

Changes to local financial criteria

IATA has introduced changes to the financial tests which apply to IATA holders in the UK, and which became effective on **1 November 2020**. Agents must now pass five financial ratios (up from the previous three) in order to score an overall pass on the financial assessment.

The new financial ratios are:

i. Positive net equity ii. Operating profit* iii. Net profit*	Ratios I, II and III must simply be positive/ greater than 0*
iv. Quick ratio	$\frac{\text{Cash + cash equivalents + trade debtors}}{\text{Trade creditors}}$
v. Cash cover ratio	$\frac{\text{Cash + cash equivalents + remaining overdraft/ RCF}}{\text{BSP Outstanding at the year-end}}$

Ratios IV and V are assessed as a pair:

If both quick and cash cover ratios score:		Pass or fail	Settlement frequency and security requirement.
Normal ratio	Elevated ratio*		
> 1	> 1.1	Pass	Can settle BSP twice per month.
0.75-1	0.85-1.1	Pass	Must settle BSP at least every 10 days or provide security to settle less frequently.
0.5-0.75	0.6-0.85	Pass	Must settle BSP at least four times per month or provide security to settle less frequently
> 0.5	> 0.6	Fail	Must provide security

*NB. Due to the impact of COVID-19 on the accounts of ticketing agents, IATA has agreed to temporarily relax the Operating and Net profit tests for financial reviews taking place between 1 November 2020 to 31 October 2021, provided that the agent:

- Generated a net profit in the previous 2 accounting periods; has positive net equity and satisfies the “elevated” Quick and Cash Cover ratios as set out in the table.

Things to think about

IATA will assess the new financial ratios based on information provided in your financial accounts. You may need to discuss enhanced disclosures with your accountants/auditors. Your financial accounts should:

- contain all necessary figures to complete the financial tests
- show the BSP outstanding at the year-end
- disclose any remaining unused or undrawn overdraft or revolving credit facility (if you wish to rely on it when calculating Cash Cover)
- disclose the nature of debtors, split between trade debtors, related parties etc.

New method of calculating Risk Holding Capacity

Risk Holding Capacity (RHC) is the amount of credit provided to a ticketing agent. It determines the maximum value of unpaid flight tickets that can remain outstanding at any time.

RHC is calculated by reference to the Amount at Risk, which is calculated as:

$$\text{Amount at risk} = \frac{\text{Days sales at risk} \times \text{BSP in the highest 3 months of the previous 12}}{90}$$

In an effort to reduce airline’s exposure, IATA is introducing a tapered reduction of RHC for larger agents. From 1 Feb 2021, RHC will be calculated as follows:

Amount at risk	Risk category A	Risk category B	Risk category C
0-\$5m	2x AaR	1.5x AaR	Up to the level of financial security
\$5m - \$10m	1.75x AaR	1.35x AaR	
\$10m+	1.5x AaR	1.2 x AaR	

For example, an agent in Risk Category A with Amount at Risk of \$12m would currently have Risk Holding Capacity of \$24m. Under the new rules this will reduce to \$21.75m calculated as follows:

$$\begin{aligned} 2.0 \times \$5m &= \$10m \\ 1.75 \times \$5m &= \$8.75m \\ 1.5 \times \$2m &= \$3m \\ \text{Total} &= \$21.75m \end{aligned}$$

This will reduce your available credit line as your flight ticket sales begin to increase, and you could experience capacity challenges.

Things to think about

Monitor your Amount at Risk closely, particularly as sales recover from the COVID-19 slump, to avoid hitting your Risk Holding Capacity which could restrict your ability to continue ticketing. The limits are calculated in US Dollars so don’t get caught out by currency fluctuations. If RHC is getting tight, consider:

- Increasing the frequency of your BSP payments to every 10 days or 4 times per month.
- Making interim BSP payments on account to reduce amounts outstanding.
- Switching to an alternative payment method such as IATA Easy pay prepay, or credit card.
- Providing additional financial security.

New rules on the horizon for large agents

Agents with an Amount at Risk greater than \$5m may have to complete a quarterly assessment in future. We understand IATA is continuing to review this requirement, though at the time of writing it is currently scheduled to come into force from February 2021.

- The quarterly assessment framework encompasses 50 questions split across six sections.
- The questions are designated as “Key” or “Standard”.

Section	Description
i. Irregularities and defaults	Assessing whether an agent has incurred any irregularities in the last 12 months.
ii. Historical financial data	12 financial ratios (3 of which are key ratios).
iii. Forecasted financial process	2 questions measuring the effectiveness of the forecasting process.
iv. Operational review	22 questions measuring the effectiveness of disaster, data security, and data protection controls, of which 18 are key questions.
v. Global risks controls	7 questions measuring share price volatility (only applicable for listed companies).
vi. Trends analysis	6 questions analysing certain cash flow trends (only applicable for companies where Cash Flow from Operating Activities is negative).

Failure of any “Key” question constitutes a failure of the section. Failure of three or more “Standard” questions will also constitute a failure of the section.

- Agents must pass all applicable sections of the framework to achieve a pass overall (though section v. and vi. may not be applicable to your business).
- If an agent fails any of the sections, and therefore fails the assessment, it must provide security to cover the Amount at Risk in excess of \$5m.
- Note that the agent will also continue to be subject to the annual Local Financial Criteria tests set out in part one above, including the requirement to provide security.

Things to think about

- Monitor your Amount at Risk closely, and ensure you build warning signals into your dashboard to avoid breaching the \$5m Amount at Risk limit unwittingly.
- The limits are calculated in US Dollars so don't get caught out by currency fluctuations.
- We understand the data required for the quarterly assessment may need to be audited each quarter. This will add significant cost and complexity to your reporting process.
- You may be able to keep your Amount at Risk below \$5m, and avoid the quarterly assessment process by:
 - Increasing the frequency of your BSP payments to every 10 days or 4 times per month.
 - Making interim BSP payments on account to reduce amounts outstanding.
 - Switching to an alternative payment method such as IATA Easy pay prepay, or credit card.
 - Providing additional financial security.