

TAANZ BONDING APPLICATION FORM

Form BA1

APPLICATION FOR BONDING

For your record (keep a copy of this form):

Date application sent to TAANZ
Bonding Authority:

	/		/	
Day		Month		Year

Office Use Only

TAANZ BONDING

Level 3
Tourism House
79 Boulcott Street
PO Box 1888
WELLINGTON 6140

Phone: 04-473-4330
Fax: 04-499 0786
E-mail: bonding@taanz.org.nz

Application for Bonding

What is this form for?

Following the completion of a request to TAANZ for Full Membership (Form FM1) this information will be passed to the TAANZ Bonding Authority. The Bonding Authority will require this form to be completed to allow it to assess the applicant for bonding purposes.

This form includes background notes to assist you with the bonding process and an application form for general information, and a checklist of required supplementary information.

Please ensure that this form is returned to the TAANZ Bonding Authority (address on cover page) and not the TAANZ Secretariat. TAANZ maintains its Bonding Authority at a separate location so that your confidential financial information is only seen by the Bonding Authority and not by TAANZ itself.

What do I need to include with this form?

- Payment of \$4,000 + GST being the Establishment Bonding Levy.
- Financial statements (see checklist for details).
- Security requirements (see checklist for details).

What happens next?

The TAANZ Bonding Authority will:

1. Review the information you have provided and ensure that it meets with the requirements set out in the TAANZ Membership & Bonding Requirements . Refer to the TAANZ website www.taanz.org.nz for full details. You may be contacted again for further information.
2. Advise you of the level of your bond and the security requirements.
3. Forward to you:
 - A Deed of Covenant which sets out the obligations of your company
 - A Deed of Indemnity and security documentation which set out the undertaking of the shareholders and security covenantors respectively to meet any claims on the TAANZ Bonding fund if the company is in default.

Bonding approval can take between 10 days and several weeks. The time is dependent upon the provision of adequate information and security.

Once the TAANZ Bonding Authority is satisfied that all requirements have been fully met you will be advised by TAANZ that your membership and bonding has been approved.

Notes for Prospective Members

It is important that before they are committed to the purchase or establishment of a travel agency prospective members satisfy themselves that they will be able to meet TAANZ bonding requirements. We strongly recommend that prospective members seek assistance from their legal and financial advisers.

Details of those requirements are set out in the section TAANZ Membership and Bonding Criteria. You can view this on the TAANZ website (www.taanz.org.nz). Prospective members and their legal and financial advisers need to be familiar with those requirements.

In particular, we emphasise three areas which commonly give rise to bonding problems for applicants and new members. These relate to financial statements and minimum shareholders funds, indemnity and security requirements and accounting for customers advance payments.

In addition we set out conditions of bonding that apply to new businesses.

FINANCIAL STATEMENTS AND MINIMUM SHAREHOLDERS FUNDS

The requirement for a minimum of \$40,000 of shareholders equity (paid up capital and reserves) is often taken to also represent the maximum required for membership. That is not the case. The Bonding Authority often has to request that applicants provide more capital in order to bring a company to a satisfactory financial position e.g. where goodwill is paid to acquire a business, the level of shareholders equity needs to be sufficient to cover the goodwill and provide a contribution for working capital and fixed assets.

Bonding cannot be approved until The Bonding Authority is satisfied that the company has sufficient shareholders equity to meet establishment costs and operate the business. Some funding may come from bank overdrafts or loans but the bulk of funds must be provided by way of share capital.

The provision of an opening balance sheet is a mandatory requirement for bonding. This statement should be prepared or reviewed by a chartered accountant. Inadequate accounts often lead to delays in bonding. The statement must clearly disclose the level of shareholders equity [paid up capital and reserves but (not including loans from shareholders to the company) after deducting any advances from the company to shareholders or associates]. The establishment costs should also be disclosed.

A copy of the calendarised financial budget for the first 12 months of trading is also required. It should set out Turnover (Gross Sales), Commission earned on sales, Detailed Operating Expenses, showing separately direct costs and overhead expenses, proprietor's drawings, salary and/or directors fees should be included.

It is expected that newly established travel agent businesses will experience an initial period where sales will be low and in the first few months losses will be incurred. The Bonding Authority needs to see that the business is going to turn around after the first few months of trading.

If the application results from the purchase of an existing travel agency business or where there is a change in legal entity, please provide a summary of the sale/purchase transaction and a letter from the vendor re Client Deposits, advising their treatment at the date of changeover.

INDEMNITIES

Each member is required to provide a personal covenant from the shareholders of the member company to reimburse the TAANZ Bonding Fund in the event of there being any claims made on the TAANZ Bonding Fund as a result of failures on the part of the member company in accounting appropriately for moneys it has received from customers and/or holds on behalf of customers and/or airlines. The personal covenant is contained in a Deed of Indemnity. The Deed will contain provisions which will limit the liability of the indemnifiers (the shareholders) to a maximum sum. The Deed will also make it clear that the liability to pay the maximum sum will be reduced by any amount received by TAANZ from any other security held by TAANZ and put forward on the member's behalf.

The Deed provided by the shareholders is a complementary indemnity and would come into play in the event of the covenantor providing the security being unable or for other reasons refusing to honour the bond.

Notes for Prospective Members

SECURITY

It is a TAA NZ requirement that security be provided to support the indemnities given by new members. Security can be by way of bank indemnity, 1st or 2nd mortgage over property, cash deposit, or partially by one of the above with 50% covered by an insurance indemnity through Contractors Bonding Ltd.

The security can come from the shareholders or from a third party.

Prospective members need to be sure that they can provide adequate security. The minimum level of security is \$50,000 but it can be as high as \$750,000 for larger businesses.

Where the property provided as security is owned jointly or by a family trust, all owners or trustees will need to be parties to the Deed of Indemnity.

Note that only 80% of a property's value is accepted for TAA NZ security purposes. In addition there must be sufficient equity to cover TAA NZ security after deducting the priority requirements of any 1st mortgagee – which should include interest and charges and these are limited to 24 months.

Prospective members should find out the set up and ongoing costs involved with each type of security. Please note that legal fees are charged by the TAA NZ lawyer for mortgage security and payable by the prospective member.

ACCOUNTING FOR CUSTOMERS AND PRINCIPALS FUNDS

Not only are there bonding requirements but members also need to be sure that they satisfy legal requirements in handling customers and principals funds.

Legal Requirement for Handling Customers' Funds

The "Civil Aviation (Passenger Agents' Commission Regime) Notice 1983" ("the Notice") lays down certain requirements to be met by those who act as passenger sales agents or airlines.

Members should make themselves aware of those requirements.

The Notice includes the following requirements relating to customer/airline funds:

"The agent is not to pay money received in respect of travel arranged by the agent into any bank account into which there is at any time paid any money that is not received in respect of travel arranged by the agent, and

All money received by the agent in respect of travel on the services of the carrier, or in respect of any relating services (including any commission withheld by the agent in accordance with a manner of transacting business on behalf of the carrier agreed with the carrier) shall, as soon as is practicable after its receipt, be paid into a bank account, and shall

1. remain the property of the carrier, and
2. be held in trust for the carrier

until it has been satisfactorily accounted for to the carrier.

Bonding Requirements for Handling Customers Funds

It is a TAA NZ Bonding requirement that members at all times keep customers and principals funds separate from the funds of the member (refer to TAA NZ Website – Schedule 1 – Link www.taanz.org.nz/schedule/).

The following points are to assist members in understanding the requirements:

1. All money received from clients in advance of the issue of tickets should have a numbered receipt issued and be banked within 2 days of receipt into a separate bank account in the name of the agent titled Client Travel Funds Account or some similar descriptive title.
2. The funds may be held in interest bearing and term deposit accounts and other investments and can only be invested with the following:
 - (a) Any New Zealand registered bank and their subsidiary savings bank (a list of these can be obtained from the Reserve Bank website <http://www.rbnz.govt.nz/>)

Notes for Prospective Members

- (b) Trustee saving banks
 - (c) New Zealand Government or Local Body Investments
3. Any such account as mentioned in 1 and 2 must be used exclusively for client funds.
 4. All deposits to the client account must remain in the client account until:
 - (a) They are paid to principals on whose behalf they have been received, or
 - (b) They are refunded to the client who paid.
 5. Any such accounts must not be subject to a right of set off or any other encumbrance, including any floating charge.
 6. Commission earned is not to be withdrawn until the balance has been paid to principals on whose behalf it has been received.
 7. Disbursements from the Client Travel Funds Account on behalf of a customer who has not lodged funds (e.g. sale on credit) is not permitted. Such disbursements should be made from the "general" or "working" bank account of the agent. As a practical arrangement payments may be made from the general bank account to the client travel account to cover payments to principals in advance of receipt of funds from clients.
 8. Use of client funds to finance loans or advances to relating parties or others does not comply with the conditions for maintaining a client account. The TAANZ Board may authorise deposits with a party other than a bank where strict security requirements are met.
 9. The client accounts and the liability for client funds held should be clearly identified on the balance sheet or in the notes to the accounts.

Problems have arisen in the past where members have had funds in a bank account to cover client funds but the account has not been clearly designated as holding consumer and airline funds. In such circumstances receivers and banks have claimed the funds to cover the overdraft and debts of the business and claims have arisen against the TAANZ Bonding Fund.

In such an event the member's liability under the bond would be called up even though the member considered that the client funds were protected.

It is in the interest of members to be able to demonstrate that they have made it clear to their bankers that certain accounts hold monies which do not belong to the member company – they are held in trust.

CONDITIONS OF BONDING FOR NEW BUSINESSES

Once a new business is bonded the following requirements are applied until such time as the company has filed annual accounts for two full years:

- If you apply for IATA accreditation payments to airlines through the BSP system will be required weekly (each Monday except if a Public Holiday payment is on the next working day).
- Interim accounts covering the first 6 months of the financial year will be required in addition to the annual financial statements. Reminders of these requirements will be given.

Application for Bonding

Name of Applicant (Limited Company / Sole Trader / Partnership):

Company Number (NZ Companies Office): *if applicable*

Trading Name:

PO Box Number and Location:

Post Code:

Telephone:

Fax:

Email Address:

Annual Balance Date:

Shareholders Information

Full Name	Residential Address	Occupation	No. of shares held	Paid up \$ value of each share issued

Application for Bonding

Shareholders Information

Full Name	Residential Address	Occupation	No. of shares held	Paid up \$ value of each share issued

Management Accounts

Under Section 194 of the Companies Act 1993 Directors/Proprietors of an entity have a legal responsibility to keep proper accounting records to enable the financial position of the entity to be determined at any time.

I confirm that the company has management accounting software in place which is capable of printing off management accounting reports at any time. (please tick)

Contact Person for Bonding Purposes

Telephone:



Director/Shareholder

/ /

Date

Bonding Checklist

Assessment of Bond Level

Estimated Turnover (Gross Sales) for 1st 12 months of trading \$ _____

Less Estimated Commission (Gross Profit) \$ _____

Net Turnover for Bonding Purposes \$ _____

Level of Bond @ 4% (Minimum \$50,000) of net turnover = \$ _____

Security Requirements

(see notes for details)

Prospective members should find out the setup and ongoing costs and any other requirements involved with each type of security.

Security for our bond as calculated above is to be provided as follows:

- | | |
|--|--------------------------|
| <p>A. 1st or 2nd mortgage over New Zealand property
or</p> | <input type="checkbox"/> |
| <p>B. Cash deposit with TAANZ
or</p> | <input type="checkbox"/> |
| <p>C. Bank indemnity
or</p> | <input type="checkbox"/> |
| <p>D. 50% by one of the above and the remaining 50% to be provided by Travel Bond through CBL Insurance Ltd.</p> | <input type="checkbox"/> |

(please tick)

Bonding Checklist

For Mortgage Security

1. Search copy of certificate of title
2. Evidence of value of property (e.g. latest rates valuation or independent valuation report. (**Important Note: Only 80% of current value is accepted for security purposes**).
3. Amount of 1st mortgage security is \$ _____
4. The level of priority required by the 1st mortgagee including interest and charges is \$ _____

(Please attach letter from 1st mortgagee recording this amount)
 (Note: Maximum period allowed for Interest and charges is 24 months)

5. The name and address of our solicitor is:

(please tick)

Note: Legal fees are charged by the TAA NZ lawyer and are the responsibility of the prospective member

Bonding Checklist

For Cash Deposit

Full name and address of depositor/s (should not be the member company itself)

(please tick)

Name (s)

Address

Note: Acceptance of a cash deposit is subject to a check being made of the Personal Property Securities Register. A form will be sent for completion.

For Bank Indemnity

Name and address of bank

(please tick)

Bank

Street Address

Postal Address

Contact Person

For Insurance

Cover will be arranged through CBL Insurance Limited for the amount of

\$

(please tick)

CBL Insurance Limited

(Provide the Travel Bonds either directly or through Comprehensive)

Annette Dagelet PO Box 3772, Auckland

Telephone: 09 303 4770

Fax: 09 300 5046

Email: ADagelet@cblinsurance.com