



MEMORANDUM

PAC/RESO/711

To: All Members, Passenger Agency Conference
Accredited Representatives

From: Director, FDS Operations, GDC

Date: **15 September 2020**

Subject: **MAIL VOTE (A350)**
PAC1 (Mail A350)
Temporary Changes to Local Financial Criteria – Caribbean

Background Information

APJC Caribbean met on 10 July 2020 following the recommendation of PSG and PAPGJC to review local financial criteria and determine its applicability given impact of COVID-19's quarantines on Agents' financial position.

The APJC agreed to the merit of such review and called upon the LFCAG to meet and address the mandate. The LFCAG met on 30 July 2020. Both airlines and Agents brought forward recommendations that were circulated prior to the AG meeting to ensure all parties had the opportunity to review and come prepared to deliberate and agree on a way forward. The LFCAG reviewed all recommendations and as a group reached consensus on a combined proposal to be presented to the APJC.

On 6 August 2020, the APJC-Caribbean reviewed the proposals and unanimously approved the changes that follow under Attachment A, applicable to all Agents in the English-speaking Caribbean, and under Attachment B, applicable to Agents in the Dominican Republic.

The proposed changes address 6 to 8 months of quarantines in effect with full airport closures throughout the Caribbean, still in effect at the time of this report, with some states maintaining quarantine into September and October 2020.

These proposals aim to facilitate the re-start of the agency distribution channel in the Caribbean and have received the unanimous support of all members of the APJC.

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 until 31 December 2021.

Proposed Action

Conference to adopt the temporary changes to Local Financial Criteria for the English-speaking Caribbean as shown in Attachment 'A', and Dominican Republic in Attachment 'B'.

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

ALL CARIBBEAN – ENGLISH SPEAKING COUNTRIES EXCEPT DOMINICAN REPUBLIC

*(English speaking countries of Caribbean – Bahamas, British Virgin Islands, Cayman Islands, Caribbean and West Indies (Anguilla, Antigua, Aruba, Barbados, Bonaire, Curacao, Dominica, Grenada, Guyana, Montserrat, St. Kitts, St. Lucia, St. Maarten, St. Vincent, Suriname, Trinidad and Tobago), Haiti, Jamaica, Turks & Caicos Islands - Effective 1 ~~March 2019~~
November 2020 – PAC/40 MV/350)*

PREMISES

The premises must be devoted exclusively to the promotion and sale of air passenger transportation and related services. The premises must be clearly identified as a travel agency and must be readily accessible to the general public during normal business hours.

SECURITY

Minimum Security Standards are applicable to all Travel Agents. Such Minimum Security Standards are stipulated under the provisions of Resolution 818g, Section 5 of this Handbook.

FINANCIAL STANDARDS

Resolution 800f applies to all countries under Resolution 818g. The following principles highlight minimum financial criteria requirements, specific criteria follows under appropriate headings.

The applicant/Agent shall submit independently produced certified financial statements prepared in accordance with local accounting practices and shall be evaluated and found satisfactory pursuant the methodology and standards provided below. In addition, every Agent shall be required to submit annual financial statements to ensure continued compliance. The following exceptions will be made in an effort to mitigate the significant impact of the COVID-19 pandemic on Agent's financial accounts applicable to the financial year ending 2020 expected to be submitted in 2021.

Financial Statements

- must not be older than six months,
- must be certified by an external or internal Certified Public Accountant ~~public accountant~~,
- must comply with the minimum financial criteria established for the country (shown hereafter),
- must be evaluated against Ratio Testsⁱ

Ratio Tests used and maximum number of points obtainable per ratio test:

Financial Statements will be evaluated against ratio tests. The financial ratio analysis is measured by the application of five ratio tests against which points are allocated. A maximum of 44 points may be attained. For the financial results to be considered as a satisfactory result, a minimum of 15 points must be scored.

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
<u>Irregularity History</u>	<u>4</u>	<u>Number of irregularities issued in the agency's history</u>

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

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

For BSP countries with sales remittance cycles up to 10 days:

Under 15 days	7 points
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

For BSP countries with sales remittance cycles between 10 to 15 days:

Under 15 days	7 points
15 – 18 days	6 points
19 – 2 days	5 points
23 – 27 days	4 points
28 – 31 days	3 points
32 – 35 days	2 points
36 – 39 days	1 point
over 39 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
0.13	2 points
0.10	1 point
under 0.10	0 points

Irregularity History = Number of Irregularities issued in the financial year

<u>0 Irregularities</u>	<u>4 points</u>
<u>1 Irregularity Maximum per Financial Year</u>	<u>2 points</u>
<u>2 or More Irregularities per Financial Year</u>	<u>0 points</u>

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.

Certified Financial Statements

Prepared and signed by an internal or external Certified Public Accountant in accordance with local accounting practices.

REQUIRED FINANCIAL CRITERIA BY COUNTRY

Bahamas, British Virgin Islands and Turks & Caicos Islands

Certified, ~~audited~~ current Balance Sheet not more than 6 months old, notarized and signed by a C.A. Bank and/or Credit Report covering 3 months preceding the date of the Balance Sheet. All Agents/applicants will be required to submit a Profit and Loss statement. Financial Statements in US funds or equivalent must show Working Capital of not less than USD ~~25,000~~ 10,000 plus USD ~~7,500~~ 2,000 for each branch office.

Caribbean and West Indies

Certified Statement of Assets and Liabilities reflecting the financial position of the Agency, dated not older than six months of the application, must be submitted. The agency must have the equivalent of USD ~~25,000~~ 10,000 net in current assets, USD ~~25,000~~ 10,000 working capital (the difference between total current assets over total current liabilities) and net worth or equity of at least USD ~~25,000~~ 10,000. Additionally, for each Branch Office Location, the Agency would be required to have a further USD ~~7,500~~ 2,000 in each of the above-mentioned areas.

Cayman Islands and Jamaica

Certified statement of Assets and Liabilities reflecting the financial position of the Agency dated not older than six months of the application, or date of financial year-end of the Travel Agency (whichever is applicable) must be submitted.

Net Tangible Assets: The Agency must have USD ~~25,000~~ 10,000 in net tangible assets. Net tangible assets represent the equity of the shareholder(s)/owner(s) in the business. This is calculated by taking the total assets less any intangible assets such as goodwill, etc., less all liabilities, both current and non-current and including loans due to the shareholder(s)/owner(s). Additionally, for each Branch Office Location, the Agency would be required to have a further USD ~~7,500~~ 2,500 in net tangible assets.

Working Capital: The minimum working capital requirement is USD ~~25,000~~ 10,000 (which is the difference between total current assets over total current liabilities) less any non-current shareholder loans to the business. Additionally, for each Branch Office Location, the Agency would be required to have a further USD ~~7,500~~ 2,000 in working capital.

Haiti

Certified, ~~audited~~ current balance sheet not more than 6 months old, notarized and signed by a Certified Accountant. Bank and/or Credit report covering 3 months preceding the date of the balance sheet. All agents/applicants will be required to submit a Profit and Loss statement.

Financial statements in US funds or equivalent must show a minimum of USD ~~25,000~~ 10,000 in working capital ("active") minus current liabilities ("passive"), plus additional USD ~~7,500~~ 2,000 for each branch office.

ALL COUNTRIES: 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 in accordance with Resolution 800f. Amount of guarantee described below.
- **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”.

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.

Accredited Agents in Bahamas, British Virgin Islands, Cayman Islands, Haiti, Jamaica, Turks and Caicos, Caribbean and West Indies (Anguilla, Antigua, Aruba, Barbados, Bonaire, Curacao, Dominica, Grenada, Guyana, Montserrat, St. Kitts, St. Lucia, St. Maarten, St. Vincent, Suriname, Trinidad and Tobago) must provide a Financial Security with a minimum amount of USD5,000.

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

Annual country net cash sales volume of Agents in the BSP, minus sales of top 10% of Agents and bottom 20% of Agents to determine the average net cash sales of remaining Agents, equivalent to the number of “Days' Sales at Risk”. Certain country exceptions are listed below:

Bahamas:	USD 65,000
British Virgin Islands:	USD 25,000
Cayman Islands:	USD 25,000
Eastern Caribbean*: *Aruba, Antigua, Barbados, Bonaire, Curacao, Dominica, Grenada, Guyana, Montserrat, St. Kitts, St. Lucia, St. Maarten, St. Vincent, Trinidad and Tobago	USD 25,000
Haiti:	USD 25,000
Jamaica:	USD 25,000
Turks & Caicos:	USD 25,000

DOMINICAN REPUBLIC

(Effective 1 ~~July 2019~~ November 2020– ~~MV/300~~ MV/350)

The following exceptions will be made in an effort to mitigate the significant impact of the COVID-19 pandemic on Agent's financial accounts applicable to the financial year ending 2020 expected to be submitted in 2021.

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

1.1 Financial Statements:

- Certified, ~~audited~~ current Balance Sheet reflecting the financial position of the Agency,
- Bank and/or Credit Report covering 3 months preceding the date of the Balance Sheet,
- Profit and Loss statement,
- must not be older than six months at the time of submission,
- must be certified, notarized and signed by an external ~~or internal Certified Public Accountant~~ ~~public accountant~~.

2. CRITERIA FOR THE EVALUATION OF AGENTS' ACCOUNTS

2.1 Financial statements must reflect the equivalent of USD ~~25,000~~ 10,000 in working capital (the difference between total current assets over total current liabilities). Additionally, for each Branch Office Location, the Agency would be required to have a further USD ~~7,500~~ 2,000 in working capital.

2.2 Financial Statements will be evaluated against ratio tests. The financial ratio analysis is measured by the application of ~~four~~ five ratio tests against which points are allocated. A maximum of ~~44~~ 40 points may be attained. For the financial results to be considered as a satisfactory result, a minimum of ~~22~~ 15 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
<u>Risk History</u>	<u>4</u>	<u>Amount of Risk Events in the agency's history</u>

2.2.2 Scale of Points per Ratio Test:

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

Turnover Ratio = $\frac{\text{Net Receivables}}{\text{Total Sales}} \times 365$

Under 15 days	7 points
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

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

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

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

Risk History = Number of risk event in the financial year

<u>0 Events</u>	<u>4 points</u>
<u>1 Maximum Event Per Financial Year</u>	<u>2 points</u>
<u>2 or More Events per Financial Year</u>	<u>0 points</u>

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 35,000 (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 USD5,000, whichever is higher.

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.

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This amount should be net of bad debt and should be broken down to reflect separately:

- Trade receivables net of provision for bad debt
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Profit After Tax

Profit after taxes but before extraordinary items.

Total Assets

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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.

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