

AUSTRALIA

Financial Evaluation

The Applicant shall provide audited financial statements prepared in accordance with Australian accounting standards. Such statements shall be evaluated pursuant to the financial standards and financial ratio analysis established from time to time by the Agency Program Joint Council ("APJC") and approved by the Passenger Agency Conference (PACConf) and set forth in this Attachment. To obtain a satisfactory evaluation, the applicant may be required to provide additional Paid-up Capital. Alternatively an Agent may provide additional Financial Security in the form of a Bank Guarantee or an Insurance Bond from an insurance company acceptable to IATA.

Late or incomplete submission of such financial statements will attract a penalty as endorsed by the APJC and approved by the PACConf from time to time.

Overview

To meet the IATA Financial Criteria, travel agents must pass all four Tests (1, 2, 3 and 4).

- If the agent fails Test 1, but passes other Tests, the shortfall of Capital and Reserves must be provided in the form of Capital Injection or Financial Security.
- If the agent passes Test 1, but fails other Tests, the failure(s) must be remedied by providing Financial Security for "Sales at Risk" up to the maximum Financial Security required amount (Refer to Section 4, Financial Security)

1. NOTES TO FINANCIAL EVALUATION

1.1 Definition of Share Capital and Reserves

The Share Capital and Reserves shall be determined as follows according to the type of the applicant's entity:

1.1.1 Company having Issued Capital — the sum of:

Issued Capital

Minimum of \$25,000 paid-up Issued Capital (forming part of the minimum Issued Capital and reserves) regardless of the existence of other reserves (e.g. Issued Capital of \$20,000 and capital profits reserve of \$5,000 would not be acceptable). If less than \$25,000, security for the shortfall will be required.

Realised Capital Profits Reserve

Asset Revaluation Reserve (only if supported by a written valuation from an independent licensed valuer; i.e. Director's valuation will not be accepted).

Share Premium Reserve

Accumulated Profits

Less: 1. Accumulated losses,
2. Intangibles including Goodwill, Future Tax Benefits, etc.
3. Loans to and Investments in Related Parties.

1.2 Sole Trader/Partnership

Financial security is to be provided as per table in 2.1.1 below.

1.3 Trust

Corporate Trustee

Either the settled sum of the Trust or Issued Capital of the Corporate Trustee adjusted by those items detailed in Subparagraph 1.1.1 above.

Note: The total of settled sum or units and Issued Capital of the corporate trustee must be a minimum of \$25,000 forming part of the minimum share capital and reserves regardless of existence of other reserves. If less than \$25,000, security for the shortfall will be required.

Unincorporated Trustee

The settled sum of the Trust adjusted by those items detailed in Subparagraph 2.1.1 below. Where the required minimum is not met, Financial security is to be provided as per table in 2.1.1 below

1.4 Company limited by Guarantee

Accumulated Funds and Reserves (as detailed in Subparagraph 1.1.1 above).

Total guarantees available in the event of a winding up, i.e. the liability of each member multiplied by the number of members at balance date.

1.5 Incorporated Association, Cooperative, etc.

Accumulated Funds and Reserves (as detailed in Subparagraph 1.1.1 above).

1.6 Health Fund, Building Society, Credit Union

Members' Funds and Reserves (as detailed in Subparagraph 1.1.1 above).

1.7 Definition of a Related Party

A Related Party is an individual or company defined as an associate in terms of Section 318 of the Income Tax Assessment Act and AASB 124, and includes shareholders, directors, trustees, partners, proprietors or their immediate family.

Loans from a Related Party; If the Agent provides satisfactory documentary evidence that the loan is in the form of a long-term commitment to the agency, such loan may be deducted from the liabilities of the Agent. If such evidence is not available loans from a Related Party will be considered a liability of the agency.

Loans to and investments in a Related Party will not be considered as assets of the agency for the purposes of the financial evaluation.

However if the Agent is able to provide satisfactory documentary evidence that:

- the Loan or Investment is readily able to be converted to cash and,
- will be repaid should the working capital position of the Agent decline, such assets may be considered.

1.8 Encumbrances

Should any Balance Sheet assets of an applicant be used as security for loans which do not appear on the Balance Sheet, (e.g. third party loan to directors) those loans will be deducted from assets, up to the maximum amount of the liability secured by the applicant's assets. Details of such encumbrances will require disclosure in the "Annual Financial Review".

All charges over an applicant's assets, both fixed and floating, require immediate disclosure to IATA at the time of their creation. Failure to notify the creation of a charge will be regarded as a serious departure from these financial requirements. Creation of and retirement of all charges during the year should also be notified to IATA.

1.9 New Applicants / Change of Ownership

If the agent or its parent company has traded for less than 2 years in the travel industry, financial security must be provided for the amount of "Sales at Risk" up to the maximum Financial Security required. (Refer to Section 4. Financial security)

If the agent or its parent company undergoes a significant change in ownership, defined as 50% or more, Financial Security must be provided for the amount of "Sales at Risk", unless the entity is publically listed on the Australian Securities Exchange Limited (ASX), and following the change in ownership, remains a public company on the ASX or a wholly owned subsidiary of a public listed company on the ASX.

1.10 Group

If your company is a subsidiary of another company or more than one company, you will need to submit a copy of the most recent annual accounts of these controlling companies. Such Parent company accounts will be considered in the determination of your financial standing as an applicant or agent. If the entity holding the accreditation passes all tests independently, but the holding company or group financial status have an adverse impact on the subsidiary, Financial Security will be required for the "Sales at Risk" of the subsidiary up to the maximum Financial Security required (Refer to Section 4 Financial security).

1.11 Accounting Standards

IATA will take into account when applying the financial criteria changes to the Australian Accounting Standards as these have relevant impact from time to time.

2. FINANCIAL STANDARDS

The financial assessment is based on four Tests provided the applicant maintains the minimum level of share capital and reserves (refer Test 1).

2.1 Test 1 — Minimum Share Capital & Reserves

All applicants must maintain a minimum level of share capital and reserves (as defined in Paragraph 1.1 hereof) dependent on the scale of operations of each enterprise as measured by the annual turnover (both travel and non travel).

2.1.1 Minimum Share Capital and Reserves Table

Total Business Turnover	Minimum Capital & Reserves Required
Less than \$1 million	\$25,000
\$1 million to less than \$2 million	\$35,000
\$2 million to less than \$4 million	\$50,000
\$4 million to less than \$10 million	\$80,000
\$10 million to less than \$50 million	\$100,000
\$50 million or greater	\$150,000

A Financial Security or additional Issued Capital for any shortfall will be required. Minimum share capital may be expected to increase from time to time.

2.2 Test 2 — Client Travel Account

For IATA purposes a Client Travel Account is a bank account that an agent must maintain separate to the general account which must include all client BSP funds and the subsequent disbursement of those funds to airline principals. The applicant must comply with all of the following:

2.2.1 All BSP monies received from clients, in advance of the issue of airline tickets, must be banked within 2 business days of receipt into an account in the name of the applicant — suitably titled “Client” or “Trust” Travel Account.

2.2.2 Interest bearing or term deposits may be opened with any recognised financial institution.

2.2.3 Any such account as mentioned in 2.2.1 and 2.2.2 must be used exclusively for client’s funds, meaning any funds received from clients of the agent for travel.

2.2.4 Any BSP monies in such an account must not be subject to any encumbrance, including any floating charge.

2.2.5 All BSP deposits to the Client Travel Account must remain in the account until:

- they are paid to the principals on whose behalf they have been received; or
- they are refunded to the client who paid the same.

2.2.6 Commission earned is not to be withdrawn from the Client Travel Account until the tickets have been issued on behalf of the airlines.

2.2.7 Disbursements from the Client Travel Account on behalf of a customer who has not lodged funds (e.g. sale on credit) are not permitted. These should be made from the “General” or “Working” account of the applicant.

2.2.8 Use of clients funds to finance loans or advances to Related Parties or other parties, does not comply with the conditions for maintaining a Client Travel Account.

2.2.9 The Client Travel Account and liability for client funds held should be clearly identified on the Balance Sheet or Notes to the Accounts.

2.2.10 Annual declaration of compliance in all material respects by the agent’s auditor must be provided.

2.3 Test 3 — Working Capital to Meet Overheads

This test is the ratio of working capital in dollars to average monthly overheads. An applicant should have sufficient working capital in dollar terms to meet overhead expenditure. This requirement is necessary to ensure the applicant has adequate working capital commensurate with the size of their operations and sufficient to meet seasonal fluctuations.

Should the Agent have experienced trading losses in the most recent financial year, provision for continued losses will be calculated unless the Agent provides satisfactory documentary statements that action has been taken to bring the agency to a satisfactory trading position.

Assets that are loans to directors or associated parties that are not in a group would be excluded.

The working capital must be positive, which means that Current Assets must exceed Current Liabilities at the end of the year.

In the event that Working Capital does not meet one month's overheads then the following table will apply:

2.3.1 Working Capital Table

One month's overheads	Proportion of Financial Security Required as per table 4.1
Greater than >80% less than <100%	40%
Greater than >70% less than <80%	60%
Less than <70%	100% (full guarantee)

2.4 Test 4 — Profitability

Your accounts must show that you made a profit before tax at the end of the accounting period.

3. FINANCIAL DISCRETION

It is recognised that different interpretations of financial accounts are possible and do occur. Accordingly, IATA shall have absolute discretion as to the most appropriate accounting classification for all items included in Financial Statements or Annual Financial Reviews.

4. FINANCIAL SECURITY

IATA will require an amount equivalent to the "Sales at Risk" (i.e. The number of days "Sales at Risk" is to be counted from the beginning of the reporting period to the remittance date in respect to that reporting period/s plus a margin of five days, the result is to be divided by 360 days, and then applied to the annual cash turnover* to calculate estimated amount at risk and amount of guarantee required as per Resolution 800f) up to the maximum Financial Security Required amount. Such Financial Security is to be provided in the form of a Bank Guarantee or Insurance Bond from an insurance company acceptable to IATA. The amount however, shall be not less than the amount required by the applicant to meet the minimum level in Paragraph 2.1 of Section 2 hereof.

4.1 Financial Security Table:

Annual Gross BSP Cash Sales	Maximum Financial Security Required
Less than 6 million	\$400,000
6 million to less than 20 million	\$1,000,000
20 million to less than 50 million	\$2,000,000
More than 50 million	\$10,000,000

Note: **Annual Cash Turnover” for the purpose of calculating the “Sales at Risk” refers to Annual Gross BSP Cash Sales less taxes.