IEP as a form of payment.
- The control of the adherence of the agents to any potential bilateral agreements in place would be the responsibility of each individual Airline. IATA will not have mechanisms in place to enforce or limit the issuance of tickets (except of RHC mechanism) in any form of payment.
- If an Airline finds that an Agent is not meeting their agreements regarding the FoP usage, it will have the option to fully remove their ticketing authority from the agent.
- Go Lite agents would also be granted access to issuance in "Fresh USD" by advancing payment through the hinge account to allow them to issue Cash tickets with an RHC=0

Important elements to consider:

- For the foreseeable future that this temporary LFC will be in place, there will be no financial assessments made on Agents in Lebanon as the Financial Security will be levelled with the RHC assigned to all Agents at all times.

- IATA will not restrict cash FoP to agents while RHC limits are not reached, provided that ticketing authority has been granted, regardless the bilateral agreements in place.
- Airlines without local Bank Account will be allowed to operate in the market, provided that they do not opt-in IEP.
- IATA will not be able to limit the issuance of refunds for tickets issued before the introduction of "Fresh USD". Airlines should evaluate the need to establish additional controls in their refund process, if required.
- All previously paid advance payments from agents in the Hinge Account will need to be returned.
- Allowing Go Lite Agents to issue Cash tickets under RHC=0, might lead to some level of exposure due to the time required by the GDSs to execute ticketing restriction.
- Remittance to the "Fresh USD" hinge account done through EFT might require more than 2 working days to be credited into the hinge account, and an extra working day to be reflected in the RHC. Deposit of cash USD directly in the bank could suffer restrictions due to Clearing Bank capacity limitations.

The proposal for the operation is as follows:

- 1- IATA shall maintain the current legacy Financial Securities up to 31 August 2021. From 1 September 2021 Agents must provide Financial Securities in 'Fresh' USD. Agents which fail to provide a Financial Security in 'Fresh' USD, its RHC will be equal to zero Effective 1st of September and will not be assigned a Risk Event for failure to provide a Financial Security.
- 2- For all Agents with legacy Financial Securities, its RHC will be equal to 50% of their legacy Financial Security
- 3- Agents which have furnished a Financial Security in 'Fresh' USD its RHC will be equal to the value of the Financial Security.
- 4- Agents will not be able to provide combined Financial Securities in legacy and 'Fresh' USD
- 5- Agents may increase its RHC up to 31 August 2021 by providing additional coverage in its legacy Financial Security. In these cases, its RHC will be equal to 50 % of their legacy Financial Security value.
- 6- Agents may provide a Financial Security in 'Fresh' USD prior to the effectiveness of this LFC. In these cases, its RHC will be equal to the value of the Financial Security and any previously provided securities in the legacy currency will be returned to the Agent.
- 7- Agents may provide 'Fresh USD' Cash Deposits or 'Fresh' USD Bank Guarantees in accordance to the 'Fresh' USD BG template.
- 8- IATA Easy Pay will remain in be Legacy USD and GoLite Agent upon request will be granted access to Cash Fresh USD sales with an RHC = Zero
- 9- Fresh USD is cash injected in the banking system by Cash Deposit or international USD Transfers

Temporary Exception for LFC

As per above, the LFC was revised accordingly under section 4.2.4 and other sections have been revised accordingly where needed. The proposed amendments can be found in Attachment 'A' of this paper.

APJC met on March 11th, 2021 and on March 16th, 2021 to discuss the beforementioned proposals and unanimously voted in favour to proceed with the change to the Agent Remittance in BSP Lebanon to "Fresh US Dollars" only and also to add the above proposed section 4.2.4 to the current LFC.

The proposal has also been reviewed at the 120th PSG and the Steering Group had endorsed for this item to be put forth to the upcoming Mail Vote.

Effective Date

The proposed effective date of these changes is 1 June 2021

Proposed Action

Conference to adopt the changes to the proposed changes to the temporary Local Financial Criteria of Lebanon as found in Attachment 'A'.

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.



Juan Antonio Rodriguez
Director, FDS Operations, GDC

LEBANON

(Effective from 1 June 2021 MV/406) ~~1 October 2019 – MV/312~~

1. GENERAL RULE

Audited Accounts means accounts reviewed by an auditor recognized as competent by a regulatory authority in Lebanon 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 Net Equity divided by long-term debt and other long-term Liabilities must be greater than 0.5

2.2.3 EBITDA (Earnings before Interest, Taxation, Depreciation, Amortisation and extraordinary items) must be positive.

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

2.2.5 Adjusted Current Assets must exceed Current Liabilities.

2.3 An Agent will obtain a satisfactory result on 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 submission to become an Agent for the purposes of evaluation against the financial tests as per section 2 of these criteria.

3.2 If an Agent has been in business for less than 12 months at the time of application, an Opening Balance sheet must be provided instead.

3.3 All Agents must provide Audited Accounts no later than July 1st of each year, which is 6 months after each Financial Year End, for the purposes of evaluation against financial test in section 2 of these criteria.

3.4 All agents must provide a Financial Security in accordance with section 4 of these criteria.

Note:

There will be no requirements for Applicants to provide Audited Accounts for their application of Accreditation during this period of time.

Annual financial reviews will not be performed by IATA for the duration of this set of temporary financial criteria being applicable, Agents will not be required to provide any financial statements to IATA.

4.1. FINANCIAL SECURITY

4.1 An Agent will not be accredited or will not continue to be accredited until any Financial Security required to be provided to IATA has been received by IATA and confirmed to IATA.

~~The communication to IATA needs to be received in writing directly from the third party supporting the Financial Security confirming that the Financial Security was issued by that third party and is valid.~~

4.21.1 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.

4.31.2 For the purposes of calculating the amount of a Financial Security the following definitions apply:

4.3.11.2.1 "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.

Remittance Frequency	Days' Sales at Risk	Days in reporting period
Two times per month	35	16
Four times per month	21	8

4.3.21.2.2 "Amount at Risk" is calculated as following:

$$\text{"Amount as Risk"} = \frac{\text{"Days' Sales at Risk" x BSP Cash Turnover in applicable 3 highest reporting periods}}{\text{Days in reporting period x 3}}$$

4.3.31.2.3 The amount of the financial security is calculated to cover at a minimum the Days Sales at Risk multiplied by the BSP cash turnover in 3 highest reporting periods of the last 12 months over the number of days in the reporting period multiplied by 3.

1.2.4 Calculation of the Financial Security:

1.2.4.1 IATA shall maintain the current legacy Financial Securities up to 31 August 2021. From 1 September 2021 Agents must provide Financial Securities in 'Fresh' USD. Agents which fail to provide a Financial Security in 'Fresh' USD, its RHC will be equal to zero Effective 1st of September and will not be assigned a Risk Event for failure to provide a Financial Security.

1.2.4.2 For all Agents with legacy Financial Securities, its RHC will be equal to 50% of their legacy Financial Security

1.2.4.3 Agents which have furnished a Financial Security in 'Fresh' USD its RHC will be equal to the value of the Financial Security.

1.2.4.4 Agents will not be able to provide combined Financial Securities in legacy and 'Fresh' USD

1.2.4.5 Agents may increase its RHC up to 31 August 2021 by providing additional coverage in its legacy Financial Security. In these cases its RHC will be equal to 50 % of their legacy Financial Security value.

1.2.4.6 Agents may provide a Financial Security in 'Fresh' USD prior to the effectiveness of this LFC. In these cases its RHC will be equal to the value of the Financial Security and any previously provided securities in the legacy currency will be returned to the Agent.

1.2.4.7 Agents may provide 'Fresh USD' Cash Deposits or 'Fresh' USD Bank Guarantees in accordance to the 'Fresh' USD BG template.

1.3 Financial Security is not applicable for 'Fresh USD' Cash sales for GoLite Agent

1.4 Agents with Risk Status A, B, and C and GoLite

~~4.4 For Agents with Risk Status A, B and C the amount of the Financial Security required must be not lower than USD 100,000.~~

~~4.5 All Agents Financial Security will be equal to the Remittance Holding Capacity at all times.~~

~~4.6.1 An Applicant/Agent may at any time request to reduce or increase the Financial Security amount provided inline with 4.4.~~

~~4.7.2 The value of the Financial Security will be rounded to the next USD10,000 taking into consideration the minimum required Financial Security of USD 20,000~~

4.82.3 The list of financial institutions that authorized to issue Bank Guarantee or Insurance Bond/Certificate is provided by IATA. All Financial Securities must be drawn as per the IATA specimen.

2.4 Go Lite Agent upon request will be granted access to Cash Fresh USD sales with RHC = Zero

4.9 Default Insurance Program (DIP)

4.9.1 Any Agent can provide a Financial Security method of DIP after 12 months of accreditation without any default and/or suspension action.

4.9.2 Any agent under DIP (Default Insurance Program) whose Average days sales at Risk exceeds its maximum DIP limit, must provide a Bank Guarantee, or additional DIP cover for the excess amount.

53. DEFINITIONS OF TERMS USED IN THESE GUIDELINES

3.1 Fresh USD is cash injected in the banking system by Cash Deposit or international USD Transfers

Adjusted Current Assets – are defined as Current Assets as in the balance sheet of the accountants after deducting:

- Stocks and work in progress
- Deposits given to third parties other than IATA
- Loans to Directors, Associate Companies, (including any subsidiary, associate or company under common ownership)
- Doubtful debtors
- Blocked funds except for funds held in favour of IATA

These generic descriptions may be modified to terms specifically defined under the applicable local Generally Accepted Accounting Principles (GAAP) and disclosed in the financial statements.

Current Liabilities – are defined as current liabilities in the balance sheet of the accounts

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.

Long Term Liabilities – all liabilities where repayment is due more than twelve months after the end of the financial period.

Review means any assessment or evaluation of an agent's continuing compliance with the Passenger Sales Agency Rules.