

Annexe 200(A)

This formula is for determining the Management Control Score

$$A = B/C \times D$$

Where:

A is the score achieved per line item of the scorecard

B is the percentage representation per line item of the scorecard

C is the target percentage per line item of the scorecard

D is the total points available per line item of the scorecard

**CODE SERIES FS300: THE MEASUREMENT OF THE
EMPLOYMENT EQUITY ELEMENT OF BROAD-BASED BLACK
ECONOMIC EMPOWERMENT**

Arrangement of this statement

1. Objectives of this statement
2. Employment Equity scorecard
3. Key measurement principles

1. Objectives of this statement

The objectives of this statement are to:

- 1.1 **Specify the scorecard for measuring Employment Equity contributions to B-BBEE;**
- 1.2 **Define the key measurement principles for measuring the Employment Equity contributions to B-BBEE; and**
- 1.3 **Define the formula for calculating the score for Employment Equity.**

2. Employment Equity Scorecard

Employment Equity – Measurement Criteria	Weighting	Target
2.1 Black disabled employees as a percentage of all employees	0.5	3.0%
2.2 Black Women disabled employees as a percentage of all employees	0.5	1.5%
2.3 Black Senior Management as a percentage of all Senior Management	3.0	60.0%
2.4 Black Women senior management as a percentage of all senior management	2.0	30.0%
2.5 Black Middle Management as a percentage of all Middle Management	3.0	75.0%
2.6 Black Women Middle Management as a percentage of all Middle Management	2.0	37.5%
2.7 Black junior management as a percentage of all Junior Management	2.0	80.0%
2.8 Black Women junior management as a percentage of all Junior Management	2.0	40.0%
Total		
2.9 Bonus points for meeting or Exceeding EAP ⁶ target for Senior Management	1	87.5%
2.10 Bonus points for meeting or Exceeding EAP ⁶ target for Middle Management	1	87.5%
2.11 Bonus points for meeting or Exceeding EAP ⁶ target for Junior Management	1	87.5%

⁶ EAP – The economically active population includes all persons between the ages of 15 and 65 years who are working, or unemployed, and excludes those who are not able to work.

3. Key Measurement Principles

3.1 Subject matter of this paragraph: This paragraph relates to the following statements within the CoGP:

3.1.1 Code 300 Statement 300; and

3.1.2 Code 800 Statement 803.

3.2 Applicability of the CoGP: The provisions and principles contained in the relevant statements apply to all financial institutions, subject to the following variations:

3.2.1 The following terms, when used in this Code, have these meanings:

3.2.1.1 Management means employees of a financial institution who are members of the occupational categories of Senior, Middle and Junior Management as determined using the EE Regulations and as defined in Code 300 of the DTI Codes.

3.2.2 The measurement principle referred to as the "Adjusted Recognition for Gender" does not apply to measurement of Employment Equity contributions under this Code.

3.2.2.1 No Measured Entity shall receive any bonus points under the Employment Equity scorecard unless they have achieved a sub-minimum of 40% of each of the targets set out on the Employment Equity scorecard in respect of the applicable targets.

3.2.3 In order for a Measured Entity to achieve bonus points at a particular level, the entity needs to exceed the EAP target.

3.2.4 Measured entities should put in place processes to review and demonstrate the reasonability of salaries relative to corporate title and occupational categories with regard to Employment Equity regulations.

3.2.5 A Measured Entity exempt from filing returns with the Department of Labour must compile its data for calculating its score under the Employment Equity scorecard using the guidelines set out in the Employment Equity Act and its EE regulations.

3.2.6 If the organisational structure of a Measured Entity does not distinguish between Middle and Junior Management it can consolidate those Measurement categories against the target for Junior Management. The weighting points for the Measurement Categories must be adjusted as follows:

3.2.6.1 Senior Management – 4,5 points

3.2.6.2 Black Women Senior Management – 3 points

3.2.6.3 Junior Management – 3,5 points

3.2.6.4 Black Women Junior Management – 3 points

Annexe 300 (A)

This formula is for determining the Employment Equity Score

$$A = B/C \times D$$

Where:

A is the score achieved per line item of the scorecard

B is the percentage representation per line item of the scorecard

C is the target percentage per line item of the scorecard

D is the total points available per line item of the scorecard

**CODE SERIES FS400: THE MEASUREMENT OF THE SKILLS DEVELOPMENT
ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

Arrangement of this statement

1. Objectives of this statement
2. The Skills Development Scorecard
3. Key measurement principles

1. Objectives of this statement

The objectives of this statement are to specify:

- 1.1 The scorecard for measuring the Skills Development Element of B-BBEE
- 1.2 Define the key measurement principles associated with the Skills Development Element; and
- 1.3 The formula for measuring the Skills Development Element of B-BBEE

2. The Skills Development Scorecard:

Skills Development – Measurement Criteria	Weighting	Target
Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for Black employees as a percentage of the financial institution's leviable amount	3.0	3.0%
Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for Black Women employees as a percentage of the financial institution's leviable amount	1.5	1.5%
Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for disabled Black employees as a percentage of the financial institution's leviable amount	0.5	0.3%
Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for disabled Black Women employees as a percentage of the financial institution's leviable amount	0.5	0.15%

Skills Development – Learnerships	Weighting	Target
Number of Black employees participating in Learnerships or Category B, C and D Programmes as a percentage of total employees	3.0	5%
Number of Black Women employees participating in Learnerships or Category B, C and D Programmes as a percentage of total employees	1.5	2.5%

3. Key Measurement Principles

3.1 Subject matter of this paragraph: This paragraph relates to the following statements within the CoGP:

3.1.1 Code 400 Statement 400; and

3.1.2 Code 800 Statement 804.

3.2 Applicability of the CoGP: The provisions and principles contained in the relevant statements apply to all financial institutions, subject to the following variations:

3.2.1 The measurement principle referred to as "Adjusted Recognition for Gender" does not apply to the measurement of Skills Development contributions under this Code.

3.2.2 Each financial institution undertakes to develop and report on the following programmes:

3.2.2.1 Career pathing through the provision of the necessary support to Black People at all levels to facilitate progress in their agreed careers;

3.2.2.2 The implementation of appropriate mentorship programmes within companies in the sector to assist in the rapid development of Black Employees;

3.2.2.3 Targeted recruitment to expand the base of potential recruits;

3.2.2.4 Cultural diversity and gender sensitivity programmes at various levels of management in the financial institution, with the intention of promoting a vibrant, enabling and diverse institutional culture; and

3.2.2.5 Where possible, in conjunction with institutions of higher learning, introduce training programmes in line with the NQF requirements and establish undergraduate and post graduate diplomas and degrees in financial services.

3.3 Measured entities receive points on the Skills Development scorecard only if:

3.3.1 They are in compliance with the requirements of the Skills Development Act and the Skills Development Levies Act;

3.3.2 They are registered with the applicable SETA;

3.3.3 They have developed a Workplace Skills Plan; and

3.3.4 They have implemented programmes targeted at developing Priority Skills generally, and specifically, for Black Employees.

3.4 Expenses on scholarships and bursaries for employees do not constitute Skills Development Expenditure if the Measured Entity can recover any portion of those expenses from the employees or if the grant of the scholarship or bursary is conditional. Nevertheless, if the right of recovery or the condition involves either of the following obligations of the employee, the expenses are recognisable:

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- 3.4.1 The obligation of successful completion of their studies within the time period allocated;
- 3.4.2 The obligation of continued employment by the Measured Entity for a period following successful completion of their studies is not more than the period of their studies.
- 3.5 **Any Skills Development expenditure by a Measured Entity that is an ABET programme is recognisable as a multiple of 1.25 of the actual value of such Skills Development expenditure.**
- 3.6 **Skills Development expenditure includes any legitimate expenses incurred for any Learning Programmes offered by a Measured Entity to its employees evidenced by an invoice or appropriate internal accounting record.**
- 3.7 **Skills Development expenditure arising from Uncertified Learning Programmes and informal training cannot represent more than 15% of the total value of the Measured Entity's Skills Development expenditure.**
- 3.8 **Legitimate training expenses include:**
- 3.8.1 Costs of training material;
- 3.8.2 Costs of trainers;
- 3.8.3 Costs of training facilities, including catering costs;
- 3.8.4 Scholarships and bursaries for employees;
- 3.8.5 Course fees;
- 3.8.6 Accommodation and travel; and
- 3.8.7 Administration costs such as the organisation of training including, where appropriate, the cost to the Measured Entity of employing a Skills Development Facilitator or a Training Manager. Only the portion of the costs attributable to the organisation and management of Black Employees will be counted.
- 3.9 **Salaries and wages paid to an employee participating as a learner in a registered Learnership or a category "B", "C" or "D" learning programme of the Learning Programme Matrix can be counted as Skills Development Expenditure for the period of the programme within the Measured Entity's measurement period.**
- 3.10 **The Financial Sector Council will undertake an annual audit of the adequacy of the Skills Development expenditure target.**
- 4. The Learning Programme Matrix**
- 4.1 **The Minister may from time to time, by notice in the gazette, revise or substitute the Learning Programme Matrix. Any changes will only apply to Compliance**

Reports prepared for a Measured Entity for the 12-month period following the gazetting of a revision or substitution.

Cat	Narrative Description	Delivery Mode	Learning Site	Learning Achievement
A	Institution-based theoretical instruction alone – formally assessed by the institution	Institutional instruction	Institutions such as universities and colleges, schools, ABET providers	Recognised theoretical knowledge resulting in the achievement of a degree, diploma or certificate issued by an accredited or registered formal institution of learning
B	Institution-based theoretical instruction as well as some practical learning with an employer or in a stimulated work environment – formally assessed through the institutions	Mixed mode delivery with institutional instruction as well as supervised learning in an appropriate workplace or simulated work environment	Institutions such as universities and colleges, schools, ABET providers and workplace	Theoretical knowledge and workplace experience with set requirements resulting in the achievement of a degree, diploma or certificate issued by an accredited or registered formal institution of learning
C	Recognised or registered structure experiential learning in the workplace that is required after the achievement of a qualification – formally assessed by a statutory occupational or professional body	Structured learning in the workplace with mentoring or coaching	Workplace	Occupational or professional knowledge and experience formally recognised through registration or licensing
D	Occupationally directed instructional and work based learning programme that requires a formal contract – formally assessed by an accredited body	Institutional instruction together with structured, supervised, experiential learning in the workplace	Institution and workplace	Theoretical knowledge and workplace learning, resulting in the achievement of a South African Qualifications Authority registered qualification, a certificate or other similar occupational or professional qualification
E	Occupational-directed informal instructional and work-based learning programme that does not require a formal contract – formally assessed by an accredited body	Structured information sharing or direct instruction involving workshops, seminars and conferences and short courses	Institutions and meetings	Credits awarded for registering unit standards
F	Occupationally directed informal instructional programmes	Structured information sharing or direct instruction involving workshops, seminars and conferences and short courses	Institutions, conferences and meetings	Continuing professional development, attendance certificates and credits against registered unit standards (in some instances)
G	Work-based informal programme	Informal training	Workplace	Increased understanding of job or work context or improved performance of skills

Annexe 400(A)

This formula is for determining the Skills Development Score

$$A = B/C \times D$$

Where:

A is the score achieved per line item of the scorecard

B is the percentage achieved per line item of the scorecard

C is the target percentage per line item of the scorecard

D is the total points available per line item of the scorecard

**CODE SERIES FS500: THE MEASUREMENT OF THE
PROCUREMENT ELEMENT OF BROAD-BASED BLACK ECONOMIC
EMPOWERMENT**

Arrangement of this statement

1. Objectives of this statement
2. The Preferential Procurement Scorecard
3. Key measurement principles
4. The Calculation of Preferential Procurement Contributions to B-BBEE

1. Objectives of this statement

The objectives of this statement are to specify:

- 1.1 The Preferential Procurement scorecard;
- 1.2 The key measurement principles applicable to calculating Preferential Procurement contributions to B-BBEE,

2. The Preferential Procurement Scorecard

Preferential Procurement – Measurement Criteria	Weighting	Target
B-BBEE Procurement Spend from all Suppliers based on their B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	8	70%
B-BBEE Procurement Spend from all Suppliers that are QSEs or EMEs based on their B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	3	15%
Procurement Spend on any of the following Suppliers as a percentage of Total Measured Procurement Spend:		
Suppliers that are 50% Black owned	2.5	12%
Suppliers that are 30% Black Women owned	2.5	8%

Enhanced Recognition for Procurement Spend	Weighting
Where companies procure from Black SMME suppliers that they support in terms of their own Enterprise Development contributions (as defined under the specific Statement (601 or 602) that applies to that measured entity)	125%
Purchasing from suppliers that are value adding suppliers	120%

3. Key Measurement Principles

3.1 Subject matter of this paragraph: This paragraph relates to the following statements within the CoGP:

3.1.1 Code 500 Statement 500; and

3.1.2 Code 800 Statement 805.

3.1.3 All goods and services procured by the Measured Entity, other than any portion specifically excluded under this statement, is measurable in calculating its Total Measured Procurement Spend.

3.1.4 If a Measured Entity procured goods and services from a supplier that is:

3.1.4.1 A recipient of Enterprise Development contributions from the Measured Entity under Code series FS600, the recognisable B-BBEE Procurement spend that can be attributed to that supplier is multiplied by a factor of 1.25; and

3.1.4.2 A Value-adding supplier, the recognisable B-BBEE Procurement spend, which can be attributed to that supplier, is multiplied by a factor of 1.20.

3.1.5 This statement applies to all areas of Procurement.

3.1.6 Black Owned Professional Service Providers and Black Owned Entrepreneurs:

3.1.6.1 A key intention of this statement is to promote the use of Measured Entities, of these types of service providers as suppliers.

3.1.6.2 Black Owned Professional Service Providers and Black Owned Entrepreneurs that comply with all the elements of the scorecard (i.e. score points in all elements of the scorecard):

- Qualify for recognition in all three criteria in the Preferential Procurement scorecard; and
- Qualify as Value-adding Suppliers.

3.2 Applicability of the CoGP: The provisions and principles contained in the relevant statements apply to all financial institutions, subject to the following variations:

3.2.1 The following procurement is measured within the Total Measured Procurement Spend:

3.2.1.1 **Cost of sales:** all goods and services procured that comprise cost of sales.

3.2.1.2 **Operational expenditure:** all goods and services procured that comprise operational expenditure.

3.2.1.3 **Capital expenditure:** all capital expenditure.

3.2.1.4 **Discretionary Stock Brokering Spend:** discretionary stock-brokering spend procured by investment managers on behalf of clients, regardless of whether this spend is recorded in the financial statements of the investment manager.

- 3.2.1.5 **Public Sector Procurement:** all goods and services procured from organs of state and public entities listed in schedule 2 and 3 of the Public Finance Management Act, No. 1 of 1999.
- 3.2.1.6 **Third-party Procurement:** all procurement for a third-party or client where the cost of that procurement is recorded in the measured entity's financial statements
- 3.2.1.7 **Labour brokers and independent contractors:** any procurement that is outsourced labour expenditure.
- 3.2.1.8 **Pension and medical aid administration payments:** payments paid to any post-retirement funding scheme or to a medical aid scheme or similar medical insurer, for its employees, excluding any portions of such contributions to a capital investment of the employee.
- 3.2.1.9 **Trade Commissions:** any commission or similar payments payable to any other third-party pursuant to the business or trade of the Measured Entity. Insurance broker and intermediary commissions are excluded.
- 3.2.2 **Empowerment-related expenditure:** all goods and services procured in carrying out B-BBEE. The Total Measured Procurement spend does not include the actual contribution as specified in the Codes for Enterprise Development, Socio-economic Development and Empowerment Financing, but does include expenditure incurred in facilitating that expenditure.
- 3.2.2.1 **Imports:** all goods and services that are imported or procured from a non-South African source; and
- 3.2.2.2 **Intra-group expenditure:** except as provided for in Statement 002, all goods and services from subsidiaries or holding companies of the Measured Entity, except where the group is undertaking a consolidated scorecard.
- 3.3 **Exclusions from Total Measured Procurement Spend:**
 - 3.3.1 **Taxes and levies:** any amount payable that represents a lawful tax or levy imposed by an organ of state authorised to impose such levy, including rates imposed by a municipality or other local government;
 - 3.3.2 **Property expenditure:** Any amounts payable in consideration for property acquisitions or rentals where the financial institutions hold such property interests as an investment, on behalf of a third party, rather than for operational purposes;
 - 3.3.3 **Salaries, wages, remunerations and emoluments:** Any amount payable to an employee as an element of their salary or wages or similar payment made to a director of a Measured Entity;
 - 3.3.4 **Pass-through third-party procurement:** all procurement for a third-party or a client, where the cost of that procurement is recorded in the third-party or client's annual financial statements, but is not recorded in the Measured Entity's annual financials.
 - 3.3.5 **Empowerment related procurement:**

- 3.3.5.1 Investments in or loans to an Associated Enterprise;
- 3.3.6 Imported capital goods or components for value-added production in South Africa provided that:
 - 3.3.6.1 There is no existing local production of such capital goods or components; and
 - 3.3.6.2 Importing such capital goods or components promotes further value-added production within South Africa.
- 3.3.7 Imported goods and services if there is no local production of such goods or services. The following can be grounds, but not the sole grounds, for exclusion of imported goods and services from Total Procurement Spend:
 - 3.3.7.1 Where the imported goods or services carry a brand different from the locally produced goods or services; or
 - 3.3.7.2 Where the imported goods or services have different technical specifications from the locally produced goods or services;
- 3.3.8 Broker commissions and commissions paid to insurance intermediaries;
- 3.3.9 Reinsurance premiums;
- 3.3.10 Any items of procurement where the supplier is imposed in terms of a Global Policy for technical (but specifically not commercial) reasons;
- 3.3.11 Inter-entity charges for services rendered by other members of the group that are not measured separately in terms of this Code.
- 3.4 **Financial institutions acknowledge that the specific exclusions referred to in paragraphs 3.2.1.1 to 3.2.2.2 are specific benefits included in this Code to the advantage of the financial sector only. Accordingly, financial institutions must at all times include within their portfolio of Enterprise Development programmes, initiatives targeting Black Owned property, brokerage and insurance intermediary businesses.**
- 4. The Calculation of Preferential Procurement Contributions to B-BBEE**
 - 4.1 **A Measured Entity receives a score for Procurement in proportion to the extent that it meets the compliance target**
 - 4.2 **The B-BBEE Procurement spend of a Measured Entity in respect of a supplier is calculated by multiplying the spend as per paragraph 3 in respect of that supplier by the supplier's B-BBEE recognition level.**
 - 4.3 **The Measured Entity's score for Preferential Procurement contributions to B-BBEE under the preferential procurement scorecard can be calculated in terms of formula "B" in Annexe 500(A)**

Annexe 500(A)**A: B-BBEE PROCUREMENT SPEND:**

$$A = \text{sum of } (B \times C)$$

Where

A is the calculated total B-BBEE Procurement Spend for the Measured Entity. It is equal to the sum of the result of the product of B and C for each Supplier of the Measured Entity not excluded under the exclusion from total measured procurement spend;

B is the value of Procurement falling within Total Measured Procurement spend and not excluded under the exclusion from Total Measured Procurement spend from each Supplier of the Measured Entity;

C is the B-BBEE Procurement Recognition Level of each such Supplier of the Measured Entity.

B: THE CALCULATION OF PREFERENTIAL PROCUREMENT CONTRIBUTIONS TO B-BBEE

$$A = B / C \times D$$

Where:

A is the score achieved per line item of the scorecard

B is the percentage achieved per line item of the scorecard

C is the target percentage per line item of the scorecard

D is the total points available per line item of the scorecard

**CODE SERIES FS600: THE MEASUREMENT OF THE ENTERPRISE
DEVELOPMENT AND/OR EMPOWERMENT FINANCING ELEMENT
OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

1. Introduction

1.1 Code 600, Statement 600 of the Generic Codes applies.

1.2 Certain types of measured entities to which this Financial Sector Code applies have been exempted from making contributions towards the Empowerment Financing Element of this Financial Sector Code

1.2.1 Entities within the following sub-sectors have been exempted from Empowerment Financing:

1.2.1.1 Short-term Insurance

1.2.1.2 Re-insurance;

1.2.1.3 The management of retirement, pension and collective investment scheme assets;

1.2.1.4 Management of formal collective investment schemes;

1.2.1.5 Financial Services Intermediation and Brokerage;

1.2.1.6 Management of investments on behalf of the public, including, but not limited to, private equity, members of any exchange licensed to trade equities or financial instruments in South Africa and entities listed as part of the financial index of a licensed exchange; and

1.2.1.7 Underwriting Management Agents.

1.2.1.8 These Measured Entities may however, choose to be measured against Empowerment Financing.

1.2.2 These Measured entities shall contribute towards The Enterprise Development Element of this code as per the principles defined under Statement FS601

1.3 Measured entities that are not exempted from contributing towards the Empowerment Financing Element of this sector code shall contribute towards the Empowerment Financing and Enterprise Development Elements of this Code as per the principles defined under Statement FS602

CODE SERIES FS600
STATEMENT 601:
THE MEASUREMENT OF THE ENTERPRISE DEVELOPMENT ELEMENT FOR
MEASURED ENTITIES THAT ARE EXEMPTED FROM CONTRIBUTING TOWARDS
EMPOWERMENT FINANCING

Arrangement of this statement

1. Objectives of this statement
2. The Enterprise Development Scorecard
3. Key Measurement Principles
4. Measurement of Qualifying Contributions
5. The Benefit Factor Matrix
6. Annexe 600 (A) - Benefit Factor Matrix
7. Annexe 600 (B) - Formula

1. Objectives of this statement

The objectives of this statement are to specify:

- 1.1 **The Enterprise Development (ED) scorecard;**
- 1.2 **The key measurement principles for calculating Qualifying Enterprise Development Contributions; and**
- 1.3 **The formula for calculating the individual criteria specified in the ED scorecard.**

2. The Enterprise Development Scorecard

2.1 The cumulative NPAT target applies unless:

- 2.1.1 The company did not make a profit last year or on average over the last five years
- 2.1.2 The net profit margin is less than a quarter of the norm in the industry
- 2.1.3 If the Turnover is to be used, the target will be set at:
- 2.1.4 $3\% \times \text{Indicative Profit Margin (NPAT/Turnover)} \times \text{Turnover}$
- 2.1.5 Indicative profit margin is the profit margin in the last year where the company's profit margin is at least one quarter of the industry norm.

2.2 The following table represents the criteria and method used for deriving a score for Enterprise Development under this statement:

Criteria	Weighting Points	Target
Qualifying ED contributions made by the measured entity as a percentage of the target	15	3% of Cumulative NPAT

3. Key Measurement Principles

3.1 General principles

3.1.1 Measured Entities receive recognition for any Qualifying Enterprise Development Contributions that are quantifiable as a monetary value using a Standard Valuation Method;

3.1.2 Qualifying Enterprise Development Contributions of any Measured Entity are recognisable cumulatively from the commencement date of this statement, or an earlier date chosen by the Measured Entity (the inception date), until the date of measurement;

3.1.3 No portion of the value of any Qualifying Enterprise Development Contribution that is payable to the beneficiary after the date of measurement can form part of any calculation under this statement.

3.2 Recognition of Enterprise Development Contributions:

3.2.1 Enterprise Development Contributions consist of monetary or non-monetary, recoverable or non-recoverable contributions actually initiated and implemented in favour of beneficiary entities by a Measured Entity with the specific objective of assisting or accelerating the development, sustainability and ultimate financial and operational independence of that beneficiary. This is commonly accomplished through the expansion of those beneficiaries' financial and/or operational capacity;

3.2.2 The full value of Category A Enterprise Development Contributions, adjusted using the Benefit Factor, multiplied by 1,25 is recognisable;

3.2.3 The full value of Category B Enterprise Development Contributions is recognisable;

3.2.4 Recognition of Enterprise Development Contribution is limited to Qualifying Enterprise Development Contributions made to beneficiary entities if the beneficiary has met the definitional requirements of a beneficiary entity.

3.2.5 The following is a non-exhaustive list of Enterprise Development Contributions:

3.2.5.1 Grant contributions to beneficiary entities;

3.2.5.2 Investments in beneficiary entities;

3.2.5.3 Loans made to beneficiary entities;

- 3.2.5.4 Guarantees given or security provided on behalf of beneficiaries;
- 3.2.5.5 Credit facilities made available to beneficiary entities;
- 3.2.5.6 Direct costs incurred by a Measured Entity in assisting and hastening development of beneficiary entities;
- 3.2.5.7 Overhead costs of a Measured Entity directly attributable to Enterprise Development Contributions;
- 3.2.5.8 Enterprise Development or developmental capital advanced to beneficiary entities;
- 3.2.5.9 Preferential credit terms granted by a Measured Entity to beneficiary entities;
- 3.2.5.10 Preferential terms granted by a Measured Entity in respect of its supply of goods or services to beneficiary entities;
- 3.2.5.11 Contributions made to settling service costs relating to the operational or financial capacity or efficiency levels of beneficiary entities;
- 3.2.5.12 Payments made by the Measured Entity to third parties to perform Enterprise Development on the Measured Entity's behalf;
- 3.2.5.13 Discounts given to beneficiary entities in relation to the acquisition and maintenance costs associated with the grant to those beneficiary entities of franchise, licence, agency, distribution or other similar business rights;
- 3.2.5.14 The creation or development of capacity and expertise for beneficiary entities needed to manufacture or produce goods or services previously not manufactured, produced or provided in the Republic of South Africa;
- 3.2.5.15 Facilitating access to credit for beneficiary entities without access to similar credit facilities through traditional means owing to a lack of credit history, high-risk or lack of collateral;
- 3.2.5.16 Provision of training or mentoring to beneficiary entities which will assist the beneficiary entities to increase their operational or financial capacity; and
- 3.2.5.17 The maintenance by the Measured Entity of an Enterprise Development unit that focuses exclusively on support of beneficiary entities or candidate beneficiary entities.
- 3.2.6 The creation or development of the capacity of beneficiary entities, which will enable them to manufacture and produce goods or provide services previously not available in the Republic of South Africa, may constitute an Enterprise Development Contribution.
- 3.2.7 New projects promoting beneficiation may constitute an Enterprise Development Contribution.
- 3.2.8 Provision of preferential credit facilities to a beneficiary entity by a Measured Entity may constitute an Enterprise Development Contribution. Examples of such contributions include without limitation:
 - 3.2.8.1 Provision of finance to beneficiary entities at lower than commercial rates of interest;

- 3.2.8.2 Relaxed security requirements or absence of security requirements for beneficiary entities unable to provide security for loans; and
- 3.2.8.3 Settlement of accounts with beneficiary entities over a shorter period of time in relation to the Measured Entity's normal payment period, provided the shorter period is no longer than 15 days.
- 3.2.9 Providing training or mentoring to beneficiary communities by a Measured Entity. (Such contributions are measurable by quantifying the cost of time (excluding travel or commuting time) spent by staff or management of the Measured Entity in carrying out such initiatives. A clear justification, commensurate with the seniority and expertise of the trainer or mentor, must support any claim for time costs incurred).
- 3.2.9.1 Maintaining an Enterprise Development unit by the Measured Entity. (Only that portion of salaries and wages attributable to time spent by the staff in, and the other expenses related to, promoting or implementing Enterprise Development, constitutes contributions).
- 3.2.9.2 Payments made by the Measured Entity to third parties to perform Enterprise Development on the Measured Entity's behalf.

4. Measurement of Qualifying Contributions

- 4.1 **Qualifying Contributions are measurable using the formula "A" in Annexe 600(B)**

5. The Benefit Factor Matrix

- 5.1 **The Minister may from time to time, by notice in the gazette, revise or substitute the Benefit Factor Matrix. Any changes will only be applicable to Compliance Reports prepared for a Measured Entity in respect of the first 12-month period following the gazetting of a revision or substitution.**

Qualifying Contribution Type	Contribution amount	Benefit factor
Grant contribution	Full grant amount	100%
Direct Cost incurred in supporting approved projects or Enterprise Development	Verifiable cost (including both monetary and non-monetary)	100%
Discounts in addition to normal business practices supporting Enterprise Development	Discount amount (in addition to normal business discount)	100%
Overhead costs incurred in supporting Enterprise Development (including people appointed in Enterprise Development units)	Verifiable costs (including both monetary and non-monetary)	80%
Interest-free loan with no security requirements supporting approved projects or Enterprise Development	Outstanding Loan Amount	100%
Standard loan to black owned EME and QSEs	Outstanding Loan Amount	70%
Standard loan provided to other beneficiary enterprises	Outstanding Loan Amount	60%
Guarantees provided on behalf of a beneficiary entity	Guarantee Amount	3%
Lower interest rate (in addition to the recognisable loan amount)	Outstanding Loan Amount	Prime Rate – Actual Rate
Equity Investments and Related Contributions	Contribution Amount	Benefit Factor
Minority investment in Black Owned EME and QSEs	Investment Amount	100%
Minority investment in other Beneficiary enterprises	Investment Amount	80%
Enterprise Development investment with lower dividend to financier	Investment Amount	Dividend rate of ordinary shareholders – actual dividend rate of contributor
Professional services rendered at no cost and supporting approved projects or Enterprise Development	Commercial hourly rate of professional	80%
Professional services rendered at a discount and supporting approved projects or Enterprise Development	Value of discount based on commercial hourly rate of professional	80%
Time of employees of measured entity productively deployed in assisting beneficiaries	Monthly salary divided by 160	80%

Annexe 600(B)

A: Qualifying Contributions are measurable on the following basis:

$$A = B / C \times D$$

Where

A is the score achieved in respect of the Qualifying Contributions made by the Measured Entity

B is the value of all Qualifying Contributions made by the Measured Entity

C is the compliance target in respect of the Qualifying Contributions as specified in the scorecard for statement 601

D is the Weighting points allocated to the criteria under the scorecard for statement 601.

Annexe 600(C)**Qualifying Beneficiaries**

There are two Enterprise Development Beneficiary categories, which a beneficiary entity can qualify under in order to receive Enterprise Development contributions;

Category A

A is a more than 50% black owned business with an annual turnover of R35 million or below.

Category B

Either,

A is a more than 50% black owned business with an annual turnover of more than R35 million, or

A is a more than 25% black owned business with a Level 6 B-BBEE Certificate or better.

CODE SERIES FS600
STATEMENT 602:
THE MEASUREMENT OF THE EMPOWERMENT FINANCING AND ENTERPRISE
DEVELOPMENT ELEMENT FOR MEASURED ENTITIES THAT ARE NOT EXEMPTED
FROM CONTRIBUTING TOWARDS EMPOWERMENT FINANCING

Arrangement of this statement

1. Objectives of this statement
2. The Scorecards:
 - 2.1 The Empowerment Financing Scorecard
 - 2.2 The Enterprise Development Scorecard
3. Definitions, Key Measurement Principles, Standards and Targets
 - 3.1 Empowerment Financing
 - 3.2 Enterprise Development

1. Objectives of this statement

The objectives of this statement are to specify:

- 1.1 **The Empowerment Financing Scorecards**
 - 1.2 **The Enterprise Development (ED) Scorecard;**
 - 1.3 **The key measurement principles for calculating Qualifying Empowerment Financing and Enterprise Development Contributions; and**
 - 1.4 **The formulae for calculating the individual criteria specified in the scorecards**
- 2. The Scorecards**
- 2.1 **The Empowerment Financing Scorecard:**
 - 2.1.1 As it relates to the members of the Banking Association.

Measurement Criteria	Weighting Points	Target
Targeted Investments		
Transformational Infrastructure	12	R48bn
Black SME Financing		
Black Agricultural Financing		
Affordable Housing		
BEE Transaction Financing	3	R32bn
Total For Banking Sector	15	R80bn

(IBA members will be responsible for R1.6bn of the R80bn increment)

With respect to the local banks, the target will be measured as total balance sheet exposure for new loans written from 1 January 2012 to 31 December 2017 and is in addition to the amounts held on their balance sheet as at 31 December 2011. For scoring purposes, it shall be deemed that local banks held R0 as at 1 January 2012.

Illustrative Example (local banks):

Bank A has achieved R30bn of balance sheet exposure for Targeted Investments as at 31 December 2011. Bank A's portion of the new target is R40bn additional Targeted Investments exposure from 1 January 2012 to 31 December 2017. Therefore, its reporting target shall be R70bn in total.

From 1 January 2012 to 31 December 2013 it has written new qualifying loans to the value of R5bn and the balance sheet exposure relating to this R5bn as at 31 December 2013 is R3bn.

With respect to calculating its score as at 31 December 2013, Bank A shall take R33bn, being its R30bn historic performance plus its R3bn current performance divided by its target of R70bn. The quotient multiplied by the total points available shall be the points that Bank A may claim as at 31 December 2013.

The formula is as follows:

$$A = (B/C) \times D$$

Where:

A is the points recognised

B is the sum of the historic performance and the current performance

C is the target and

D is the total points available

$$A = [(R30bn + R3bn) / R70bn] \times 12$$

$$A = 5.66 \text{ points}$$

Illustrative Example (IBA members):

Bank A has achieved R50m of balance sheet exposure for Targeted Investments as at 31 December 2011. Bank A's portion of the new target is R10m additional Targeted Investments exposure from 1 January 2012 till 31 December 2017. Therefore, its target shall be R60bn actual balance sheet exposure as at 31 December 2017.

As at 31 December 2013 Bank A has a total of R52m qualifying exposure on its balance sheet.

With respect to calculating its score as at 31 December 2013, Bank A shall take its actual R52m qualifying exposure divided by its target of R60m. The quotient multiplied by the total points available shall be the points that Bank A may claim as at 31 December 2013.

The formula is as follows:

$$A = (B/C) \times D$$

Where:

A is the points recognised

B is the actual balance sheet exposure at measurement date

C is the target and

D is the total points available

$$A = R52m/R60bn \times 12$$

$$A = 10.4 \text{ points}$$

To avoid any doubt, the target for the banking sector is based on an increment of R80bn additional Empowerment Financing between 1 January 2012 and 31 December 2017. Local banks will be responsible for R78.4bn of the increment and IBA members will be responsible for R1.6bn of the increment.

2.1.2 As it relates to Long Term Insurers

Measurement criteria	Weighting	Sector Target
Targeted investments as per 2.1.1	12	R27b
B-BBEE Transaction Financing	3	R15b

With respect to the long term insurance sector the target shall be measured as total balance sheet exposure at the measurement date and includes all current balances held.

To avoid any doubt, the target for long term insurers is based on an increment of R17bn additional Empowerment Financing between 1 January 2012 and 31 December 2017.

Illustrative Example (Long Term Insurers):

Insurer A has achieved R1bn of balance sheet exposure for Targeted Investments as at 31 December 2011. A's portion of the R27bn target is R2bn, Targeted Investments exposure as at 31 December 2017.

As at 31 December 2013, A has a total of R1.2bn qualifying exposure on its balance sheet, comprised of its R1bn prior balance and R0.2bn new loans.

With respect to calculating its score as at 31 December 2013, A will take its actual R1.2bn qualifying exposure divided by its target of R3bn. The quotient multiplied by the total points available shall be the points that A may claim as at 31 December 2013.

The formula is as follows:

$$A = (B/C) \times D$$

Where:

A is the points recognised

B is the actual balance sheet exposure at measurement date

C is the target and

D is the total points available

$$A = R1.2bn/R3bn \times 12$$

$$A = 4.8 \text{ points}$$

2.2 The Enterprise Development Scorecard:

Criteria	Weighting Points	Target
Qualifying ED contributions made by the measured entity as a percentage of the target	5	0.2% of NPAT

3. Definitions, Key Measurement Principles, Standards and Target:

3.1 Empowerment Financing comprises Targeted Investments and B-BBEE Transaction Financing.

3.1.1 Targeted Investments (TI)

Definition:

Targeted Investments means:

Debt financing of, or other forms of credit extension to, or equity investments in South African projects, in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions. It specifically means financing of, or investment in:

- **Transformational Infrastructure** projects that support economic development in under-developed areas and contribute towards equitable access to economic resources. Such infrastructure projects could be in the following sectors:
 - Transport;
 - Telecommunications;
 - Water, waste water and solid waste;
 - Energy;
 - Social infrastructure such as health, education and correctional services facilities; and
 - Municipal infrastructure and services.
- **Agricultural Development** involving integrated support for black farmers through enabling access to and sustainable use of resources.
- **Affordable Housing** for households with a stable income, the amount of which will be determined annually by the Financial Sector Council.
- **Black SMMEs.**

Delivery will be against a combined target with fungibility over the various sub-components as per the individual organisation's business model. Should an organisation not be able to deliver on any of these sub-categories, delivery of the value of Targeted Investments will have to be done under the Enterprise Development element of this Code and the points of that element will then be adjusted accordingly.

Targets

The overall Banking Sector target for targeted investments will be R48 billion new balances (for Banks including IBA members).

Transformational InfrastructureDefinition

Transformational Infrastructure means:

Debt financing of, or other forms of credit extension to, or equity investments in South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions. It specifically means financing of, or investment in:

- Transformational Infrastructure projects that support economic development in underdeveloped areas and contribute towards equitable access to economic

resources. Such infrastructure projects could be, but are not limited to the following sectors:

- Transport;
- Telecommunications;
- Water, waste water and solid waste;
- Energy;
- Social infrastructure such as health, education and correctional services facilities; and
- Municipal infrastructure and services.

Measurement principles

Preamble

TI projects will be measured, based on the Municipal index or as per the specific project rating allocated, based on the target market, submitted for evaluation.

Target market

TI will be any infrastructure that will promote the social and equitable economic development of a specific location, community, region or district. This will include but is not limited to:

- Education which includes schools, learning centres, higher education, etc.
- Road and rail infrastructure which will include new access roads, upgrading of existing roads, etc.
- Community infrastructure such as water, electricity, sewerage, drainage, purification and treatment, amongst others, except those that are specific to Affordable Housing projects in which case they will be included under that sub-element.
 - Safety and security, which includes police stations, prisons, etc.
 - All telecommunications infrastructure whether that be land, cellular, or data.
 - Health, which includes hospitals and clinics etc.
 - Municipal infrastructure and services including Government buildings.
 - Industrial Development Zone type infrastructure including logistics hubs.

Categories of TI funding recipients and/or participating in TI implementation:

- Municipalities and Government departments.
- Parastatals and public entities.
- Financial intermediaries such as INCA, DBSA, TCTA, and the African Infrastructure Investment Fund.
- Private companies and participants in Public-Private Partnerships (PPP).

Products

All forms of financing and / or investment. Instruments used to finance TI vary in nature and term throughout the project cycle, but will, *inter alia*, include:

- Construction period loans.
- Senior or subordinated medium- and long-term loans or bonds.
- Asset leases.
- Guarantees of the above and other instruments.
- Working capital such as general banking facilities or revolving credit facilities.
- Performance guarantees or bonds.
- Mezzanine finance, which may include participating instruments such as participating debentures, convertible loans, etc.
- Equity finance, which may take the form of ordinary shares and shareholder loans.

Measurement

- The basis of measuring the qualifying funding to TI will be the stock measure. This is effectively a measure of the amount (or 'stock') of financing shown on the balance sheet of a measured entity at the measurement date. A weighted average of the monthly balances over the 12 months prior to the measurement date is to be used to smooth out seasonal and other distortions.
- Measurement and calculation of TI projects will be through the use of a Municipal index. Projects funded but not measured using the Municipal index approach will be considered to be "ring-fenced" projects and require the provision of detailed information on transformation impact focusing on economic beneficiaries in order to justify how the scoring will be done if higher than the general Municipal index method. To avoid confusion the ring fenced projects means a funding method which provides for a rating of up to 100% where a municipality conducts a fund-raising exclusively for transformational infrastructure in an under-developed area of the municipality as defined by the FSC Council. Such funding may be raised by way of an earmarked bond or facility or by way of a ring-fenced project financing.
- The current matrix will be reviewed and adjusted accordingly. This will include some blanket project multipliers included for some of the critical infrastructural developments such as access roads, railway upgrades, low-cost telecommunications including Telkom, electricity generation and supply, water supply pipelines, reservoirs and dams, etc.
- An adjudication committee consisting of experts to be established to adjudicate marginal projects or new types of project financing.
- Should funding be syndicated, each member will score on their individual contribution subject to any multiplier applicable on the project as a whole.

Targets

Due to the fungibility of delivery over the sub categories by the delivering organisation, targets will be set for Targeted Investments (TI) only and not sub categories.

Therefore, Transformational Infrastructure as a sub-category of TI will not have a specific target.

Affordable housing

Definition

Home lending standards for qualifying loans are defined as set out below and seek to define a voluntary:

- Affordable Housing target market;
- Product definition guidelines.

a) Types of Lending

Affordable Housing constitutes both mortgage and non-mortgage backed lending for housing purposes and includes the following product categories, which may expand in the future:

- Mortgages;
- Unsecured personal loans;
- Personal loans secured by a pension or provident fund;
- Residential development loans;
- Wholesale loans.

b) Qualifying Loans / Investment Standards

Loans qualifying for inclusion must conform to the following standards:

The purpose of the loan should be for housing (as set out under Product Category Definitions);

- Loans should conform to the requirements of the National Credit Act;
- Loans should be priced in line with regulated interest rate and fee limits specific to the various loan types.

Measurement of Loan Activity

The target market is defined to be the approximate cost of bonded entry housing in South Africa adjusted annually by the midpoint of the Consumer Price Index (CPI) and the Building Cost Index (BCI). The average annual CPI figure is obtained from published reports from SA Statistics and that of the BCI figure from the Bureau for Economic Research (Stellenbosch University).

For 2011, the Affordable Housing market as calculated by the Banking Association, comprises households earning up to R15,738 per month. (See Note 4 under Affordable Housing for further details).

Definitions

Household income

Monthly household income is the primary criteria used to determine whether the lending activity may count towards the Affordable Housing origination and Targeted Investment targets.

Income as defined in terms of the National Credit Act, 34 of 2005:

"Household income means the combined gross income of the Applicant/s, which may include the income of any major person who shares their financial means/obligations with the Applicant/s."

Gross income includes income or any right to receive income, but excludes monies received that the person receives, has a right to receive or holds in trust for another person."

Loans are deemed to have been written by a financial institution when a mortgage bond has been registered or in the case of non-mortgage loans when these loans are disbursed.

The gross monthly applicant/s income is determined when the loan is approved. For target market upper income qualification purposes the date of approval of loans, both mortgages and non-mortgages, is based on the quantum of the applicant/s income as at time of approval of a loan.

Business written within the target market

The following table contains the various target markets.

	Mortgage loans	Non-mortgage loans	Residential development loan finance	Wholesale loan finance/equity
Product description	Residential property loans to end users collateralised by registering a mortgage/ indemnity bond over the property.	Personal loans equal to or greater than R1 000 with a term of more than 12 months.	Short or long term finance to developers for the creation of housing stock.	Short- or long-term finance to corporates or intermediaries who on-lend to individuals or other entities for housing purposes. An equity stake by a financial institution in a legal entity, limited to the extent that the legal entity lends to the target market as per the respective product definitions.
Includes	First and further mortgage/ indemnity bonds. Client driven switches. Further loans without registration.	Fully or partially secured by pension/ provident fund. Unsecured loans used for housing purposes. Further advances.	Housing stock for any form of tenure e.g. ownership, instalment sale, rental. New developments, conversions or upgrading of existing stock.	All loans as per mortgage loans, non-mortgage loans and residential development loan finance.
Comment	Income to be adjusted annually by the midpoint between the average CPI and BCI indexes for the previous year. The Banking Association will advise members annually of the adjusted target market.	Minimum loan amount and income to be adjusted annually by the midpoint between the average CPI and the BCI indexes for the previous year. The Banking Association will advise members annually of the adjusted target market. Lenders will be required to demonstrate the usage of the funds through a client self certification process.	Target market to be adjusted annually by the midpoint between the average CPI and the BCI indexes for the previous year. The Banking Association will advise members annually of the adjusted target market. Where housing units are to be sold, lenders to determine the maximum unit price that qualifies for target market inclusion purposes at time of pay away of residential development finance funds. Where units are being developed for rental purposes, the developer will be required to certify that expected rentals are affordable to the target market (maximum of 30% repayment to gross household income) parameter to be used.	Minimum loan amount and income to be adjusted annually by the midpoint between the average CPI and the BCI indexes for the previous year. The Banking Association will advise members annually of the adjusted target market.

Note 1

Household income is a foreign term to banks as it is the applicant's income that determines affordability and the legal relationship between bank and client. None of the banks record household income on their application forms or systems. There is also a strong view that self-declared household income is not reliable and would be an impractical and costly exercise to validate. In an analysis undertaken by the banks in 2004, it was found that there is a strong correlation between applicant income (comprising both individual and joint applications) and household income. It was therefore felt that applicant income, whether single or joint, is a strong proxy for household income and a reliable and transparent measure.

Note 2

For unsecured and guaranteed personal loans, the borrower's income and not the joint income will be used for qualification purposes as these loans are granted to individuals based only on their own income and affordability, not joint income. Joint income, on the other hand, is generally recognised for mortgage loan lending purposes.

Note 3

Residential Development plays the role of an 'enabler' as it increases the supply of housing stock. Lender funding is of a short-term nature.

Note 4

The average cost of a primary market bonded entry home was deemed to be approximately R 250 000 based on member market experience, coupled with research undertaken by The Banking Association with both developers and an external research company (Finmark Trust). In addition, this upper income definition is aligned to that of the draft "Inclusionary Housing" draft policy document as was produced by the Department of Human Settlements. An upper income limit of R15,142 was therefore deemed to be appropriate by The Banking Association in 2009.

For 2011, the upper income limit is calculated as follows:

- CPI: average CPI for 2010, 4.3%
- BCI: average BCI for 2010, -1.2%
- The midpoint for CPI and BCI for 2010 was 1.55%

The upper income limit for 2011 is R15,738 (R15,498 + (R15,498 x 1.55%))

Going forward, on an annualised basis, The Banking Association will continue to provide members with written confirmation of the target market definition for Affordable Housing as defined in Note 4 above.

Targets

Due to the fungibility of delivery over the sub categories by the delivering organisation, targets will be set for Targeted Investments (TI) only and not sub categories. Therefore, Affordable Housing as a sub-category of TI will not have a specific target.

Additional Notes relating to Affordable Housing

There is general acknowledgement that there is a lack of "stock" of housing units available to finance for the "Gap Market" segment (R10,000 and less monthly income) of the target market due to a multitude of challenges in our country. To this end Trade Associations shall, together with Government, Community and Labour representatives, establish a working committee post gazetting of this Code, to develop a coherent strategy/strategies that will seek to address this problem. Solutions may include Public Private Partnerships between financiers, developers, Government and community-based organisations and could include co-operative housing schemes and/or development rebates, etc.

Black SME financing**Definition**

Black SME financing means:

- Debt financing of, or other forms of credit extension to South African qualifying organisations to address the gaps or backlogs in economic development and job creation. It specifically means financing of or investment in Black-owned SMEs.

Black SME means:

- Both Exempt Micro Enterprises (with a turnover of less than R5 million per annum) and Qualifying Small Enterprises (with a turnover of between R5 million and R35 million per annum), having Black ownership of 50% or more.

Measurement principles**Preamble**

The basis of measuring the qualifying funding for Black SME's will be the stock measure. This is effectively a measure of the amount (or 'stock') of financing shown on the balance sheet of an affected entity at the measurement date. A weighted average of the monthly balances over the 12 months prior to the measurement date is to be used to smooth out seasonal and other distortions.

Target market

Any EME or QSE having 50% black ownership or more, being

- EME (with a turnover of less than R5 million per annum); and
- QSE (with a turnover of between R5 million and R35 million per annum).
- Products

Includes but are not limited to:

- Term loans of any length, including asset-based finance (includes leases and rentals) in the name of the business
- Overdraft facilities (measured on the usage)
- Equity investments by the organisation
- Property finance, including commercial mortgages

- Invoice discounting including commercial debtor finance
- Guarantees
- Leverage finance
- Indemnity backed loans such as Khula, Enablis, USAID, UY Fund, etc.

Measurement

A Black SME must meet the legal definition of a "business" and therefore must be a company ((Pty) Ltd) close corporation (cc) partnership, sole proprietorship, or co-operative.

Will be a "stock" target, i.e. it will be measured as incremental growth in balance sheet exposure. An average exposure method to be used based on monthly balances as submitted to the South African Reserve Bank (SARB).

Overdraft facilities: overdrafts to be measured based on utilisation, rather than limit authorised. The metric for overdraft financing will be the average overdraft utilised over the reporting period.

Equity investments: will be valued at cost.

Property finance: will EXCLUDE personal property finance. Commercial property finance will be measured only if it meets the following criteria:

- Finance is registered in the name of the business or in any other legal entity but the shareholder(s) will need to prove conformance.
- Financing is 100% reserved on the bank's / entity's balance sheet.

Invoice discounting will be subject to the same rules as overdraft facilities. Therefore, discounting as at the end of the measurement period will be the average monthly utilisation of the invoice discounting facility over the measurement period.

- In all instances scoring will be based on actual exposures, not authorised limits.
- In all instances finance obtained in a personal capacity not to be counted except in the case of a sole proprietorship, obtained in a personal capacity "trading as".

Graduation rules

Turnover rule: for Black SMEs who move outside the upper end turnover definition, a maximum exposure limit be set beyond which any finance provided will not be scored. The maximum exposure limit will be R5m subject to any adjustment allowed.

Targets:

Due to the fungibility of delivery over the sub categories by the delivering organisation, targets will be set for Targeted Investments (TI) only and not sub categories.

Therefore, Black SME financing as a sub-category of TI will not have a specific target.

Black Agriculture Financing

Definition

Black Agriculture Financing is the financing of Agricultural Development involving integrated support for Black farmers, which is 25% black owned or more and / or at least a Level 4 B-BBEE contributor, through enabling access to and sustainable use of resources.

Agricultural Development funding relates to the funding of farming production requirements and the necessary infrastructure to enable farmers to deliver products to market, but excludes industrial processing of agricultural products unless it can be defined as pre-production. That means inputs to production are included as well as co-operatives as providers of both finance assistance and goods / services.

Measurement principles

Preamble

The aim is to encourage financial institutions to design and distribute products for existing and new entrants into the agricultural sector.

Target market

Any enterprise that comprises:

- Black farmers, including black owned entities (Exempted Micro Enterprises (EMEs) and Qualifying Small Enterprises (QSEs) with 25% or more of black ownership. The definition includes large entities (i.e. entities with > R35m turnover) if 25% black owned.
- The level 4 B-BBEE contribution can be retained; but this will be in addition to the 25% black ownership, and which derives the majority of its turnover from:
 - Primary agricultural production
 - Provision of inputs and services to agricultural production enterprises
 - Storage, distribution and / or trading and allied activities related to non-beneficiated agricultural products.

Products

Includes but are not limited to:

- Overdraft facilities
- Agriculture Production Loans
- Term loans
- Asset finance
- Lease agreements
- Commodity finance
- Silo certificate finance
- Insurance products and services.

Measurement

- If 25% black owned or more – claim 100% funding

- This will be as per the current FS Charter with agreement that it would include the farmer and one up level of activity –e.g., a dairy farmer with a cold storage facility that he makes available to other farmers
- The principle of “see through” financing / credit to be upheld.

Targets:

Due to the fungibility of delivery over the sub categories by the delivering organisation, targets will be set for Targeted Investments (TI) only and not sub categories. Therefore, Black Agriculture financing a sub-category of TI will not have a specific target.

3.1.2 B-BBEE Transaction Financing

Definition:

B-BBEE Transaction Financing means:

The provision of finance for, or investments in, B-BBEE transactions being:

- All transactions for the acquisition, by Black People, of direct ownership in an existing or new entity (other than an SMME) in the financial or any other sector of the economy, and
- Joint ventures with, debt financing of, or other forms of credit extension to, and equity investments in B-BBEE companies (other than SMMEs), which are at least 25% Black owned.

Measurement principles

Target market

As per definition above.

Products

All forms of financing and / or investment.

Measurement

- If 25% black owned or more but less than 50% black owned – claim weighted funding
- If 50% black owned or more – claim 125% weighted funding.

Targets:

R32bn for banking sector plus R13b for long term insurers

3.2 **Enterprise Development for organisations participating In Empowerment Finance**

3.2.1 *Subject matter of this paragraph:* This paragraph relates to the following statements within the Generic Codes:

- Code 600 Statement 600; and

- Code 800 Statement 800 Statement 806.

Enterprise Development Scorecard for Organisations participating in Empowerment Financing:

Criteria	Weighting Points	Target
Qualifying ED contributions made by the measured entity as a percentage of the target	5	0.2% of NPAT

3.2.2 Applicability of the Generic Codes: The provisions and principles contained in the relevant statements apply to all financial institutions, subject to the following variations:

3.2.2.1 The following examples of Enterprise Development Contributions specified in the Generic Codes are **not** recognisable as Enterprise Development if performed by, or on behalf of the reporting institution that is not exempted from the Empowerment Financing Element of this FSCode:

- Investments in beneficiary Entities;
- Loans made to beneficiary Entities;
- Guarantees given or security provided on behalf of beneficiaries;
- Preferential credit terms granted to beneficiary Entities;
- Credit facilities made available to beneficiary Entities;
- Facilitating access to credit for beneficiary Entities without access to similar credit facilities through traditional means owing to a lack of credit history, high-risk or lack of collateral;
- Provision of finance to beneficiary Entities at lower than commercial rates of interest;
- Relaxed security requirements or absence of security requirements for beneficiary Entities unable to provide security for loans; and
- Any substantially similar contributions.

3.2.2.2 The following categories of **Enterprise Development Contributions** specified in the **Benefit Factor Matrix** are not recognised as Enterprise Development if performed by, or on behalf of financial institutions:

- Loans and Related Contributions; and
- Equity Investments and Related Contributions.

3.2.2.3 Recognition Levels for contributions to certain types of Beneficiary Entities will be as follows:

Type of Beneficiary	Recognition Level
30% Black Women Owned EMEs	150%
50% Black Owned – EMEs	150%
25% Black Owned / Black Women EMEs	100%
30% Black Women Owned QSEs	100%
50% Black Owned – QSEs	100%
25% Black Owned / Black Women QSEs	75%
EMEs in general	75%
Level 4 and above QSEs	50%
Generic with at least 25% black ownership and Level 4	50%

CODE SERIES FS700
THE MEASUREMENT OF THE SOCIO-ECONOMIC DEVELOPMENT ELEMENT OF
BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Arrangement of this statement

1. Objectives of this statement
2. The Socio-Economic Development Scorecard
3. Key measurement principles

1. Objectives of this statement

The objectives of this statement are to specify:

- 1.1 The scorecard for measuring the Skills Development Element of B-BBEE
- 1.2 Define the key measurement principles associated with the Socio-Economic Development Element; and
- 1.3 The formula for measuring the Socio-Economic Development Element of B-BBEE

2. The Socio-Economic Development Scorecard

Socio- Economic Development – Measurement Criteria	Weighting	Target
Cumulative value of all Socio-Economic Development Contributions made by a financial institution as a percentage of the cumulative net profit after tax *	3	2012 = 0.75% of NPAT; 2013 = 0.7% of NPAT; 2014 = 0.6% of NPAT

Note: the target for entities that are exempt from Access to Financial Services – Consumer Education – will have a target of 0.7% of NPAT. This target will be unchanged for the duration of the Codes.

3. Key Measurement Principles

- 3.1 **Subject matter of this paragraph:** This paragraph relates to the following statements within the CoGP:
 - 3.1.1 Code 700 Statement 700; and
 - 3.1.2 Code 800 Statement 807.
- 3.2 **Applicability of the CoGP:** The provisions and principles contained in the relevant statements apply to all financial institutions, subject to the following variations:

- 3.2.1 No contribution to Socio-Economic Development recognised as forming part of a financial institution's contribution to Targeted Investment may be recognised as Socio-Economic Development.
- 3.2.2 Socio-Economic Development Programmes conceptualised and measured under this Code may include, but will not be limited to, one of the following forms:
- 3.2.2.1 Education: support for community education facilities, programmes at secondary and tertiary education levels aimed at promoting the industry, bursaries and scholarships, which are orientated towards the hard sciences;
- 3.2.2.2 Training: community training, skills development for the unemployed, adult basic education and training in communities, financial literacy programmes in communities;
- 3.2.2.3 Development programmes for youth and other target groups;
- 3.2.2.4 Environment: support of conservation projects, community cleanup projects, food garden initiatives;
- 3.2.2.5 Job Creation: job creation projects external to the workplace or any commitments contained in Empowerment Financing;
- 3.2.2.6 Arts and culture: support of development programmes, development of new talent;
- 3.2.2.7 Health: support of community clinics, health programmes in the community; and
- 3.2.2.8 Sport: support of developmental programmes.
- 3.2.3 Socio-Economic Development Programmes in South Africa can be funded directly from the philanthropic arms of international institutions situated outside of South Africa (provided that such benefits do not accrue to other jurisdictions).

3.3 Measurement of Qualifying Contributions

Qualifying Contributions are measurable using the formula "A" in Annexe 700(B)

3.4 The Benefit Factor Matrix

The Minister may from time to time, by notice in the gazette, revise or substitute the Benefit Factor Matrix. Any changes will only be applicable to Compliance Reports prepared for a Measured Entity in respect of the first 12-month period following the gazetting of a revision or substitution.

Annexure 700 (A)
Benefit Factor Matrix

Qualifying Contribution Type	Contribution amount	Benefit factor
Grant contribution	Full grant amount	100%
Direct Cost incurred in supporting approved projects or Enterprise Development	Verifiable cost (including both monetary and non-monetary)	100%
Discounts in addition to normal business practices supporting Enterprise Development	Discount amount (in addition to normal business discount)	100%
Overhead costs incurred in supporting Enterprise Development (including people appointed in Enterprise Development units)	Verifiable costs (including both monetary and non-monetary)	80%
Professional services rendered at no cost and supporting approved projects or Enterprise Development	Commercial hourly rate of professional	80%
Professional services rendered at a discount and supporting approved projects or Enterprise Development	Value of discount based on commercial hourly rate of professional	80%
Time of employees of measured entity productively deployed in assisting beneficiaries	Monthly salary divided by 160	80%

Annexure 700(B)

A: Qualifying Contributions are measurable on the following basis:

$$A = B / C \times D$$

Where

A is the score achieved in respect of the Qualifying Contributions made by the Measured Entity

B is the value of all Qualifying Contributions made by the Measured Entity

C is the compliance target in respect of the Qualifying Contributions as specified in the scorecard for statement 601

D is the Weighting points allocated to the criteria under the scorecard for statement 700.

**CODE SERIES FS800
STATEMENT 800:
THE GENERAL PRINCIPLES OF THE ACCESS TO FINANCIAL
SERVICES ELEMENT OF BROAD-BASED BLACK ECONOMIC
EMPOWERMENT**

- 1. The criteria relating to exemption from the Access to Financial Services Provisions:**
 - 1.1 If the financial institution is a wholesaler, in the sense that it is not a provider of first-order financial products and services, it will be exempt from the provisions of Code FS800 unless it opts to be so bound.**
 - 1.2 If the financial institution is a retailer of first-order financial products and services but, on grounds presented to and accepted by the Council, it would be inconsistent with its business model for it to extend those products or services to low-income communities, it will only be responsible for the consumer education component of Access to Financial Services, and the points will be adjusted accordingly.**

CODE SERIES FS800
STATEMENT 801:
THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT
OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO
MEMBERS OF THE BANKING ASSOCIATION OF SOUTH AFRICA

Introduction

The South African members of the Banking Industry submit and indicate their willingness to abide by the standards, definitions, and key measurement principles as set out in this document as commitment to the delivery on inclusive targets (where specified), to enhance, improve, and grow financial access to that portion of the South African economically active population who were previously excluded for whatever reason.

The targets contained in this document are not aimed to divide the target market but rather to expand the reach of financial services by all participants in the industry, to that portion of the population not actively serviced by current banking services, based on an economic viable model for all participating organisations.

Arrangement of this statement

1. Objectives of this statement
2. The Access Scorecard as it relates to all members of the Banking Association of South Africa
3. The definitions, standards, target markets and key measurement principles of Access

1. **Objectives of this statement are to specify:**
 - 1.1 **The Access scorecard as it relates to members of the Banking Association of South Africa.**
 - 1.2 **The definitions, standards, target markets and key measurement principles of the sub-categories of the Access element.**

2. The Scorecard for Access to Financial Services as it relates to members of the Banking Association of South Africa

Access to Financial Services			14			
	Access Method	Qualifying Market/ area		Qualifying Criteria	Range	Target
1	Geographic Access (Reach)		5	One or more of:		
1.1	Transaction point	50% or more of households fall within LSM 1-5	1	draw cash, or purchase from their accounts	5 km	85%
1.2	Service point		1	reset a PIN money transfers, get a statement, or initiate account queries	10 km	70%
1.3	Sales point		2	replace a card, deposit cash into their accounts, or acquire: a transaction account, a funeral policy, a savings account, or a loan.	15 km	60%
1.4	Electronic Access	Individuals earning less than R5,000 per month increasing by CPIX p.a.	1	TBC		
2	Banking Densification	Individuals in the LSM 1-5 group nationally	2	Access to cash withdrawal facility per measuring unit	TBC	1, 500
3	Product related access	Individuals in the LSM 1-5 group nationally	3	Number of active accounts for qualifying products per institution	National	TBC
4	Affordable Housing Origination	Qualifying measures as per metrics agreed	2	Mortgage and development loans to qualifying households	National	TBC
5	Consumer Education	Qualifying individuals in the LSM 1-8 group	2	Consumer, Primary and Basic Education	National	2012=0,25% 2013=0,3% 2014=0,4%

3. The definitions, Standards, Target markets and Key Measurement Principles of Access to Financial Services

3.1 Geographic Access

Preamble

Financial inclusion will be accomplished through utilising a combination of bank-managed, third party, and client-owned resources. Only the category of resources (sales people, ATMs, automatic note acceptors, points of sale devices, retail agencies, etc.) can be geographically identified and tracked. The latter category of client-owned infrastructure (mobile phones and personal computers etc.) although providing the most cost effective and convenient access, cannot be easily identified within a specific geographic position.

Due to the above, we suggest that Access to Financial Services via these two categories of resources be measured through different methodologies.

3.1.1 Geographic banking access

Definition:

Points of representation:

- **Transaction Points** are points at which customers can take cash or make a purchase from their accounts. (Suggested target of 85%)
- **Service Points** are points where a customer can reset a PIN, do money transfers, get a statement, or initiate account queries. (Suggested target of 70%)
- **Sales Points** are points at which customers can replace a card, deposit cash into their accounts, or acquire a transaction account, a funeral policy, a savings account or a loan. (Suggested target of 60%)

Target market

Qualifying Areas are municipal suburbs or sub-areas in which more than 50% of households fall within LSM 1 - 5.

Measurement principles:

- The sector will be measured as a collective and not on an individual institution basis. Notwithstanding this, each institution will be measured independently for compliance against its own targets, the criteria of which to be determined and agreed by an industry working committee.
- Therefore, there must be at least one Sales Point within 15 km of the identified areas, at least one Service Point within 10 km of the identified areas and one Transaction Point within 5km of the identified areas, regardless of which institution's infrastructure is present.

Measurement

Convenient Access is the presence of:

- A Sales Point within a 15km radius of a qualifying area
- A Service Point within a 10km radius of a qualifying area
- A Transaction Point within a 5km radius of a qualifying area

NB: To avoid any doubt, an Access Point that meets all three criteria above may be counted under all three line items of the Geographic Access scorecard. Therefore, if a Sales Point is within a 5 km radius of the qualifying area it will count under all three geographic access line items, since it has all the features of all three points of presence.

Geographic access will be evaluated in three steps:

- Identify Qualifying Areas
- Identify Sales Points, Service Points and Transaction Points within the Qualifying Areas
- Allocate points on the basis that at least 80% of people in a Qualifying Area have Convenient Access to a Sales Point (within a 15 km radius), Service Point (within a 10 km radius) or Transaction Point (within a 5 km radius).

Geographical access is specifically about proximity to Transaction, Service and Sales Points and does not imply product holding, which is covered separately in the Product Access section.

3.1.2 Electronic customer infrastructure access: Population Penetration

Preamble

Since access via a customer's own or third party infrastructure cannot easily be pinpointed per specific geographic area, the penetration of certain transaction types to an identified client base, on identified channels will be used as a measure of access for mobile (cell phone) banking, telephone banking, internet banking, and others.

Definition

Access via any client-owned or third party infrastructure; which will include but not be limited to, internet banking, cell-phone banking, telephone banking, or any new electronic product and / or technology.

Target market

Target Customers are individual customers who earn less than R5 000 per month (annually adjusted by CPI). Customer income should be derived from the customer's account behaviour using an agreed formula, still to be determined by an industry working committee.

Products

Qualifying transactions on products include but are not limited to, money transfers, account-to-account transfers, prepaid purchases and balance enquiries done using the customer's mobile phone, telephone, internet banking or any other new technology.

Measurement

Electronic Access will be measured at industry level but with agreed targets per individual organisation. Each organisation will be measured on their own performance against their agreed target.

Targets

As Electronic Access is a new measurement, for which no industry baseline data is available, no targets can, at this stage, be agreed. The formulae for identifying the target market, has also not been agreed, since LSM information will not be used as a base.

Other comments

It is proposed that an Industry Working Committee be convened to evaluate criteria and measurement. This is a necessity since the qualifying areas (previously national 15 km and 10 km, and qualifying points of representation (previously branch and ATM, now all inclusive) have been changed. This will necessarily result in new baseline numbers and newly identified industry gaps. These gaps will need to be addressed by the industry via all the impacted institutions. As such individual institution targets must be formulated and agreed, taking impact on capital expenditure as well as economic viability into consideration.

3.2 Banking Access via Densification**Preamble**

Traditionally, physical access to banking products was only measured by means of the number of certain points of access per geographic area. Banking access via the densification principle aims to measure the availability of cash-withdrawal facilities per the number of qualifying customers based on the population density in the agreed measurement area.

Definition

Banking access through densification refers to the principle of measurement of the number of access points per number of the target group of clients with the sole aim of easing access to the facility of obtaining cash from their qualifying accounts within easy reach of their home base (measurement unit / area).

Whereas Geographical Access refers to the number of LSMs 1-5 within a specified radius of a point of representation (the point of representation being the point from which the radius is measured), Densification refers to the number of points within the boundaries of a suburb / measuring unit where at least 50% of the population is classified as being LSM 1-5 (the reference point is the suburb rather than the point of presence).

Target market

The target market will be the LSM 1-5 group of the population of no less than 1,500 LSM1-5 individuals within agreed suburbs / measurement unit.

Targets

At least one 'point of presence' per 1,500 people in the LSM 1-5 category within a suburb / measuring unit, where 'point of presence' refers to any point of presence within a suburb where a target market beneficiary is able to draw cash. Points of presence measurements excludes the SAPO.

Measurement

The sector will be measured as a whole and not on an individual institution basis based on the agreed principle one point of representation with cash withdrawal facility within the boundaries of the suburb / measurement area per 1, 500 individuals in the LSM 1-5 group, where the representation of the latter exceeds 50% or more of the population within the suburb / measurement area. Suburbs that have a population of less than 1,500 LSM 1-5 will be excluded from the calculations.

3.3 Product access

Preamble

Despite the perception of the success of the Mzansi account, banks found that the product is not as successful in penetrating the target market as was originally hoped for. This is mainly due to the stigma of it being perceived as a "poor person's" banking product. The Mzansi product is limited in what it offers and is therefore quickly outgrown by its user. This necessitated the various participating institutions to expand their own offerings, which are far more successful at achieving financial inclusion, yet these products are not recognised as part of the opening-up of the target market.

Target market

The target market will be the LSM 1-5 group of the economically active population.

Products

Any product will qualify as an Access Product if it conforms to the minimum Access Standard which will be negotiated as part of the sector code process, in accordance with applicable law.

Note

- Approval may be required through the PASA, CompCom or any other relevant process and it is expected that the charter council lobby the relevant stakeholders in order to facilitate this proposal

Participation

Any bank may apply to the Sector Council to have any number of products approved as Access Qualifying Products for the purposes of meeting their Access Targets. The Council shall approve such products if the product meets the minimum Access Standard. Each bank is then free to brand their qualifying product as they deem appropriate and sell it into the market in the most appropriate way that is aligned to their own strategy and in a manner that promotes financial inclusion.

To achieve the above, the current Saswitch /PASA agreements may need to be restructured and renegotiated. Much simpler agreements that promote the correct behaviour are envisaged.

Note

The Reserve Bank is facilitating and overseeing a revision of interchange rates for all payment streams in South Africa, including interchange in the card environment. The Terms of Reference for the project is supported by the National Treasury and the Competition Commission, and has been endorsed by the Bank's Governors' Executive Committee.

According to the Terms of Reference, the objective of this project is for the Reserve Bank to *"facilitate a fair and transparent process whereby interchange rates for each of the payment streams, officially recognised and registered with the Payments Association of South Africa (PASA), are reviewed in terms of:*

- *Whether they are feasible and/or justifiable in that stream; and*
- *Are realistic and appropriate for that payment stream based on acceptable parameters."*

- Furthermore, the Terms of Reference state: *"It will be a specific requirement in this project that stakeholders will not be permitted to gather together to discuss interchange or specific aspects relating to the determination of the actual interchange rate".*

Measurement

Each institution will be measured according to the number of accounts with activity within the last 180 days, based on the level of conformity allocated by the Sector Council.

3.4 Loan Origination - Affordable Housing

Preamble

Loan finance for low income earners to access affordable housing via mortgages, unsecured loans, personal loans secured by pension or provident funds or via wholesale loans to intermediaries who provide end-user loans to low income earners is a national imperative. It is also imperative to stimulate the development of residential units in the State Housing subsidised or "gap" markets by including origination of financing to developers of units that serve the "gap" market.

Definition

Affordable Housing origination means the origination of housing finance loans for the target market (currently individuals with a gross monthly income of R15,800 to be adjusted annually). In addition, the financing of residential developments falling within the State housing subsidised or the 'gap' market (currently individuals earning gross

monthly income of R10,800 to be adjusted annually), will form part of this pillar. Annual adjustments are to be based on an agreed formula.

Target Market

The target market is individuals earning no more than gross monthly income of R15,800 (to be adjusted annually) and/or housing developers that are producing housing units for individuals earning no more than gross monthly income of R10,800 (to be adjusted annually). Financing for these developers is included in order to facilitate the development of units to address the shortage of housing stock for the subsidised or 'gap' market individuals in South Africa.

Products

The origination of the following loan products during the measurement period will count under origination in the Access scorecard:

- Mortgages;
- Unsecured personal loans;
- Personal loans secured by a pension or provident fund;
- Wholesale loans
- Development finance for the development 'gap' market units as per the definition above. All other loans to developers shall not count under origination.
 - All development financing for units for individuals earning not more than a gross monthly income of not more than R15,800 per month shall be counted under Targeted Investment should it comply with the governing Targeted Investment rules and standards.

Measurement

Organisations will be measured against individual targets based on the loan amounts achieved during the measurement period.

Targets

Targets will be agreed based on the origination of loans required to deliver on the Targeted Investment targets as agreed per organisation.

3.5 Consumer Education

Preamble

The financial industry and especially the banks played a major role to improve the knowledge level of previously excluded sectors of the economy. This is evident in the limited effect of the financial crisis on the target group of LSM 1-5.

Definition:

Consumer Education is the process of transferring knowledge and skills to consumers, future consumers and potential consumers for individual well-being and the public good.

Target market

The target market for consumer education will be individuals in the LSM 1-8 group with the major emphasis on the LSM 1 - 5 category. The LSM 6 - 8 group is included as they were the most affected by the financial crisis and proved to be the most vulnerable.

Products

Products and services will be closely aligned with the standards, products and services developed and maintained by the FSB as designated owners of consumer education by the National Treasury. Until that alignment has been fully achieved, the current products and services will prevail with the standards as set out under measurements below being in force.

Measurement

The Consumer Education standards as set out in the Guidance Notes to the Financial Sector Charter will be reviewed such that it is widened to include primary education and basic education initiatives. In addition the following shall be adhered to:

- That delivery is split between awareness and face to face initiatives at a ratio of 1:1.
- Accreditation will not be a requirement provided the next condition is adhered to.
- Full branding of printed material, in order to deter institutions from using service providers with little or no credibility or material of sub-standard level.

Targets:

As reflected in the appended scorecard, measurement will be against an annual target of 0.25% for 2012, 0.3% for 2013 and 0.4% from 2014 of retail net profit after tax (NPAT).

**CODE SERIES FS800
STATEMENT 802
THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF
BROAD-BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO THE
LONG-TERM ASSURERS**

Introduction

The Financial Sector acknowledges that access to first-order retail financial services is fundamental to transformation and to the development of the economy as a whole.

The Long Term Insurance industry undertakes to make available appropriate first-order retail financial services, affordably priced and through appropriate and accessible physical and electronic infrastructure to the Financial Sector Code target market.

Arrangement of this statement

1. Objectives of this statement
2. The Access Scorecard as it relates to all members of the Long-Term Insurance Industry
3. The definitions, standards, target markets and key measurement principles of Access

1. Objectives of this statement

- 1.1 Objectives of this statement are to specify:
 - 1.2 The Access Scorecard as it relates to all members of the Long-Term Insurance Industry
 - 1.3 The definitions, standards, target markets and key measurement principles of the sub-categories of the Access element
2. The Scorecard for Access to Financial Services as it relates to companies operating within the Long-term Insurance Sector
 - 2.1 When interpreting the terms of the Revised Sector Code for Life Offices and Collective Investment Schemes, "Access" encompasses the following concepts:
3. Products and Product standards

Life Products

- Life Products appropriate for identified needs - The Life Products considered are those that address the identified priorities of death and serious illness. In the access market these risks are often insured through funeral schemes and credit life cover. Other forms of product are however possible.

- A set of minimum standards for Life Products is retained, akin to the UK CAT standard approach, (CAT= fair Charges, easy Access, decent Terms). This will ensure that appropriate products are available to those requiring risk mitigation tools to address identified priorities.
- A process needs to be in place to enable the update of these standards from time to time and allow for the creation of new standards.
- Simplicity of documentation - A simple summary of key policy terms will be provided in various languages that will enable a broad understanding of the product.
- Transactional access - The opportunity to purchase the product, pay the premiums due, make amendments to the policy, and to lodge a claim and receive payment of the claim.

Integrated products

- New standards are created for the retirement 'gap' market products.
- An integrated consumer focused approach that requires collaboration between banking, short term insurance, long term insurance and CIS is investigated, based on consumer needs

Target market

The target market for Life products will be based on income and pegged at the tax threshold for individuals and double the tax threshold for families. The target market definition is to be adjusted annually, based on changes to tax threshold. The tax threshold currently stands at just under R60,000 per annum.

Measurement

The key measurement of success for the provision of "effective access" is the penetration level (usage) of appropriate products within the above target market. Targets for transactional access and penetration will be measured by in-force / on books business at measurement date.

Appropriate Products – Each product that meets the required standards will be "FSC compliant".

Transactional Access – Measured entities will score points for the proportion of the standard map (covering the adult population based on the recent AFRGIS banking densification study) in which they are able to demonstrate transactional access.

Scoring

Points are scored by measured entities as follows:

- 3 points will be allocated to **Appropriate Products**. Each compliant product made available by a company will score $1/N \times 3$ points, where N is the total number of products for which standards have been developed. *Companies will also have to demonstrate that each qualifying product represents at least 5% of new business access volumes.*
- 7 points will be allocated to **Market Penetration**. The targets will be phased in over the period 2011 – 2017. The target will be based on an appropriate market share measure as a proportion of the overall industry target below.

- 2 points will be allocated to transactional access.
- A company will score 2 points for **Consumer Education** spending of 0.4% of post-tax operating profits and proportionately for anything less.

Based on the above, the maximum score will be 14 points.

Key Dependencies

- Harmonisation of Access product definitions to FAIS **regulatory exam requirements** - it is critical that FSC definitions for access products are aligned to the various regulatory exam exemptions that may be made available by the FSB to intermediaries distributing access products.
- Clarity of Government's intentions to provide savings alternatives at national level to this market.
- Product and measurement standards including max cover limits, etc, require updating in the form of guidance notes. This will occur after gazetting.

Target Life Products

The target penetration will be 5,739,023 policies issued to the target market based on a formula to be contained in a guidance note issued by the Charter Council post gazetting.

CODE SERIES FS800**STATEMENT 803:****THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO COLLECTIVE INVESTMENT SCHEMES**

Collective Investment Schemes do not represent an ideal solution to cater for the savings requirements of consumers earning under the tax threshold, as typical CIS products do not fit the financial requirements of lower income consumers.

For this reason an access target will not be applied to measured entities distribution of CIS product under this Code. As a sign of commitment however, to broaden access to savings for the lower end of the market, the savings and investment industry agrees to:

- Continue to distribute the current subsidised Fundisa product that is aimed at enabling low income consumers to save for tertiary education in a subsidised manner.
- Endeavour to increase the allocation of bonus money to the underlying bonus pool, which subsidises the product. The size of this subsidy is seen as a constraint to the overall penetration levels for this product.
- Endeavour to increase the scope of application of the Fundisa offering, to include other social imperatives such as housing.
- Expand the current distribution of Fundisa through additional marketing of the product offering to low income consumers via various channels.
- Investigate together with the sectors' regulators, possible mechanisms to remove certain regulatory obstacles to the distribution of Fundisa.

CODE SERIES FS800**STATEMENT 804:****THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO SHORT-TERM INSURERS****Arrangement of this statement**

1. Objectives of this statement
2. The definitions, target markets and Key Measurement Principles of Access.

1. Objectives of this statement

The objectives of this statement are to:

- 1.1 **The Financial Sector acknowledges that access to first-order retail financial services is fundamental to transformation and to the development of the economy as a whole.**
- 1.2 **The Short Term Insurance industry undertakes to make available appropriate first-order retail financial services, affordably priced and through appropriate and accessible physical and electronic infrastructure to the Financial Sector Code target market.**

2. The Scorecard for Access to Financial Services as it relates to companies operating within the Short-Term Insurance Sector

Access to Financial Services	Weighting	Industry Targets		Achieved	Points
Appropriate Products	2	8			
Insurance Policies	10		Maximum Sum Insured		
Motor vehicle		6%	R60,000.00		
Household contents		6%	R100,00.00		
Property / Homeowners		3%	R350,000.00		
Black SME's - equipment, contents		15%	R100,000.00		
Black SME's -premises		10%	R500,000.00		
Agriculture		6%	TBD		
Livestock		6%	R600,000		
Co-operatives		6%	TBD		
Consumer Education	2		Year 1: 0.25% Year 2: 0.30% Year 4: 0.40%		

3. Product related Access – Products, Target markets and Key Measurement Principles of Access

3.1 Products and Target Market

- 3.1.1 A “sum insured” metric has been established as a basis of target measurement and performance across a broad range of short-term insurance sectors (but excluding cell-phone insurance and consumer credit insurance that has been adequately covered elsewhere in the market).
- 3.1.2 The sum insured metric has been structured to target those areas of the population that have been previously uninsured. The metric has been broadly based on products aimed at individuals earning below the tax threshold, households with an income below double the tax threshold and Black small businesses and small Black farmers. The target market for individuals and households will be adjusted based on changes to the tax threshold.
- 3.1.3 The choice of products has been selected to meet the broader charter objectives. Qualifying short-term insurance access products are those designed to support the following areas and that meet the relevant standard. Products will be for the following areas:
- 3.1.3.1 Low-income Housing
 - 3.1.3.2 Black QSEs and EMEs (as defined in the Codes of Good Practice on B-BBEE)
 - 3.1.3.3 Agriculture
 - 3.1.3.4 Infrastructure
 - 3.1.3.5 Co-operatives
 - 3.1.3.6 Low-income individuals

3.2 Standards

- 3.2.1 Product standards for each product category will be determined following the gazetting of this Code.

3.3 Key measurement principles

- 3.3.1 Measurement will be based on the number of active qualifying policies that meet the relevant product standards.
- 3.3.2 The key measurement of success is the product penetration into the target market and will be measured on the number of policies sold and active as at the date of measurement. The target is determined, based on the size of the market during 2011 and published by the FSC Council.

- 3.3.3 The target is an industry target and not an individual company target. Individual company targets will be allocated based on the company's market share as at 31 December 2011.
- 3.3.4 Companies do not have to be measured against each of the areas in paragraph 2. Companies may elect a single area or any combination thereof.
- 3.3.5 Where companies select more than one product type, the weighting will be pro-rated between the product types selected, i.e. where 2 product types are selected, each will have a weighting of 5 or, where 4 product types are selected each product type will have a weighting of 2.5.

3.4 **Consumer Education**

Definition:

Consumer Education is the process of transferring knowledge and skills to consumers, future consumers and potential consumers for individual well-being and the public good. The intended outcome of the process is the development of consumer's knowledge and understanding of the financial sector and its products and services. Consumer Education will include programmes that are aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles

Target market

The target market for Consumer Education is the Target Market as defined for Access products.

Standards

Consumer Education standards will be determined following the gazetting of this Code.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT SECTION 9(1) FINANCIAL SECTOR CODES OF GOOD PRACTICE

SCHEDULE 1

INTERPRETATION AND DEFINITIONS

1. Interpretation

1.1 Unless otherwise stated in this Code, any term or phrase assigned a specific meaning in Schedule 1 to the CoGP and used in this Code, has the meaning assigned in that schedule.

1.2 **Affected institution** means every financial institution that takes designated investments.

1.3 **Agreed Standard Valuation** means a valuation of an asset (valued in terms of the context in which this term appears) based on normal valuation methodologies (representing standard market practice) given the nature and stage of development of the asset being valued provided that:

1.3.1 The principles set out in the table hereunder will serve only as a guide to possible valuation methodologies that could be employed:

Operation	Valuation methodologies
Banking	Discounted cash flow
	Price to book
	Comparable Multiples
	Dividend Discount Model
	Capitalisation of earnings
	Net asset value
Insurance	Discounted cash flow
	Embedded value
	Price-to-embedded value
	Capitalisation of earnings
	Net asset value
Brokerage firms	Discounted cash flow
	Capitalisation of earnings
	Net asset value
Asset managers and Collective Investment Schemes	Discounted cash flow
	Capitalisation of earnings
	Percentage of funds under management
	Net asset value

1.3.2 Where the financial institution is listed on the JSE Limited, the market capitalisation of the financial institution concerned will serve as an overall benchmark for the individual valuations of the underlying assets and businesses of such financial institutions;

- 1.3.3 Cash flows to a beneficiary or shareholder will be valued on an after-tax basis.

2. Definitions

- 2.1 **Black Economic Empowerment, as defined in the Broad-Based Black Economic Empowerment legislation, means the economic empowerment of all Black People, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies.**
- 2.2 **Black Economic Empowerment Transaction means:**
- 2.2.1 All transactions for the acquisition, by Black People, of direct ownership in an existing or new entity (other than an SMME) in the financial or any other sector of the economy, and
- 2.2.2 Joint ventures with debt financing of, or other forms of credit extension to, and equity investments in B-BBEE companies (other than SMMEs).
- 2.3 **Black-owned SMMEs means both Exempt Micro Enterprises (with a turnover of less than R5 million per annum) and Qualifying Small Enterprises (with a turnover of between R5 million and R35 million per annum), having Black ownership of greater than 50%.**
- 2.4 **Direct ownership means ownership of an equity interest, together with control over all of the voting rights attaching to that equity interest, which may include Equity Equivalents.**
- 2.5 **Discrimination means discrimination as defined in the Promotion of Equality and Prevention of Unfair Discrimination Act.**
- 2.6 **DFI means a development finance institution created or funded by an organ of state and includes, without limitation, the Development Bank of Southern Africa, the Industrial Development Corporation, PostBank, the National Empowerment Fund, the Land Bank, Khula, the National Housing Finance Corporation, the National Youth Development Agency and all provincial development corporations.**
- 2.7 **Designated investment means any form of statutory or voluntary deposit, saving, investment or risk insurance placed or made by the South African public (whether of a wholesale or retail nature), but not by one financial institution in another.**
- 2.8 **Empowerment financing means the provision of finance for, or investments in:**
- 2.8.1 Targeted investment; and
- 2.8.2 Broad-Based Black Economic Empowerment Transactions.

- 2.8.3 **Equity Equivalent** means contributions in lieu of the sale of equity by financial institutions that, due to permissible reasons as given in this Code, may comply with the ownership element of B-BBEE through mechanisms described under Code Series FS100, Statement 103.
- 2.8.4 **Exempted Micro Enterprise (EME)** means an enterprise with an annual turnover of less than R5 million. Such an enterprise is awarded a Level 4 B-BBEE status as stated in the CoGP. Where such an entity is also more than 50% Black owned, it will be awarded a Level 3 B-BBEE status.
- 2.8.5 **Financial Sector Council** means a council established as an independent entity and having responsibility for overseeing the implementation of the Financial Sector Code (FS Code).
- 2.8.6 **Financial Institutions** means banks, long-term insurers, short-term insurers, re-insurers, managers of formal collective investment schemes in securities, investment managers and other entities that manage funds on behalf of the public, including members of any exchange licensed to trade equities or financial instruments in this country and entities listed as part of the financial index of a licensed exchange.
- 2.8.7 **Global Policy** means a globally and uniformly applied restriction, regulation or directive, whether technical or commercial, imposed on a foreign owned financial institution by the parent company or on any financial institution by a regulator, which regulates that financial institution.
- 2.8.8 **Indirect ownership** occurs where an institution or other investor owns equity in a company on behalf of beneficiaries and there may not be direct participation by the beneficiaries in the voting rights.
- 2.8.9 **King Report** means the King Report on Corporate Governance for South Africa 2002, by the King Committee on Corporate Governance of the Institute of Directors in Southern Africa.
- 2.8.10 **Multinational/Foreign Multinational Company** means a company with a business in South Africa and elsewhere, which maintains its international headquarters outside South Africa and did not originate in South Africa.
- 2.8.11 **Local Multinational** means a company with a business in South Africa and elsewhere, which maintains its international headquarters in South Africa or originated in South Africa.
- 2.8.12 **Practice directive** means a public document agreed by the Financial Sector Council from time to time that records further details as to the measurement and/or recognition of contributions to B-BBEE by financial institutions.
- 2.8.13 **Principles of B-BBEE transactions:**

- 2.8.13.1 B-BBEE ownership initiatives should be aimed at promoting the productive and sustainable participation of Black companies and Black People in each sector of the economy;
- 2.8.13.2 Ownership will be particularly encouraged if it adds value to the companies involved and includes meaningful participation in management and control;
- 2.8.13.3 The funding structures should facilitate the transfer of full economic interest to the B-BBEE partner and longer-term shareholder-type relationships, as opposed to short-term portfolio investments (especially where the transaction has been facilitated);
- 2.8.13.4 If the acquisition of equity by the B-BBEE company is facilitated in terms of the provisions of this Code or through Government assistance, the retention of the shareholding as a B-BBEE share should be promoted to the greatest extent possible;
- 2.8.13.5 Initiatives aimed at achieving broad-based empowerment will be promoted. This would include employee ownership, community and collective ownership, and
- 2.8.13.6 Joint ventures or partnership arrangements should be meaningfully structured with equitable portions of the responsibility and benefit to each party.
- 2.8.14 **Qualifying Small Financial Institutions (QSFI)** means a financial institution with designated investments of less than R50 million and an annual turnover with a value of less than R35 million.
- 2.8.15 **SANAS (South African National Accreditation System)** is a national accreditation body that operates in compliance with the requirements for accreditation bodies as defined in the International ISO/IEC Guide 62 and ISO 17011.
- 2.8.16 **Targeted Investment** means debt financing of, or other forms of credit extension to, or equity investment in South African projects, in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions. It specifically means financing of or investment in:
- 2.8.16.1 **Transformational Infrastructure** projects that support economic development in underdeveloped areas and contribute towards equitable access to economic resources. Such infrastructure projects could be in the following sectors:
- Transport;
 - Telecommunications;
 - Water, waste water and solid waste;
 - Energy;
 - Social infrastructure such as health, education, and correctional services facilities; and
 - Municipal infrastructure and services.
- 2.8.16.2 **Agricultural Development** involving integrated support for resource-poor Black farmers, through enabling access to and the sustainable use of resources.
- 2.8.16.3 **Affordable Housing** for Black households with a stable income, the amount of which will be determined annually by the Financial Sector Council.