

Criteria for an application for and grant of, or variation to, an ATOL: Financial

ATOL Policy and Regulations 2016/01



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Regulation 31 of The Civil Aviation (Air Travel Organisers' Licensing) Regulations 2012 (the ATOL Regulations) states that the Civil Aviation Authority (CAA) must specify and publish the requirements for an application for, and grant of, an Air Travel Organiser's Licence (ATOL) or a variation to an ATOL. In accordance with that Regulation, this document sets out the CAA's financial criteria for ATOL holders¹.

1. Introduction

1.1 Pursuant to Regulations 32(2) and 35(2) of the ATOL Regulations, the CAA may:

- a) refuse an application for the grant of an ATOL; or
- b) refuse an application for the variation of an ATOL; or
- c) revoke, suspend or vary an ATOL,

if the CAA is not satisfied that the resources and financial arrangements of an ATOL holder are adequate for discharging the actual and potential obligations in respect of the activities in which it is engaged or may be expected to be engaged. The grant of an ATOL means the grant of a first ATOL or the grant following expiry of a previous ATOL (i.e. renewal).

1.2 A purpose of the ATOL scheme is to reduce the risk of those businesses that make available flight accommodation failing, and therefore reduce the risk of the consequential detriment to consumers.

1.3 This document sets out the assessments the CAA will undertake to determine whether it can be satisfied with an ATOL holder's financial position. The CAA's assessment is proportionate to an ATOL holder's ATOL limit², the risk of an ATOL holder failing and the consequential detriment to consumers. It may increase its analysis as the ATOL limit applied for increases and/or where, in the opinion of the CAA, there is

¹ The term 'ATOL holder' means an existing ATOL holder or an applicant for a new ATOL, unless otherwise specified.

² For Standard ATOL holders, the 'ATOL limit' means the maximum annual licensable revenue in the Public Sales category authorised under the ATOL. For Small Business ATOL holders the 'ATOL limit' means the annual licensable revenue and the annual number of passengers in the Public Sales category authorised under the ATOL.

potentially a higher likelihood of failure based on the CAA's understanding of its business and its financial performance, as set out in Section 8.

- 1.4 If the CAA determines it appropriate to do so, the CAA will retain, or will require the ATOL holder to retain, a third party expert adviser to assist the CAA in its assessment or provide advice to the CAA.
- 1.5 ATOLs are granted for no more than one year and will normally expire either at the end of March or September. In most cases, the timing depends on the financial year end (FYE) of the ATOL holder and the general position is set out below:
- ATOL holders with a FYE between 1 June and 30 November are granted ATOLs expiring at the end of March;
 - ATOL holders with a FYE between 1 December and 31 May are granted ATOLs expiring at the end of September.

2. Financial criteria

- 2.1 The normal financial criteria which the CAA applies when assessing an ATOL holder depends on the type of ATOL and the ATOL limit, as set out below and in the Appendix.
- 2.2 If an ATOL holder is part of a Group³ of, or 'related'⁴ to, other ATOL holders the individual ATOL limits of all of the ATOL holders are aggregated in determining the ATOL limit.

³ An 'ATOL holder's Group' is defined in the CAA Official Record Series 3, Schedule of ATOL Standard Terms, as amended from time to time. At the time of publication of this document, the current definition is: "parent undertakings, subsidiary undertakings, joint ventures and associated undertakings of the ATOL holder. The term 'associate' is defined in the Companies Act 2006".

⁴ A 'related party' is defined in the CAA Official Record Series 3, Schedule of ATOL Standard Terms, as amended from time to time. At the time of publication of this document, the current definition is: "a person who has links with the ATOL holder through common shareholders, directors, partners or where there are significant levels of trading or financial links. "Related to the ATOL holder" shall be interpreted accordingly".

Small business ATOL (SBA)

- 2.3 The assessment for an SBA is based on meeting a financial test, which is conducted on the financial information provided to the CAA.
- 2.4 An SBA is limited to selling a small number of licensable trips and has an ATOL limit of 500 passengers and up to £1 million revenue per year. It must ensure that the number of passengers that depart during the period of the ATOL and the revenue in respect of those passengers does not exceed that limit. In addition, it is required to ensure that the number of passengers booked to travel with it does not exceed the 500 passenger limit and the revenue in respect of those passengers does not exceed £1 million at any one time, irrespective of whether the bookings relate to departures in the current ATOL period or beyond.

Standard ATOL with an ATOL limit of less than £20 million

- 2.5 The assessment for Standard ATOL holders with less than a £20 million ATOL limit consists of meeting a financial test which assesses, amongst others, financial stability, liquidity and profitability.
- 2.6 At the discretion of the CAA, where an ATOL holder has an ATOL limit less than £20 million the assessment and information requirements may be similar to that carried out for ATOL holders with an ATOL limit equal to, or in excess of £20 million. Circumstances where this may apply are set out in Section 8.

Standard ATOL with an ATOL limit equal to, or in excess of £20 million

- 2.7 A more in-depth risk based approach is used to evaluate ATOL holders with ATOL limits of £20 million or more. In considering the likelihood of the risk of an ATOL holder failing and the consequential detriment to the consumer, the CAA assesses the liquidity and financial resources available to the ATOL holder.

2.8 While each ATOL holder is considered on a case-by-case basis, the following provides an indication of (although not limited to) the key approaches used in the assessment⁵:

- a) Finances – an assessment of the historical results and current performance (including profitability, liquidity and financial stability), in conjunction with a review and stress-testing of projections;
- b) Business model, operations and strategy - an analysis of the business operations including, inter alia, distribution networks, markets (origin and destination), products and suppliers;
- c) Corporate governance – an assessment of the ATOL holder’s management team, internal controls, risk management systems and accounting policies, and;
- d) Group structure - an understanding of all entities and related parties (including related party transactions) within a Group along with any financial security arrangements within a Group.

Trade ATOL

2.9 Where a Trade ATOL holder is a stand-alone entity selling to other ATOL holders, it is expected to meet the criteria for a Standard ATOL holder. In addition, the Trade ATOL holder may have to demonstrate that it has contracts with seat suppliers for the purchase of seats as well as contracts with other ATOL holders that intend to purchase seats from it on an ATOL to ATOL basis.

Franchise member ATOL

2.10 A franchise member ATOL holder with an ATOL limit of 1,000 licensable passengers per year or less is not usually subject to any financial assessment by the CAA. Those with an ATOL limit of more than 1,000 passengers are expected to meet the financial criteria.

⁵ The assessment of an ATOL holder which is part of a group will normally take place at a consolidated group (ultimate parent company) level or consolidated ring-fenced sub-group. The CAA will consider individual accounts plus a pro forma consolidation where an ATOL holder is part of a group of related companies.

3. Ongoing monitoring of ATOL holders

- 3.1 ATOL holders with an ATOL limit of £20 million or more are subject to ongoing monitoring, typically on a monthly or quarterly basis, focussing on financial performance, liquidity and material changes to the business model. In addition, the CAA monitors all ATOL holders with an ATOL limit of £5 million or more via the monthly booking data they submit.

4. Financial statements for incorporated businesses

Ordinary share capital

- 4.1 Incorporated ATOL holders must have a minimum of £30,000 ordinary share capital.
- 4.2 The only exception is where an ATOL holder held an SBA on 31 May 2016 and there have been no material changes in ownership or control or a change in the type of ATOL or ATOL limit, in which case there is not normally a requirement to have a minimum amount of ordinary share capital.

Financial statements

- 4.3 Companies must provide audited financial statements including balance sheet, profit & loss, cash flow statement and accompanying notes. However, if an ATOL holder with an ATOL limit below £5 million is not required to prepare audited financial statements under the Companies Act 2006, the CAA will generally accept unaudited financial statements in support of an application for the renewal of an ATOL. Where the CAA does accept unaudited financial statements, the financial statements must be prepared by an accountant who is a member of a body specified by the CAA⁶ and they must include a balance sheet, a detailed profit & loss

⁶ The specified bodies are The Institute of Chartered Accountants of England and Wales, The Institute of Chartered Accountants of Scotland, The Institute of Chartered Accountants of Ireland, The Association of Chartered Certified Accountants, The Association of Authorised Public Accountants, The Chartered Institute of Management Accountants, The Association of Accounting Technicians, The Association of International Accountants, The Institute of Chartered Secretaries and Administrators and The Institute of Financial Accountants.

statement and accompanying notes as well as a compilation report signed by the accountant.

5. Financial statements for partnerships and sole traders

- 5.1 Partnerships and sole traders with an ATOL limit of £5 million or more must provide audited financial statements including balance sheet, profit & loss, cash flow statement and accompanying notes. Partnerships and sole traders with an ATOL limit below £5 million are required to provide annual financial statements for the business that include a balance sheet, detailed profit & loss statement and accompanying notes with a compilation report signed by an accountant who is a member of a body specified by the CAA.⁶
- 5.2 All partnerships and sole traders are also required to provide a statement of personal assets and liabilities at the same date as the financial statements prepared and signed by the same accountant or auditor and also signed by the sole trader or partners.

6. Financial statements for new applicants

- 6.1 The financial information required from an applicant for a first ATOL may differ to that set out in Sections 4 and 5, particularly where the applicant is a start up business. In these cases an assessment is normally carried out on the applicant's financial projections and, if applicable, latest financial statements.

7. Accounting standards and policies

- 7.1 ATOL holders are required to provide financial statements in support of an application for an ATOL. In circumstances where new accounting standards or pronouncements require inclusion or a change in presentation of particular balance sheet items, the CAA has absolute

discretion in determining its treatment of these specific items within its assessment of the finances.

7.2 In addition, where in the CAA's view the ATOL holder departs from an accounting treatment which the CAA considers acceptable (with reference to UK GAAP, IFRS or other accounting standards currently in force), the CAA may take this into consideration when assessing the finances of the ATOL holder.

7.3 The CAA expects ATOL holders to recognise revenue on a 'departure date basis' rather than 'booking date basis', unless it can be demonstrated that the significant risks and rewards of ownership have been transferred at the date of booking. In the instances where the CAA disagrees with an ATOL holder's accounting treatment, the CAA may take this into consideration when assessing the finances of the ATOL holder.

8. Exceptions

8.1 In certain circumstances the CAA will undertake a more in-depth analysis of the resources and financial arrangements of an ATOL holder than set out in this document, particularly where, in the opinion of the CAA, there is a higher likelihood of failure (and consequential detriment to the consumer). This may include, but is not limited to, circumstances where:

- a) The ATOL holder operates a higher risk business model. For example:
 - i. the programme is highly seasonal;
 - ii. the programme is limited in the number of destinations offered or is concentrated in destinations subject to political or economic instability; or,
 - iii. a high percentage of flights or accommodation are sourced from one supplier or are committed;
- b) The ATOL holder's licensable business:
 - i. comprises flights or trips with an exceptionally high value or long lead in times; or,

- ii. is showing a pattern of high passenger number growth or high growth is forecast;
- c) The CAA has concerns over current and/or future liquidity or there is a history of trading losses; or,
- d) There is or has been:
 - i. a change of control or ownership of the ATOL holder; or,
 - ii. issues with compliance in respect of the ATOL Standard Terms and/or the specific terms of an ATOL.

8.2 The CAA also reserves the right to request additional information to that set out in this document in the event that the CAA determines it cannot complete its financial assessment for the initial grant, renewal or variation on the basis of the information submitted in the first instance.

Appendix

Financial assessment

The financial assessment for ATOL holders is based on an analysis of certain ratios. Small Business ATOL (SBA) holders are assessed on four ratios and Standard ATOL holders on seven, as set out in the table below. For ATOL holders with an ATOL limit of £20 million or more, the CAA also applies an in-depth risk based approach to its financial analysis, as set out in paragraphs 2.7 and 2.8 of this document.

An assessment of ATOL holders' financial information is carried out on the ratios applicable to each ATOL type. The result of this assessment provides the CAA with an indication of whether or not ATOL holders meet the financial criteria for holding an ATOL. Where the result shows that the criteria are not met, ATOL holders are informed of the requirement in order to meet the criteria, which is normally an injection of cash.

Note: All inputs relate to the latest financial year reported in the financial statements upon which the ATOL holder is assessed, other than Revenue which also requires the prior year revenue figure and Projected Revenue which relates to revenue for the latest financial year, as projected at the start of the year.

Financial ratio	Test	What does it show?	SBA	Standard ATOL
Current ratio	Current Assets / Current Liabilities	Measure of business liquidity to assess its ability to pay short term liabilities over the next 12 months. A higher ratio is more favourable.	✓	✓
Cash ratio	Cash / Current Liabilities	Measure of business liquidity that determines to what extent a business can repay its short term obligations using only cash and cash equivalents. A higher ratio is more favourable.	✓	✓
Leverage ratio	Total Assets	Measures the extent to which a business' assets are financed by financial liabilities. It is a measure of balance sheet strength and therefore financial risk. A lower ratio is more favourable. A ratio over 1 indicates a net balance sheet deficit.	✓	✓
Return on Assets	Net Profit (Loss) / Total Assets	Assesses the efficiency of a business in using its assets to generate net profit. A higher ratio is more favourable. A negative result indicates that the business is loss making.	✓	✓
EBITDA Margin	EBITDA / Revenue	EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) provides a measure of the underlying profitability of a business. A higher ratio is more favourable.	x	✓
Revenue Growth	Revenue / Prior Year Revenue	Assesses the growth (or decline) of a business. Significant decline can be an indication of financial problems, while excess growth can be an indicator of potential overtrading risk.	x	✓
Revenue Variance	Revenue / Projected Revenue	Assesses the quality of business forecasts and the extent to which a business achieves its expected results.	x	✓