



MEMORANDUM

PAC/RESO/712

To: All Members, Passenger Agency Conference
Accredited Representatives

From: Director, FDS Operations, GDC

Date: **15 September 2020**

Subject: **MAIL VOTE (A351)**
PAC3 (Mail A351)
Temporary Changes to Local Financial Criteria – Hong Kong

Background Information

Under the "Managing risk as business restarts" project, the APJC was asked to consider whether a temporary LFC would be needed in Hong Kong. The APJC had agreed that due to the impact of COVID-19, the financial strength of travel agents would likely to worsen for a period of time and would cause much financial burden of the travel agents to provide a much higher financial security if assessed under the current Local Financial Criteria (LFC). The APJC HK agreed to have a temporary LFC based on a win-win situation whereby the airlines would agree to provide a degree of relaxation to travel agents, the risk of the airlines' funds would also need to be protected.

APJC Hong Kong proposes Conference to adopt recommended a temporary LFC for HK. The temporary LFC would be applicable to all agents to undergo AFR with audited financial reports from YE 30JUN2020 to YE 31MAY2021.

This proposal has been voted at the APJC HK and details as below:

No. of APJC meeting: 44th APJC meeting

Date of APJC meeting: 12th August 2020

APJC HK has 18 members. 7 airlines' members and 8 agents' members were present

Voting result: 6 out of 7 airlines' members supported and 8 out of 8 agents' members supported. Majority votes obtained from both sides and the proposal is adopted.

Effective Date

The proposed effective date of these changes is 1 November 2020

Proposed Action

Conference to adopt the temporary changes to Local Financial Criteria for Hong Kong as shown in Attachment 'A'

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.A. Rodriguez', written in a cursive style.

Juan Antonio Rodriguez
Director – FDS Operations, GDC

HONG KONG (SAR, CHINA)

(Effective 1 ~~May 2019~~ November 2020 for YE 20 June 2020 - 31 May 2021 – ~~PAC/41~~ MV/351)

1. GENERAL RULE

1.1 General Financial Requirements

New Applicants

Applicants/Accredited Agents must:

- a. be established and in business as a travel agent for not less than 18 months from the date of licensing prior to the date of application, and
- b. submit to IATA a complete set of audited financial statements which must not be older than 9 months at the time of submission and in the auditor's opinion, the financial statements give an unqualified true and fair view of the state of the company's affairs.
- c. In order to become IATA Accredited or to maintain IATA Accreditation, an Applicant/Agent must have a paid up capital of minimum HK\$ 500,000.

1.2 An Applicant/Agent failing to meet 1(b) or 1(c) will be treated as failing the financial assessment i.e. below 85 points.

2. FINANCIAL ASSESSMENT

To obtain a satisfactory result of the financial assessment, the Applicant or Agent will be assessed against Tests 1 to 7, and must have a minimum score of 85.

Test 1 – Tangible Net Worth

A minimum requirement of HK\$ 1,000,000 or ~~150%~~ 100% of the amount of net loss after tax for the immediately preceding financial year, whichever is higher. The loss must be increased by the amount of expenses which in normal circumstances should have been charged, for example, the fair market price of rent for office premises provided rent-free.

Tangible Net Worth	Score
HK\$ 1,000,000 or 150% 100% of the amount of net loss after tax, whichever is higher	80
< HK\$ 1,000,000	0

Test 2 – Working Capital Ratio

Total current assets less encumbrances and loans to related parties

Working Capital Ratio = $\frac{\text{Total current assets less encumbrances and loans to related parties}}{\text{Total current liabilities}}$

Working Capital Ratio	Score
=> 1	10
0.9 – 0.99	5
< 0.9	0

Test 3 – Liquidity ratio

Total current assets less encumbrances, deposits (except payments in advance to trade suppliers),
prepayment, stock in trade, and loans to related parties

Liquidity Ratio = $\frac{\text{Total current assets less encumbrances, deposits (except payments in advance to trade suppliers), prepayment, stock in trade, and loans to related parties}}{\text{Total current liabilities less bank overdraft, loans from related parties, incomplete tours and/or customer deposit}}$

Liquidity Ratio	Score
=> 0.80	10 20
0.70 – 0.79	5 15
<u>0.50 - 0.69</u>	<u>10</u>
<0.7 <0.50	0

Test 4 – Net equity is higher than the average BSP payable in previous 12 months and minimum Tangible Net Worth is HK\$ 1,000,000 or ~~150%~~ 100% of the amount of net loss after tax, whichever is higher

Net Equity against BSP payable	Score
=> 0.5	60
< 0.5	0

Test 5 – Net equity divided by long term debt and other long term liabilities

Net Equity against long term debts	Score
=> 0.5	20
< 0.5	0

Test 6 – Interest bearing ratio

EBITDA

Interest bearing ratio = -----
Interest expenses less interest income

Interest bearing ratio	Score
=> 3	10
< 3	0

Test 7 – EBITDA

EBITDA	Score
Positive	10
Negative but Net Equity divided by EBITDA is above 2	10
Negative but Net Equity divided by EBITDA is below 2	0

3. FINANCIAL SECURITY

3.1 Agents with Risk Status A

3.1.1 An Agent with Risk Status A must provide a Financial Security to IATA based on the financial assessment result per section 2.

3.1.2 An Agent with Risk Status A obtaining 85 – 174 points on the financial assessment must at all times provide a Financial Security of 80% of the Remittance Holding Capacity, and never less than HK\$50,000.

3.1.3 An Agent with Risk Status A obtaining more than 174 points on the financial assessment must at all times provide a Financial Security of 50% of the Remittance Holding Capacity, and never less than HK\$50,000.

3.2 Applicants/Agents with Risk Status B

3.2.1 Risk Status B1: An Applicant/Agent obtaining below 85 points on the financial assessment but passed the Risk History assessment must provide a Financial Security to IATA. The Financial Security provided must at all times equal the Remittance Holding Capacity, and never be less than HK\$50,000.

3.2.2 Risk Status B2: An Applicant/Agent obtaining 85 points or above but failed the Risk History assessment must provide a Financial Security to IATA. The Financial Security amount must at all times be 80% of the Remittance Holding Capacity, and never less than HK\$50,000.

3.3 Applicants/Agents with Risk Status C

3.3.1 An Applicant/Agent obtaining below 85 points and failed the Risk History assessment must provide a Financial Security to IATA. The Financial Security amount must be at all times equal the Remittance Holding Capacity, and never be less than HK\$50,000.

4. REDUCTION OF FINANCIAL SECURITY

An Applicant/Agent may at any time request to reduce the Financial Security provided in accordance with Resolution 812 Section 5.9.4.1, subject to the minimum percentage and amount established in sections 3.1-3.3 of these criteria.

5. DEFINITIONS

a. Encumbrance

Encumbrance means any asset of the applicant or Agent which has been pledged to any person for the security of any arrangement granted by any person for the benefit of any person other than the applicant or Agent.

b. Related party

A related party means any shareholder or director and their immediate families, trustees or partners, associated and subsidiary companies, holding companies and their associated and subsidiary companies, or related company.

c. Intangible

Intangible includes goodwill, trademarks, royalty, deferred expenses, deferred cost of advertising.

d. Contingent liability

Contingent liability does not include bank guarantee provided for trade creditors of the applicant or Agent.

e. Tangible net worth

Tangible net worth is the aggregate amount of:

- paid-up share capital;
- reserves;
- professional property revaluation reserves; and
- retained profits;

minus

- retained losses;
- intangibles;
- encumbrances;
- deferred tax assets;
- contingent liabilities; and
- net amount of loans to related parties.

f. Tangible net worth deficiency

Tangible net worth deficiency occurs when the requirement in Test 1 in section 2 has not been met, and the amount of deficiency is the difference between the Tangible Net Worth of the Agent and the requirement in Test 1.

g. EBITDA

Earnings before interest, taxation, depreciation, amortization and extraordinary items