GENERAL NOTICE

NOTICE 997 OF 2012

Issued in terms of Section 9(1) of the B-BBEE Act 53, 2003

(DEPARTMENT OF TRADE AND INDUSTRY)

CODES OF GOOD PRACTICE ON BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Whereas I, **Dr Rob Davies**, Minister of Trade and Industry:

(a) Having issued the Phase II Draft Financial Services Sector Code (Draft FSC) for public comment in terms of Section 9(5) of the Broad Based Black Economic Empowerment Act (Act No. 53 of 2003) on **02rd March 2012** in terms of which;

(b) the public and interested parties were invited to comment on the Draft Sector Code for **60 days** from the date on which the Draft Sector Code was published,

(c) Now publish the Financial Services Charter as a Sector Code on black economic empowerment in terms of Section 9(1) of the B-BBEE Act 53 of 2003.

This notice is effective from the date of publishing and means that the Financial Services Sector Code is binding on all stakeholders operating in the Financial Services Sector.

Dr Rob Davies, MP
MINISTER OF TRADE AND INDUSTRY
DATE: 14 / 11 /12

FINANCIAL SECTOR CODE FOR BLACK ECONOMIC EMPOWERMENT

PREAMBLE

This Financial Sector Code (FS Code) has been prepared in terms of the Broad-Based Black Economic Empowerment (B-BBEE) Act, (Act 53 of 2003), subsequently referred to as the Act. It is based on a harmonisation of Generic Codes and the Financial Sector Charter gazetted under Section 12 of the Act.

The Financial Sector Charter (the Charter) came into effect in January 2004 as a result of agreements reached at the National Economic Development and Labour Council (NEDLAC) Financial Sector Summit in August 2002. NEDLAC is the multilateral social dialogue forum which brings together Government, Business, Labour and Community constituencies to approve social, economic and labour market policy.

Following the Summit, the Charter was drafted by the financial sector Trade Associations[1] and the Association of Black Securities and Investment Professionals (ABSIP[2]), with Government[3] participating as observers. Although the labour[4] and community[5] constituencies were not included in the drafting of the Financial Sector Charter, they agreed to participate in its governing structure, the Financial Sector Charter Council, alongside Government, the financial sector Trade Associations and ABSIP to finalise outstanding elements of the Charter and to participate in overseeing the implementation of the Charter and the process for aligning the Financial Sector Charter with the Act's Generic Codes of Good Practice (CoGP).

In the alignment process, all the Financial Sector Charter Council participants committed to developing a sector transformation code aligned to the CoGP, noting that:

- Despite significant progress since the establishment of a democratic government in 1994, South African society remains characterised by racially based income and social inequalities. This is not only unjust, but inhibits the country's ability to achieve its full economic potential;
- B-BBEE is a mechanism aimed at addressing inequalities and mobilising the energy of all South Africans. It will contribute towards sustained economic growth, development and social transformation in South Africa;

[1] The Association for Savings and Investment South Africa (ASISA); South African Insurance Association (SAIA); International Banking Association (IBA); Banking Association of South Africa (BASA), JSE Limited

[2] ABSIP representing Black professional organisations

[3] The Presidency, National Treasury and Department of Trade and Industry

[4] Congress of South African Trade Unions (COSATU); National Council of Trade Unions (NACTU); Federation of Unions of South Africa (FEDUSA)

[5] Financial Sector Campaign Coalition; Disabled People South Africa; National Co-operatives Association; Women's National Coalition; SA Youth Council; SA National Civics Organisation.

- Inequalities also manifest themselves in the country's financial sector. A positive and proactive response from the sector through the implementation of B-BBEE will further unlock the sector's potential, promote its global competitiveness and enhance its world class status;
- Equally, the financial stability and soundness of the financial sector and its capacity to facilitate domestic and international commerce is central to the successful implementation of B-BBEE.

The Financial Sector Code commits all participants to actively promote a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, and which contributes to the establishment of an equitable society by providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

This Financial Sector Code is the product of the interaction between the Trade Associations, ABSIP, Labour, Community and Government. The Code reflects the accord reached by all of the stakeholders regarding their joint commitment to fostering B-BBEE in the financial sector and in the South African economy.

Key aspects of the Sector Code

Recognising the unique position that financial institutions hold in the development of South Africa, two new elements have been introduced into the scorecard over and above the seven elements that exist in the CoGP. These are Empowerment Financing and Access to Financial Services. These elements are intended to broaden and hasten the transformation process as they focus on making financial services accessible to the previously unbanked and under-served. They empower the previously disenfranchised through the provision of affordable housing, financing of black SMMEs and agricultural activities, and investing in various forms of transformational infrastructure that create the necessary platform to grow the economy on an equitable basis.

The new elements are derived from similar initiatives, which were at the core of the Charter. It is recognised that the Sector can better play a role in the creation of sustainable wealth across a broad base through leverage of its unique position in the allocation of resources from savers to borrowers in the economy. In addition to achieving Equity Ownership targets by means of sales of shares, as contemplated under Code series FS100, Statement 100 and Sales of Assets as contemplated under Code series FS100, Statement 102, measured entities are also entitled to achieve equity ownership points through Equity Equivalent Programmes as contemplated under Code series FS100, Statement 103. These Equity Equivalent contributions represent the commitment of further resources to key developmental and national focus areas including but not limited to the New Growth Path (NGP) aligned initiatives, Enterprise Development, Empowerment Financing and Access to Financial Services initiatives.

Scope of Application

The Financial Sector Code applies to any natural or juristic person conducting a business, trade or profession in the South African financial sector, including, but not limited to, the following:

- Banking;
- Long-term insurance;
- Short-term insurance;
- Re-insurance;
- The management of retirement, pension and collective investment scheme assets;
- Management of formal collective investment schemes;
- Financial Services Intermediation and Brokerage;
- 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
- Underwriting Management Agents.

The Financial Sector Code does not apply to:

- Natural or juristic persons who do not have trading operations in the Republic of South Africa;
- The trading operations of natural or juristic persons outside the Republic of South Africa; and
- Managers of investments on behalf of the public who are not subject to regulation in terms of the Financial Services Board, for example, money held in intermediate trusts by lawyers.

Status of this Code

It is recorded that the Minister of Trade and Industry has previously gazetted the Financial Sector Charter as a Transformation Charter under Section 12 of the Act.

The Financial Sector Charter Council is of the opinion that this Sector Code meets all of the requirements of paragraph 3 of Code 000, Statement 003 of the CoGP and has applied to the Minister of Trade and Industry to publish the Financial Sector Code under Section 9(5) of the Act to allow for public comment and for gazetting as a Sector Code under Section 9(1) of the Act.

In conceptualising, implementing and measuring any B-BBEE initiatives, financial institutions and other interested parties must apply this Financial Sector Code read together with the CoGP issued under Section 9(1) of the B-BBEE Act on 9 February 2007. While the gazetting under Section 9(1) of the Act of this Sector Code means that it is binding and takes precedence over any other Code, including the CoGP, the CoGP is applicable only to the extent that this Financial Sector Code is silent on a particular aspect of B-BBEE that is covered in the CoGP.

This Financial Sector Code shall remain in effect until amended, substituted or repealed. The Minister of Finance will conduct an interim review of the transformation progress made by the sector as a whole, in respect of this Financial Sector Code after the end of the third year from the commencement date of this statement; in addition to the aforementioned, annual reviews will take place to monitor the implementation of B-BBEE throughout the economy.

The commencement date of the Financial Sector Code will be 1 January 2012. It will be applicable to all measurement periods commencing on or after 1 January 2012. Measurement periods commencing prior to 1 January 2012 will still be measured/verified in terms of the general CoGP. This Financial Sector Code will be binding for all measurement periods ending prior to 31 December 2017, when a full review of the progress made against this Financial Sector Code will be undertaken by the Minister of Trade and Industry and the Minister of Finance. The end of the third year (the date for the interim review) will therefore be 31 December 2014.

INDEX FOR THE FINANCIAL SECTOR CODE

Index of Code Series

Financial Sector Code Series	Code Title
FS000	Framework for measuring Broad-Based Black Economic Empowerment
FS100	Measurement of the Ownership Element of Broad-Based Black Economic Empowerment
FS200	Measurement of the Management Control Element of Broad-Based Black Economic Empowerment
FS300	Measurement of the Employment Element of Broad-Based Black Economic Empowerment
FS400	Measurement of the Skills Development Element of Broad-Based Black Economic Empowerment
FS500	Measurement of the Preferential Procurement Element of Broad-Based Black Economic Empowerment
FS600	Measurement of the Enterprise Development and/or Empowerment Financing Element of Broad-Based Black Economic Empowerment
FS700	Measurement of the Socio-Economic Development Element of Broad-Based Black Economic Empowerment
FS800	Measurement of the Access to Financial Services Element of Broad-Based Black Economic Empowerment
FS900	Measurement of the Qualifying Small Enterprises of Broad-Based Black Economic Empowerment

Index for Statements

Statement Number	Financial Sector Code Series and Statement Title	
000	Code Series FS000	The general principles and the Scorecard
100	Code Series FS100	The general principles for measuring Ownership
102	Code Series FS100	The recognition of the Sale of Assets
103	Code Series FS100	The recognition of Equity Equivalents
200	Code Series FS200	The general principles for measuring Management Control
300	Code Series FS300	The general principles for measuring Employment Equity
400	Code Series FS400	The general principles for measuring Skills Development
500	Code Series FS500	The general principles for measuring Preferential Procurement
600	Code Series FS600	The general principles for measuring Enterprise Development and/or Empowerment Financing
601	Code Series FS600	The general principles for measuring Enterprise Development for Measured enterprises exempted from Empowerment Financing
602	Code Series FS600	The general principles for measuring Enterprise Development for Measured enterprises not exempted from Empowerment Financing
700	Code Series FS700	The general principles for measuring Socio-Economic Development
800	Code Series FS800	The general principles for Access to Financial Services
801	Code Series FS800	The general principles for measuring Access to Financial services as it relates to Members of the Banking Association of South Africa
802	Code Series FS800	The general principles for measuring Access to Financial services as it relates to Members of ASISA
803	Code Series FS800	The general principles for measuring Access to Financial services as it relates to Members of SAIA
900	Code Series FS900	The Qualifying Small Financial Institutions Scorecard and Exempted Micro-Enterprises

FINANCIAL SECTOR CODE SERIES FS000: FRAMEWORK FOR MEASURING BROAD-BASED BLACK ECONOMIC EMPOWERMENT

STATEMENT 000: GENERAL PRINCIPLES AND THE SCORECARD

Issued under Section 9 of the Broad-Based Black Economic Empowerment Act of 2003

Arrangement of this statement

1. Objectives of this statement

The objectives of this statement are to:

1.1 **Specify interpretative principles of B-BBEE as it relates to the Financial Sector;**

1.2 **Specify the application of the Financial Sector Code and the basis for measurement under the Financial Sector Code;**

1.3 **Specify the qualifying thresholds for businesses to qualify as Exempted Micro-Enterprises (EME) or Qualifying Small Financial Institutions (QSFI);**

1.4 **Specify the method of measuring Start-up Enterprises;**

1.5 **Specify the elements of B-BBEE measurable under the Scorecard;**

1.6 **Specify the Scorecard;**

1.7 **Specify the basis for determining compliance by entities with the Financial Sector Code;**

1.8 **Provide for the Transitional Period before the compulsory use of the Scorecard starts;**

1.9 **Define the duration for the applicability of the Financial Sector Code; and**

1.10 **Give the Financial Sector Council the power to provide Interpretive Guides / Guidance Notes / Practice Directives and Standards Documents with regard to the application, intention and any clarification required should any ambiguities exist in any part of this Financial Sector Code.**

2. Key principles

2.1 **The fundamental principle for measuring B-BBEE compliance is that substance takes precedence over legal form.**

2.2 **In interpreting the provisions of the CoGP and this Financial Sector Code, any reasonable interpretation consistent with the objectives of the Act and the B-BBEE Strategy must take precedence.**

2.3 **The basis for measuring B-BBEE initiatives under this Financial Sector Code is the B-BBEE compliance of the measured entities during the measurement period.**

2.4 **Any misrepresentation or attempt to misrepresent any enterprise's true B-BBEE status may lead to the disqualification of the entire scorecard of that enterprise.**

2.5 **Initiatives which separate or divide enterprises solely as a means of ensuring eligibility as an Exempted Micro-Enterprise Qualifying Small Financial Institution or a Start-up Enterprise are a circumvention of the Act and may lead to the disqualification of the entire scorecard of those enterprises concerned.**

2.6 **Any representation made by an entity about its B-BBEE compliance must be supported by a valid B-BBEE certificate and scorecard, issued by an accredited verification agency. This requirement does not apply to divisions or subsidiaries that submit reports in terms of paragraph 8.3 of Code series FS000. For these entities, their B-BBEE compliance must be supported by suitable evidence or documentation. Any entity that does not provide proof of B-BBEE compliance, must not receive any recognition for that initiative.**

2.7 **Wherever a Standard Valuation Method applies to measuring an indicator, the same standard should apply, as far as reasonably possible, consistently in all other applicable calculations in this statement.**

2.8 **Where the Financial Sector Code is silent on certain provisions, the provisions of the Generic Code shall take precedence.**

2.9 **In general, a financial institution that is a local subsidiary of a multinational or external company (as defined in Section 1 of the Companies Act (Act 61 of 1973, as amended, repealed or superseded)) or a branch of a multinational or external company that is precluded in terms of a Global Policy from accommodating domestic ownership participation, will be exempt from the ownership provisions of Code series FS100.**

2.10 **The B-BBEE compliance level of an institution which has been exempted from compliance with any element or sub-element, must be determined by adding its actual points earned for each of the scorecard elements in line with paragraph 8.2 of Code 000, Statement 000 of the CoGP. The B-BBEE compliance level shall be the sum of the actual points earned divided by the total amounts available to it (that is, the scorecard total less exempted elements).**

2.11 **All scores achieved by the financial institutions under the scorecards in paragraph 8.1.3 of Code series FS000 must be used to determine the compliance level in line with paragraph 8.2 of Code series FS000.**

2.12 **The verification of B-BBEE compliance of financial institutions will be undertaken by B-BBEE verification agencies that are accredited by the**

South African National Accreditation System (SANAS) or any other bodies as may be given authority to accredit agencies by the Department of Trade and Industry.

3. Application of the Financial Sector Code

3.1 **This Financial Sector Code is applicable to all entities as defined under the paragraph titled, "Scope of Application" under the Preamble section of this document**

3.2 **The basis for measuring the B-BBEE compliance of an entity in terms of paragraph 3.1 is:**

3.2.1 paragraph 4, in the case of an Exempted Micro-Enterprise (EME);

3.2.2 The QSFI statements in Code series FS900, in the case of a Qualifying Small Financial Institution (QSFI);

3.2.3 The Scorecard, in the case of other enterprises.

4. Eligibility as an Exempted Micro-Enterprise

4.1 **Any enterprise with an annual total revenue of R5 million or less qualifies as an Exempted Micro-Enterprise.**

4.2 **Exempted Micro-Enterprises are deemed to have B-BBEE Status of "Level Four Contributor" having a B-BBEE procurement recognition of 100% under paragraph 8.2.**

4.3 **Despite paragraph 4.2, an Exempted Micro-Enterprise qualifies for a promotion to a B-BBEE Status of "Level Three Contributor" having a B-BBEE procurement recognition of 110% under paragraph 8.2 if it has direct black or black woman ownership (without any Equity Equivalents) in excess of 50%.**

4.4 **Exempted Micro-Enterprises are allowed to be measured in terms of the QSFI scorecard should they wish to maximise their points and move to the next procurement recognition level.**

4.5 **Sufficient evidence of qualification as an Exempted Micro-Enterprise is an auditor's certificate or similar certificate issued by an accounting officer or verification agency.**

5. Eligibility as a Qualifying Small Financial Institution

5.1 A Financial Institution with designated investments of less than R50 million and with an annual total revenue of between R5 million and R35 million qualifies as a Qualifying Small Financial Institution.

5.2 A QSFI must select any five of the eight Elements of B-BBEE for the purposes of measurement under the QSFI Scorecard contained in Code series 900. Where a QSFI does not make a selection, its five best element scores will be used for the purposes of measurement.

6. Start-up Enterprises

6.1 Start-up Enterprises must be measured as Exempted Micro-Enterprises under this statement for the first year following their formation or incorporation. This provision applies regardless of the expected total revenue of the Start-up Enterprise.

6.2 Start-up Enterprises are deemed to have a B-BBEE Status of "Level Four Contributor" having a B-BBEE procurement recognition of 100% under this paragraph.

6.3 In order to qualify as a Start-up Enterprise, the enterprise must provide an independent confirmation of its status. For avoidance of doubt, a new entity that is a merger of two or more existing enterprises may not qualify as a Start-up Enterprise.

6.4 Despite paragraphs 6.1 and 6.2, Start-up Enterprises must submit a QSFI Scorecard when tendering for any contract, or seeking any other business covered by Section 10 of the Act, with a value higher than R5 million but less than R35 million. For contracts above R35 million they should submit the scorecard. The preparation of such scorecards must use annualised data.

7. The Elements of B-BBEE in terms of the Scorecard

7.1 The Ownership Element, as set out in Code series FS100, measures the effective ownership of enterprises by Black People.

7.2 The Management Control Element, as set out in Code series FS200, measures the effective control of enterprises by Black People.

7.3 The Employment Equity Element, as set out in Code series FS300, measures initiatives intended to achieve equity in the workplace under the Act, and the Employment Equity Act.

7.4 **The Skills Development Element, as set out in Code series FS400, measures the extent to which employers carry out initiatives designed to develop the competencies of black employees.**

7.5 **The Preferential Procurement Element, as set out in Code series FS500, measures the extent to which enterprises buy goods and services from suppliers with B-BBEE procurement recognition levels.**

7.6 **The Enterprise Development and/or Empowerment Financing Element, as set out in Code series FS600, measures the extent to which Enterprises carry out initiatives intended to assist and accelerate the development and sustainability of other Enterprises.**

7.7 **The Socio-Economic Development and Sector Specific Contributions Element, as set out in Code series FS700, measures the extent to which enterprises carry out general and financial sector specific initiatives that contribute towards Socio-Economic Development and that promote access to the economy for Black People.**

7.8 **The Access to Financial Services Element, as set out in Code series FS800, measures the extent to which enterprises substantially increase effective access to first-order retail financial services to the defined target market as contemplated under Code series FS800.**

8. The Financial Sector Scorecard

8.1 **The following table represents the Scorecard and contains the:**

8.1.1 Elements of the scorecard;

8.1.2 Weightings; and

8.1.3 Financial Sector Code series reference that specifies the mechanisms for measurement and calculation of each of the elements of the scorecard (Code series 100 – 800).

Element	Available Points	% Weighting	Primary Reference
Ownership	14 + 3 bonus	14%	Code series FS100 to be read with Code series 100 of the Generic Code
Management Control	8 + 1 bonus	8%	Code series FS200 to be read with Code series 200 of the Generic Codes
Employment Equity	15 + 3 bonus	15%	Code series FS300 to be read with Code series 300 of the Generic Codes
Skills Development	10	10%	Code series FS400 to be read with Code series 400 of the Generic Codes
Preferential Procurement	16	16%	Code series FS500 to be read with Code series 500 of the Generic Codes
Empowerment Financing	15	15%	Code series FS600
Enterprise Development*	5	5%	Code series FS600 to be read with Code series 600 of the Generic Codes
Socio-Economic Development	3	3%	Code series FS700 to be read with Code series 700 of the Generic Codes
Access to Financial Services	14	14%	Code FS800
Total	**100 + 7 bonus**	100%	

*For Measured Entities that are exempted from Empowerment Financing, the total number of points available shall be 95 + 7 bonus. This is as a result of having only 15 points available for Enterprise Development and zero available for Empowerment Financing, whereas enterprises that are not exempt from Empowerment Financing have 5 points available for Enterprise Development and 15 available for Empowerment Financing. For measured entities that are exempted from Empowerment Financing, the Enterprise Development Measurement Principles, Scorecard and Benefit Factor Matrix shall align completely with all the provisions of Code series 600 of the Generic Codes. Therefore, the Recognition level of these entities shall be based on the score obtained via the following formula:

$A = (B/95) \times 100$

Where:

A = the deemed score achieved (to be applied to the table under paragraph 8.2 below)

B = the total number of points achieved (including Bonus Points)

The same principle shall apply to measured entities that are exempt from both Empowerment Financing and Access to Financial Services or to measured entities that are exempt from only Access to Financial Services.

8.2 **Based on the overall performance of a Measured Entity using the Scorecard it receives the following B-BBEE Status-:**

B-BBEE Status	Qualification	B-BBEE Recognition Level
Level One Contributor	≥ 100% on the FSC Scorecard	135%
Level Two Contributor	≥ 85% but < 100% on the FSC Scorecard	125%
Level Three Contributor	≥ 75% but < 85 % on the FSC Scorecard	110%
Level Four Contributor	≥ 65% but < 75% on the FSC Scorecard	100%
Level Five Contributor	≥ 55% but < 65% on the FSC Scorecard	80%
Level Six Contributor	≥ 45% but < 55% on the FSC Scorecard	60%
Level Seven Contributor	≥ 40% but < 45% on the FSC Scorecard	50%
Level Eight Contributor	≥ 30% but < 40% on the FSC Scorecard	10%
Non Compliant Contributor	< 30% on the FSC Scorecard	0%

8.3 **If a financial institution is a member of a group, it will be measured and reported on as part of the South African group unless:**

8.3.1 The financial institution is a listed company; or

8.3.2 The financial institution opts to be measured as a separate company.

8.3.3 Notwithstanding paragraphs 8.3.1 and 8.3.2, should any division or business unit or subsidiary within a measured entity be deemed as a significant division or business unit or subsidiary it shall, upon request of the Financial Sector Council be required to produce and submit its own scorecard to the Council for information purposes. The scorecard need not be independently verified; however, the head of that division or business unit or subsidiary must attest to the accuracy of the scorecard submitted.

8.3.3.1 The division or business unit or subsidiary referred to in paragraph 8.3.3 above may utilise its Group B-BBEE report for official use or it can opt to utilise its own scorecard (as per paragraph 8.3.3 above) should that scorecard be verified.

8.3.3.2 A significant division, business unit or subsidiary is defined as:

- Any subsidiary, division or business unit forming part of a Consolidated Group Scorecard that conducts its primary business activities in a sector other than the financial sector; or
- Any subsidiary, division or business unit forming part of a Consolidated Group Scorecard that contributes more than 50% of the measured entity's revenue.

8.4 **Each financial institution will report annually to the Financial Sector Council on its progress in implementing the provisions of this Financial Sector Code.**

9. Enhanced recognition for certain categories of Black People

In various elements of the Financial Sector Code, various criteria appear that advance the interests of certain categories of Black People. These include:

9.1 **Black Women and Broad-Based Groupings for the Ownership, Management Control, Employment Equity and Skills Development Elements of the Scorecard;**

9.2 **Black People with disabilities for the Employment Equity and Skills Development Elements of the Scorecard; and**

9.3 **Broad-Based Groupings, including Employees, Communities and Co-operatives for the Ownership, Access to Financial Services and Socio-Economic Elements.**

10. Framework for the Accreditation of B-BBEE Verification Agencies

10.1 **As per the Generic Code series 000.**

11. Transitional period

11.1 **The transitional period shall exist from the commencement date of this Financial Sector Code until such time as the Access Standards have been agreed by the Financial Sector Council. During this transitional period, all measured entities shall report their B-BBEE compliance in relation to the scorecard and principles contained in this Financial Sector Code but will exclude the Access to Financial Services Element.**

11.2 **Notwithstanding, paragraph 11.1, measured entities shall be allowed to utilise their existing valid, verified Generic B-BBEE certificate during the period between the commencement date of this Financial Sector Code and the expiry of their existing verified Generic B-BBEE certificates.**

12. Adjustment of Thresholds

12.1 **The Minister of Trade and Industry may, by notice in the Gazette, adjust the thresholds in paragraphs 4 to 6. Any such changes apply to compliance reports prepared for enterprises after a twelve-month period following the gazetting of the adjustment.**

13. Amendments and Duration of the Financial Sector Code

13.1 **The Financial Sector Code shall be effective and legally binding from the commencement date until amended, substituted or repealed under the Act. The commencement date shall be 1 January 2012.**

13.2 **The process for the amendment of the Financial Sector Code will follow the process set out in the Generic Codes for the development of Sector Codes. Any amendments to the Generic Codes may result in a review of the Financial Sector Code for purposes of harmonisation.**

14. Interpretive Guides / Guidance Notes / Practice Directives and Standards Documents

14.1 **The Financial Sector Council shall, from time to time issue Interpretive Guides / Guidance Notes / Practice Directives and Standards documents.**

14.2 **These documents shall be mainly (but not solely) for the purpose of addressing any ambiguities that may exist with regard to the interpretation and application of key measurement principles and/or qualifying criteria contained in any Code Series or Code Statement in this Financial Sector Code.**

14.3 **In issuing such documents the Council shall be obliged to provide interpretations that are consistent with the substance of these codes rather than just the legal form.**

14.4 **The Financial Sector Council shall monitor the overall B-BBEE ownership levels of the sector as reported by measured entities by performing an Ownership review every two years from the date of gazetting of this code. Should the review show that B-BBEE ownership in the sector has diluted, then the continued inclusion of paragraph 3.5.2.1. of code 100, statement 100 must be considered in view of the overall transformation objectives of the ownership pillar."**

CODE SERIES FS100: MEASUREMENT OF THE OWNERSHIP ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

STATEMENT 100: THE GENERAL PRINCIPLES FOR MEASURING OWNERSHIP

Issued under Section 9 of the Broad-Based Black Economic Empowerment Act of 2003

Arrangement of this statement

1. Objectives of this Statement

The objectives of this statement are to:

1.1 **Specify the scorecard for measuring the Ownership Element of B-BBEE;**

1.2 **Define the key measurement principles associated with the Ownership Element of B-BBEE;**

1.3 **Specify the specific measurement principles applicable to various types of enterprises;**

1.4 **Specify the specific measurement principles applicable to various types of equity instruments; and**

1.5 **Specify the formula for measuring Voting Rights, Economic Interest, Net Value Points, Realisation Points and Bonus Points.**

2. The Ownership Scorecard

Table 2a represents the indicators and method for calculating a score for ownership for local measured entities:

Table 2a **Ownership**	**Points**	**Targets**
2.1. Voting Rights of Black People	3	25% + 1 Vote
2.2. Voting Rights of Black Women	1	10% + 1 Vote
2.3. Economic Interest of Black People	3	25% + 1 Share
2.4. Economic Interest of Black Women	1	10% + 1 Share
2.5. Economic Interest of Black Designated Groups, Black Participants in Employee Share Ownership Schemes, Black Participants in Broad Based Ownership Schemes and / or Black Participants in Co-ops	1	2.5%
Ownership Fulfillment		
2.6. Net Equity Value (Formula A and B as per para.4 of Annexe 100 (C)	3	
2.7. Direct or Indirect Ownership in Excess of 15%	2	10%
Total	**14**	
Bonus Points		
2.8. Ownership by Black New Entrants	2	10%
2.9. Ownership by ESOPs and Co-ops	1	10%
Total Including Bonus Points	**17**	

For 2.7, the target will apply to economic interest as a result of ***Direct or Indirect*** *B-BBEE ownership in excess of 15%. To avoid any doubt, Ownership and/or Equity Equivalent contributions and/or Asset Sales claimed will count under 2.7.*

If a measured entity wishes to claim Ownership credits for Indirect Ownership, it must provide a competent person's report that has estimated the value of B-BBEE ownership held through indirect ownership.

201707—**C**

Table 2b represents the indicators and method for calculating a score for Ownership for measured entities that are local branches of foreign banks:

Table 2b

Ownership	Points	Targets	Notes
2.1. Additional BEE Transaction Financing or other qualifying Equity Equivalent contributions	14	25%	Target is equal to 25% of the value of the measured entity as at 31 December 2010
Bonus Points			
2.2. Funding of BEE Transactions and/or other Equity Equivalent contributions in the Financial Sector	3	100% of 25%	3 bonus points are available for contributi within the Financial Sector.
Total Including Bonus Points	17		

3. Key Measurement Principles

3.1 General principles:

3.1.1 An Enterprise receives points for participation by Black People in its rights of ownership, using the ownership scorecard in table 2a or 2b of Code Series FS100 Statement 100. Black People may hold their rights of ownership in a Measured Entity as direct participants or as participants through some form of business such as:

3.1.1.1 A Company with shares;

3.1.1.2 A Close Corporation;

3.1.1.3 A Co-operative;

3.1.1.4 Any form of juristic person recognised under South African law;

3.1.1.5 A Partnership or other association of natural persons;

3.1.1.6 A Broad-Based Ownership Scheme;

3.1.1.7 An Employee Ownership Scheme; and

3.1.1.8 A Trust (including a Family Trust, will qualify provided that the Trust deed stipulates that the beneficiaries must be Black South Africans and that at least 85% of the proceeds of the Trust accrues to the beneficiaries).

3.1.2 Any Measured Entity (Foreign or Domestic) may also receive points under the Ownership Scorecard in table 2a or 2b of Code Series FS100 Statement 100, via Equity Equivalent Contributions. Equity Equivalent Contributions are dealt with in detail under Code series FS100, Statement 103.

3.1.3 Any Measured Entity may also receive points under the Ownership Scorecard in table 2a or 2b of Code Series FS100 Statement 100 via Sales of Assets. Sales of Assets are dealt with in detail under Code series FS100, Statement 102.

3.2 **The Flow-Through Principle:**

3.2.1 As a general principle, when measuring the rights of ownership of any category of Black People in a Measured Enterprise, only rights held by natural persons are relevant. If the rights of ownership of Black People pass through a juristic person, then the rights of ownership of Black People in that juristic person are measurable. This principle applies across every tier of ownership in a multi-tiered chain of ownership until that chain ends with a black person holding rights of ownership.

3.2.1.1 An exception to this General Principle exists with regard to recognition under the Ownership Scorecard for domestic measured entities, via Equity Equivalents. This exception to the General Principle is dealt with in further detail in Code series FS100, Statement 103.

3.2.2 The method of applying the Flow-Through Principle across one or more intervening juristic persons is as follows:

3.2.2.1 Multiply the percentage of the participants' rights of ownership in the juristic persons through which those rights pass by the percentage rights of ownership of each of those juristic persons successively to the Measured Enterprise; and

3.2.2.2 The result of this calculation represents the percentage of rights of ownership held by the participant.

3.3 **The Modified Flow-Through Principle:**

3.3.1 The Modified Flow-Through Principle applies to any B-BBEE owned or controlled company in the ownership of the Measured Enterprise.

3.3.2 In calculating Exercisable Voting Rights under table 2a, paragraph 2.1 and Economic Interest under paragraph 2.3, the following applies: Where in the chain of ownership, Black People have a flow-through level of participation in excess of 50%, then only once in that chain may such black participation be treated as if it were 100% black.

3.3.3 The Modified Flow-Through Principle may only be applied in the calculation of the indicators in paragraphs 2.1 (Voting rights of Black People) and 2.3 (Economic Interest of Black People) of table 2a. In all other instances, the Flow-Through Principle applies. For avoidance of doubt, the Modified Flow-Through calculation may be applied once in each chain on ownership.

3.4 **The Exclusion of specified entities when determining ownership:**

3.4.1 When determining ownership in a measured entity, ownership held directly by organs of state or public entities must be excluded. This exemption only applies to organs of the state of the Republic of South Africa and to Public Entities of the Republic of South Africa.

3.4.2 In calculating their ownership score, Measured Enterprises must apply the Exclusion Principle to any portion of their Ownership held by Organs of State or Public Entities.

This exemption only applies to organs of the state of the Republic of South Africa and to Public Entities of the Republic of South Africa.

3.4.3 Despite paragraphs 3.4.1 and 3.4.2, the Minister of Trade and Industry may, by notice in the gazette, designate certain Public Entities as B-BBEE Facilitators. In calculating their Ownership score, Measured Enterprises must treat B-BBEE Facilitators as having rights of Ownership held:

3.4.3.1 100% by Black People:

3.4.3.2 40% by Black Women:

3.4.3.3 10% by Black Designated Groups;

3.4.3.4 Without any acquisition debts; and

3.4.3.5 Without any third-party rights.

3.4.4 When determining ownership in a Measured Entity, rights of ownership of Mandated Investments may be excluded. The maximum percentage of the ownership of any Measured Entity that may be so excluded is 40%. Mandated Investments are those investments as defined in Schedule 1 of the CoGP as per Gazette No. 29617.

3.4.5 Entities that elect not to exclude Mandated Investments when entitled to do so may either treat all of that ownership as non-black or obtain a competent person's report estimating the extent of black rights of ownership measurable in the Measured Entity and originating from that Mandated Investment.

3.4.6 A Measured Entity cannot selectively include or exclude Mandated Investments and an election to exclude one Mandated Investment is an election to exclude all Mandated Investments and vice versa.

3.4.7 Dilution due to regulatory requirements
Any dilution in the actual percentage of Black Ownership in a Measured Entity that occurs due to the Measured Entity having to increase its capital base as a direct result of regulatory requirements (new or existing) will for the purposes of this Code not result in a dilution of the percentage Black Ownership claimed under the Scorecard contained under paragraph 2, Table 2a.

A Measured Entity may exclude ownership arising in future as a direct result of any new regulatory requirements to increase the capital base of the Measured Entity.
For avoidance of doubt this principle will not apply should the institution be required to raise additional capital due to it having written bad business.

3.5 The recognition of ownership after the sale or loss of shares by Black Participants

3.5.1 Any sale or loss of shares that have occurred on or prior to 31 December 2010 shall be subject to the continuing consequences formula as per paragraph 5 of Annexe 100(C) of this Financial Sector Code.

3.5.2 In addition, a Measured Entity is allowed to recognise a portion of black ownership after a black participant has exited through the sale or loss of shares where such sale or loss occurs after 31 December 2010. The portion recognisable where such sale or loss occurs after 31 December 2010 is as follows:

3.5.2.1 In the event of a dilution in the actual percentage of black ownership in a Measured Entity (such dilution having occurred on or after 1 January 2011), as a result of black participant(s) electing to sell their shares and realise the net value attributable to those shares when those shares have become eligible for sale or transfer, any such dilution, will for the purposes of this Financial Sector Code, not result in a dilution of the percentage Black Ownership claimed under the Scorecard contained under paragraph 2, Table 2a above. B-BBEE participants should be encouraged to sell the realisation shares to other Black Participants and, where possible, a measured entity should attempt to provide assistance to B-BBEE participants to sell to other B-BBEE participants. For avoidance of doubt, such assistance is not to be interpreted as the provision of financing (debt or other) to the proposed buyer.

3.5.2.2 In the event of a dilution in the actual percentage of black ownership in a Measured Entity, such dilution having occurred on or after 1 January 2011 as a result of all other sales of shares, other than the sale of shares described under paragraphs 3.4.7 or 3.5.2.1 above, a portion of the percentage may be recognisable subject to the following criteria:

- The black participant has held those shares for a minimum period of three years;
- Net value must have been created in the hands of Black People. (i.e. a portion of the debt acquired to purchase the equity must have been repaid or the selling price of the shares must be higher than the purchase price);
- Transformation has taken place within the measured enterprise.

3.5.3 The formula for calculating continued recognition (for sales of shares) in circumstances as contemplated under paragraph 3.5.2.2 is contained under paragraph 5 of Annexe 100(C) of this Code Statement and black participation arising from continued recognition of black ownership cannot contribute more than 40% of the score on the ownership scorecard.

3.5.4 In the case of a loss of shares by the black investor, the following additional rules apply:

3.5.4.1 A written tripartite agreement between the Measured Enterprise, the black participant and a lender must record the loan or security arrangement, unless the Measured Entity is the lender; and

3.5.4.2 The period over which the points were allocated or recognisable will not exceed the period over which the shares were held.

3.5.5 The Ownership points under paragraph 3.5.4 (a loss of shares, unless that loss of shares is outside the control of the measured entity) that are attributable to the Measured Entity will be calculated by multiplying the following elements:

3.5.5.1 The value created in black hands as a percentage of the value of the Measured Entity at the date of the loss of shares as a percentage of the Measured Entity's value;

The formula for measuring the percentage of continued recognition is as follows:

A = B x C X D

Where

A is the continued recognition after the loss of shares

B is the percentage ownership for each of the indicators in the ownership scorecard held immediately prior to the loss

C is the Net Value as per formula "Loss 1" below

D is the most recent B-BBEE recognition Level of the Measured entity (not more than one year old based on all elements excluding ownership)

Formula: Loss 1:

A = (B – C) / D

Where

A is the Deemed Net Value

B is the value of the lost shares as at the date of loss

C is the carrying value of any debt in relation to the lost shares as at the date of loss

D is value of the measured entity as at the date of loss

3.5.5.2 The B-BBEE status of the Measured Entity based on the balanced scorecard at the date of measurement; and

3.5.5.3 The ownership points that were attributable to the Measured Enterprise on the date of sale or loss.

3.5.6 In addition to paragraphs 3.5.2 to 3.5.5, prior to 1 January 2015 a Measured Entity shall be entitled (but not compelled) to report, for every year of measurement, the points calculated in terms of its Ownership scorecard as at 31 December 2010. After 31 December 2014, this dispensation shall not be applicable.

All the measurement principles and special dispensations contained in this Code Statement shall always be applicable.

4. Broad-Based Ownership and Employee Ownership Schemes

4.1 Black participants in Broad-Based Ownership Schemes and Employee Share Ownerships Schemes holding rights of ownership in a Measured Entity may contribute:

4.1.1 A maximum of 40% of the total points on the ownership scorecard of the Measured Entity if they meet the qualification criteria set out in Annexe 100(B).

4.1.2 100% of the total points on the ownership scorecard of the Measured Entity if they meet the **additional** qualification criteria set out in Annexe 100(B).

5. Private Equity Funds

5.1 **A Measured Entity may treat any of its ownership arising from a Private Equity Fund as if that ownership were held by Black People, where the Private Equity Fund meets the following criteria:**

5.1.1 More than 50% of any Exercisable Voting Rights associated with the Equity Instruments through which the Private Equity Fund holds rights of ownership, are held by Black People;

5.1.2 More than 50% of profits made by the Private Equity Fund after realising any investment made by it, must by written agreement, accrue to Black People;

5.1.3 The Private Equity Fund manager is a B-BBEE Owned Company as defined; and

5.1.4 More than 50% of the value of funds invested by any Private Equity Fund must at all times be invested in black owned enterprises that were at least 25% black owned before the investment of the Private Equity Fund.

6. Special rules for certain companies

6.1 **A Measured Entity may elect to include or exclude Section 21 companies or companies limited by guarantee for the purposes of measuring ownership in terms of this statement.**

6.2 **A Section 21 company or company limited by guarantee that houses a Broad-Based Ownership Scheme or an Employee Ownership Scheme is subject to the provisions governing those types of schemes and not to this paragraph.**

6.3 **When a Measured Entity elects to exclude such companies, it can do so by excluding up to 40% of the level of their ownership completely from the determination of its compliance with the ownership target.**

6.4 **A Measured Entity electing not to exclude Section 21 companies or companies limited by guarantee when it is entitled to do so, may either treat all of that ownership as non-black or obtain a competent person's report estimating the extent of black rights of ownership measurable in the Measured Entity and originating from those Section 21 companies or companies limited by guarantee.**

6.5 **Black Participants in a Section 21 Company holding rights of ownership in a Measured Entity may contribute:**

6.5.1 A maximum of 40% of the total points on the ownership scorecard of the Measured Entity if they meet the qualification criteria for Broad-Based Ownership Schemes set out in Annexe 100(B).

6.5.2 100% of the total points on the ownership scorecard of the Measured Entity if they meet the **additional** qualification criteria set out for Broad-Based Ownership Schemes in Annexe 100(B).

7. Trusts

7.1 **Black Participants in a Trust, holding rights of ownership in a Measured Entity may contribute:**

7.1.1 A maximum of 40% of the total points on the ownership scorecard of the Measured Entity if the trust meets the qualification criteria for Trusts set out in Annexe 100(B).

7.1.2 100% of the total points on the ownership scorecard of the Measured Entity if they meet the **additional** qualification criteria set out for Trusts in Annexe 100(B).

8. Options and share warrants

8.1 **Exercisable voting rights and Economic interest will be recognised where a participant holds an instrument granting the holder the right to acquire an Equity Instrument or part thereof at a future date, if the following requirements are met:**

8.1.1 The Exercisable Voting Rights attached to that instrument are irrevocably transferred to the holder for the option period and are exercisable by the holder before acquiring the Equity Instrument;

8.1.2 The value of any Economic Interest is irrevocably transferred for the option period and paid to the holder of that instrument before the exercise of that right;

8.1.3 The value of an instrument must be determined by using a standard valuation method for calculating the Net value.

9. Equity Instruments Carrying Preferential Rights

9.1 **An Equity Instrument carrying preferential rights is measurable in the same manner as an ordinary Equity Instrument.**

9.2 **An Equity Instrument carrying preferential rights that has the characteristics of a debt, regardless of whether the debt is that of an enterprise or of a participant, is an ordinary loan. If the debt is that of a black participantBlack Participant, it may be subject to measurement under Current Equity Interest.**

9.3 **In evaluating an instrument that has a hybrid nature including the characteristics of a debt, only that portion that represents a debt, will be measured under current equity interest. The remainder is measurable as an ordinary equity instrument.**

10. Net Value

10.1 **Net value reflects the economic value of Ownership Rights after taking into account the carrying value of any acquisition debt.**

10.1.1 Points are awarded in accordance with the formula in Annexe 100(C). The formula reflects that all acquisition debt should be extinguished within nine (9) years of the acquisition of Equity Interests by participants in order to score full points.

11. The Points for Direct or Indirect Ownership in excess of 15% in Table 2a

11.1 **A Measured Entity with 15% direct black Economic Interest, can receive a maximum of 2 points for an additional 10% Economic Interest held by Black Participants held either as Direct or Indirect Ownership, measured in increments of 0.5 points for every 2.5% additional Economic Interest.**

12. The Bonus Points

12.1 **The bonus points relating to paragraphs 2.8 and 2.9 of Table 2a are only available to domestic Measured Entities.**

12.1.1 For avoidance of doubt all contributions that are considered as ownership (including Sales of Assets, Sales of Shares, Equity Equivalents and Indirect Ownership) shall count under paragraphs 2.7, 2.8 and 2.9 of Table 2a.

12.2 **The bonus points relating to paragraph 2.2 of Table 2b are only available to local branches of foreign entities. Measured Entities that qualify as local branches of foreign entities may meet their entire ownership targets by applying Code series FS100, Statement 103.**

12.2.1 To this end a foreign branch may receive a maximum of three bonus points should it satisfy its Equity Equivalent Contribution requirements (as per Code series FS100, Statement 103) by contributing the total required amount for B-BBEE transaction financing or other qualifying Equity Equivalents within the financial sector. Therefore, if a foreign branch funds transactions to the value of 12.5% in the financial sector it may receive 1.5 bonus points – [(12.5% / 25%) x 3].

12.2.2 A Measured Entity with 25% black Economic Interest can receive a maximum of two bonus points for a 10% holding of Economic Interest by black new entrants.

12.2.3 A Measured Entity with 25% black Economic Interest can receive a maximum of one bonus point for a 10% holding of Economic Interest by Black Participants in:

12.2.3.1 Employee Ownership Schemes;

12.2.3.2 Broad-Based Ownership Schemes; and

12.2.3.3 Co-operatives.

Annexe 100(A)

Examples of Mandated Investments

Description Of Investment	*Portion Subject to Exclusion Principle*
Investments made by or for a collective investment scheme as defined in the Collective Investments Control Act of 2002	Full Value
Investments made by or for a pension fund as defined in the Pension Fund Act of 1956	Full Value
Investments made by or for a medical scheme as defined in the Medical Schemes Act of 1998, out of members' funds	Portion recorded as made out of members' funds
Investments made by or for long-term insures as defined in the Long-term Insurance Act of 1998, out of policy holders' funds	Portion recorded as made out of policy holders' funds
Investments made by or for friendly societies as defined in the Friendly Societies Act of 1956	Full Value
Investments made by or for a bank as defined in the Banks Act of 1990, out of depositors' funds as opposed to own reserves	Depositor portion determined by apportioning investment in the ratio that the depositor funds to own reserves
Investments made by or for a mutual bank as defined in the Mutual Banks Act of 1993, out of depositors' funds as opposed to own reserves	Depositor portion determined by apportioning investment in the ratio that the depositor funds to own reserves

Annexe 100(B)

RULES ON CERTAIN TYPES OF ENTERPRISES

1. Rules for Broad-Based Ownership Schemes

1.1 The following rules apply to Broad-Based Ownership Schemes:

1.1.1 The management fees of the scheme must not exceed 15%;

1.1.2 The constitution of the scheme must record the rules governing any portion of economic interest received and reserved for future distribution or application;

1.1.3 At least 85% of the value of benefits allocated by the scheme must accrue to Black People;

1.1.4 At least 50% of the fiduciaries of the scheme must be independent persons having no employment with or direct or indirect beneficial interest in the scheme;

1.1.5 At least 50% of the fiduciaries of the scheme must be Black People and at least 25% must be Black Women;

1.1.6 The chairperson of the scheme must be independent; and

1.1.7 On the winding-up or termination of the scheme, all accumulated Economic Interest must be transferred to beneficiaries or an entity with similar objectives.

2. Rules for Employee Share Ownership Schemes

2.1 The following rules apply to Employee Share Ownership Schemes (ESOP):

2.1.1 The scheme constitution must define the participants and the proportion of their claim to receive distributions;

2.1.2 A written record of the name of the participants or the use of a defined class of natural person satisfies the requirement for identification;

2.1.3 A written record of fixed percentages of claim or the use of a formula for calculating claims satisfies the need for defining proportion of benefit; and

2.1.4 The fiduciaries of the scheme must have no discretion on the above-mentioned terms;

2.2 The participants must take part in:

2.2.1 Appointing at least 50% of the fiduciaries of the scheme;

2.2.2 Managing the scheme at a level similar to the management role of shareholders in a company having shareholding;

2.2.3 The constitution, or other relevant statutory documents of the scheme must be available, on request, to any participant in an official language in which that person is familiar; and

2.2.4 All accumulated Economic Interest of the scheme is payable to the participants at the earlier of a date or event specified in the scheme constitution or on the termination or winding-up of the scheme; and

2.2.5 The scheme fiduciaries must present the financial reports of the scheme to participants yearly at an annual general meeting of the scheme.

3. Rules for Trusts

3.1 The qualification criteria for the recognition of Trusts are as follows:

3.1.1 The trust deed must define the beneficiaries and the proportion of their entitlement to receive distributions;

3.1.2 A written record of the names of the beneficiaries or the use of a defined class of natural person satisfies the requirement for identification;

3.1.3 A written record of fixed percentages of entitlement or the use of a formula for calculating entitlement satisfies the need for defining proportion of benefit; and

3.1.4 The trustees (including trustees of a family trust that will qualify provided that the Trust deed stipulates that the Beneficiaries must be Black South Africans and that at least 85% of the proceeds of the Trust accrue to the beneficiaries) must have no discretion on the above mentioned terms, and on winding-up or termination of the trust, all accumulated Economic Interest must be transferred to the beneficiaries or to an entity representing the interest of the participants or class of beneficiaries.

4. Additional Criteria Applicable to Trusts:

4.1 For a Measured Entity to obtain the maximum points on its Ownership scorecard from shareholding by a Trust, the Measured Entity must be in possession of a certificate issued by a competent person to the effect:

4.1.1 That the Trust was created for a legitimate commercial reason, which must be fully disclosed; and;

4.1.2 That the terms of the Trust do not directly or indirectly seek to circumvent the provisions of the Codes and the Act.

5. Additional Criteria Applicable to Broad-Based Ownership Schemes and Employee Ownership Schemes:

5.1 **For a Measured Entity to obtain the maximum points on its ownership scorecard, the following additional requirements must be met by a Broad-Based Scheme or Employee Share Ownership Scheme:**

5.1.1 A track-record of operating as a Broad-Based Ownership Scheme or Employee Share Ownership Scheme, or in the absence of such a track-record demonstrable evidence of full operational capacity to operate as a Broad-Based Ownership Scheme or Employee Share Ownership Scheme

5.1.2 Operational capacity must be evidenced by suitably qualified and experienced staff in sufficient number, experienced professional advisors, operating premises and all other necessary requirements for operating a business.

Annexe 100(C)

1. Measurement of Voting Rights

1.1 **The calculation of the ownership indicators provided for in paragraphs 2.1 and 2.2 is as follows:**

A = B/C x D

Where

A is the score achieved for the Enterprise for the measured ownership indicator

B is the percentage that Exercisable Voting Rights in the hands of the category of participants who are Black People in that Enterprise holds to all Voting Rights held by all participants of that Enterprise
Where Equity Equivalents are utilised, the Equity Equivalents shall be deemed to hold Voting Rights that rank *equally* with ordinary shareholder voting rights and 50% of the deemed voting rights shall be deemed to be in favour of Black Women.

C is the percentage compliance Target for Exercisable Voting Rights for the applicable measured ownership indicator in paragraphs 2.1 and 2.2

D is the Weighting points allocated to the applicable measured ownership indicator in paragraphs 2.1 and 2.2

1.2 **If an Enterprise gains a score in the formula above that is more than the Weighting points in paragraphs 2.1 and 2.2, that Enterprise will only receive the Weighting points.**

2. Measurement of Economic Interest

2.1 **The calculation of the ownership indicators provided for in paragraphs 2.3, 2.4 and 2.5 is as follows**

A = B/C x D

Where

A is the recognisable percentage of a black participant's claim to Economic Interest in the Enterprise

B is the percentage of Economic Interest, which participants who fall within the category of Black People in that Enterprise hold to all Economic Interest which all participants of that Enterprise hold
Where Equity Equivalents are utilised, the Equity Equivalents shall be deemed to hold Economic Interest that rank equally with ordinary shareholder Economic Interest and 50% of the deemed Economic Interest shall be deemed to be in favour of Black Women and 50% shall be deemed to be in favour of designated groups.

C is the percentage compliance target for Economic Interest for the applicable measured ownership indicator in paragraphs 2.3, 2.4 and 2.5

D is the Weighting points allocated to the applicable measured ownership indicator in paragraphs 2.3, 2.4 and 2.5

2.2 **If an Enterprise gains a score in the formula above that is more than the Weighting points in paragraphs 2.3, 2.4 and 2.5, that Enterprise will only receive the Weighting points.**

3. Calculation of Deemed Net Value

In calculating the 'Deemed Net Value' referred to in paragraph 4 below, the following formula applies:

A = (B – C)/D

Where

A is the Deemed Net Value

B for the purposes of paragraph 4 below is the value of the Equity Instruments relevant to the calculation, determined on the date of measurement

C for the purposes of paragraph 4 below is the carrying value of any acquisition debts of the relevant Black Participants on the date of measurement

D for the purposes of paragraph 4 below is the value of the Measurable Portion (Value of South African Operations) of the Measured Entity on the date of measurement

201707—**D**

4. Net Value

4.1 **The "Net Value" points in paragraph 2.6 is the lower result of Formula A and Formula B as follows:**

Formula A

A = B x (1/(25% x C)) x 3

Where

A is the score under paragraph 2.6

B is the Deemed Net Value for all Black Participants in the Measured Entity determined using Formula 3 above

C is the time-based graduation factor of the Economic Interest compliance target outlined below:

- 10% for the first year after the current equity interest date.
- 20% for the second year after the current equity interest date.
- 40% from the first day of the third year after the current equity interest date to the last day of the fourth year after the current equity interest date.
- 60% from the first day of the fifth year after the current equity interest date to the last day of the sixth year after the current equity interest date.
- 80% from the first day of the seventh year after the current equity interest date to the last day of the eighth year after the current equity interest date.
- 100% from the first day of the ninth year after the current equity interest date to the last day of the tenth year after the current equity interest date.

Formula B

A = B/C x 3

Where

A is the score under paragraph 2.6

B is the percentage Economic Interest in the Measured Entity of Black Participants

C is the target for the ownership indicator in paragraph 2.3

4.2 **If an Enterprise gains a score in paragraph 4.1 that is more than the Weighting points in paragraph 2.6, that Enterprise will only receive the Weighting points.**

5. Calculation of the Recognition of Ownership after the Sale of Shares by Black Participants:

The calculations referred to in paragraphs 3.5.1.2 of Code series FS100, Statement 100, use the following formula:

5.1 For paragraphs 2.1 and 2.3 of the Ownership Scorecard

A=B x C x D

Where

A is the percentage of rights of ownership that survive the sale of an Equity Instrument by a black participant in paragraph 3.5.1.2 to 3.5.4.3.

B is the percentage of rights of ownership for each of the indicators in the ownership scorecard that were attributable to the black participant immediately before their sale.

C The net value realised/created in black hands after the liquidation of debt as a % of the value of the Sale Shares of each of the indicators immediately prior to exit. The net value created in black hands is equal to the current value of the shares less any own contribution made by the B-BBEE party at the inception date of the transaction.

D is the most recently determined BEE Recognition Level of the Measured Entity (which must be less than 1 year old) based on its Generic Scorecard result for all Elements other than ownership determined using Code series FS000, Statement 000.

For paragraphs 2.2, 2.4 and 2.5, A shall be equal to the percentage held by Black Women/designated groups immediately before their sale of shares multiplied by the result of the calculation under paragraph 5.1.

5.2 For paragraph 2.6 of the Ownership Scorecard

In relation to calculating the percentage of ownership rights that survive after the sale of shares specifically for paragraph 2.6 of the Ownership Scorecard the following calculation shall apply:

A= B X C X D

Where A is the percentage of rights of ownership that survive the sale of an Equity Instrument by a black participant in paragraphs 3.5.1.2 to 3.5.4.3.

B is the percentage of the Equity Instruments diluted, determined on the date of measurement immediately before their sale.

C is the value of the equity interests sold (less) the value of any own contribution made at the inception date of the deal in relation to the shares sold (less) the carrying value of any acquisition debts of the relevant Black Participants on the date of sale or loss divided by the value of the measured entity at the date of sale or loss.

D is the recognition level of the measured entity excluding ownership immediately prior to the loss or sale.

Illustrative example

- Assume B-BBEE Consortium holds 10% of a measured entity at 01/01/2009 (the commencement date). 50% of this holding is attributable to Black Women and 50% is attributable to Black Designated Groups
- As at the commencement date the value of this holding is R150 (enterprise value R1500) and the value of the associated debt is R100.
- B-BBEE Consortium provided R10 own cash contribution and R90 was debt funded in lieu of the purchase price of R100 for 10%
- Through corporate action this holding is diluted fully at 31/12/2012
- At 31/12/2012, the value of this holding has grown to R180 and the debt is R80. The value of the business is therefore R 1800.
- The measured entity is a level 3 contributor excluding ownership as at 31/12/2012.

Calculation for paragraphs 2.1 and 2.3 of the Ownership Scorecard:

A = B x C x D

B = 10%
C = ((180-80-10)/180) = 50%:
R180 is the value of the shares sold, R80 is the debt outstanding and R10 is the value of the consortium's own contribution at the inception of the transaction.
D = 110%

The continued recognition under paragraphs 2.1 and 2.3 of the scorecard will therefore be:

10% * 50% * 110% = 5.5%.

The continued recognition under paragraphs* 2.2, 2.4 and 2.5 *of the scorecard will therefore be:

50% x 5.5% = 2.75%

Calculation for paragraph 2.6 of the Ownership Scorecard:
A = B x C x D
B = 10%
C = (180 -80 - 10) /1800 = 5%
D = 110%

The continued recognition under paragraph 2.6 is therefore:

10% * 5% * 110% = 0.55%.

6. The Bonus Points

6.1 **The calculation of the bonus points as it relates to paragraphs 2.8 and 2.9 of the ownership scorecard uses the following formula:**

A = B/C x D/25 x E

Where

A is the bonus points awarded in paragraphs 2.8 and 2.9

B is the percentage that Economic Interest to which participants who fall within that category of Black People in that Enterprise holds to the total of all Economic Interest of that Enterprise

C is the percentage compliance Target for Economic Interest for the measured ownership indicator in paragraph 2.8 and 2.9

D is percentage of the Economic Interest in the Measured Entity of Black People up to a maximum of 25%

E is the Weighting points allocated to the applicable measured ownership indicator in paragraph 2.8 and 2.9

CODE SERIES FS100: THE MEASUREMENT OF THE OWNERSHIP ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

STATEMENT 102: RECOGNITION OF THE SALE OF ASSETS
Issued under Section 9 of the Broad-Based Black Economic Empowerment Act of 2003

Arrangement of this statement

1. Objectives of this statement

The objectives of this statement are to:

1.1 **Set out the conditions where the Sale of Assets, Equity Instruments and other Businesses will be recognised.**

1.2 **Set out how the Ownership points will be determined.**

2. Application

2.1 **A transaction in terms of this statement may involve the sale of:**

2.1.1 An asset;

2.1.2 A business; or

2.1.3 Equity Instruments in an Enterprise.

3. Key Measurement Principles

3.1 **General principles:**

3.1.1 A Seller that has concluded a transaction involving a Sale of Asset, Equity Instrument or Business with an Associated Enterprise may claim the benefits provided for in this statement in its own Ownership Scorecard.

3.1.2 Where a Seller has claimed benefit in terms of the Ownership scorecard for the Sale of Asset, Equity Instrument or Business it may not claim benefits under the Enterprise Development Element.

3.2 **Qualification Criteria:**

3.2.1 For Ownership points to be recognised the transaction:

3.2.1.1 Must result in the creation of sustainable businesses or business opportunities in the hands of Black People; and

3.2.1.2 Result in the transfer of specialised skills or productive capacity to Black People.

3.2.2 A Sale of Asset, Equity Instrument and Business must involve a separate Associated Enterprise, which has:

3.2.2.1 No unreasonable limitations (generally accepted arms length limitations may be imposed and may include but not be limited to limitations such as normal arms length restraints of trade limitations); as to its clients or customers; and

3.2.2.2 Clients, customers or suppliers other than the Seller.

3.2.3 Any operational outsourcing arrangements between the Seller and the Associated Enterprise must be negotiated at arm's-length on a fair and reasonable basis.

3.2.4 The following transactions do not constitute Qualifying Transactions:

3.2.4.1 Transfers of business rights by way of license, lease or other similar legal arrangements not conferring unrestricted ownership; and

3.2.4.2 Sales of franchises by franchisors to franchisees, but includes sales of franchises from franchisees to other franchisees or to new franchisees.

4. Measurement Principles

4.1 **The calculation of the ownership points in terms of paragraph 2 of the Ownership Scorecard must be based on:**

4.1.1 The value of the transaction;

4.1.2 The value of Equity Instruments held by Black Participants in the Associated Enterprise;

4.1.3 The carrying value of the Acquisition Debt of Black Participants in the Associated Enterprise; and

4.2 **All calculations in terms of paragraph 4.1.1 to 4.1.3 must use a Standard valuation method.**

4.3 **Equivalency Percentages under this statement apply to all paragraphs of the Ownership scorecard except bonus points;**

4.4 **The Seller must include the Equivalency percentages in its own Ownership Scorecard as if those percentages arose from black ownership of Equity Instruments in the Seller. The Equivalency percentages for the indicators in paragraphs 2.1 and 2.2 of the Ownership Scorecard can be calculated in terms of Annexe 102(A).**

5. Recognition of Sale of Asset, Equity Instruments and Businesses

5.1 **A Seller seeking recognition of a Transaction in its Ownership Scorecard must determine that recognition under paragraph 4 in compliance with paragraph 2.3 of Statement 000:**

5.1.1 For the first three years after the transaction, based on data current on date of measurement;

5.1.2 For each year thereafter, based on:

5.1.2.1 The Indicator Percentages at the date of measurement; and

5.1.2.2 The values of the Qualifying Transaction and benefit to the Seller at the date of measurement in the third year after the transaction.

Annexe 102(A)

This formula determines the Equivalency Percentages under paragraphs 2.1 to 2.5 of Table 2a of the Ownership Scorecard.

Where

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

A is the Equivalency Percentage
B is the value of the Qualifying Transaction to the Associated Enterprise determined using a Standard valuation method
C is the value of the Seller determined using a Standard valuation method
D is the Indicator Percentages of the Associated Enterprise

CODE SERIES FS100: THE MEASUREMENT OF THE OWNERSHIP ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT STATEMENT 103: THE RECOGNITION OF EQUITY EQUIVALENTS

Issued under Section 9 of the Broad-Based Black Economic Empowerment Act of 2003

Arrangement of this statement

1. Objectives of this statement

The objectives of this statement are to:

1.1 **Define the means by which measured entities may recognise Equity Equivalent Programmes;**

1.2 **Specify how contributing towards the Ownership Element of B-BBEE by entities applying equity equivalents is measurable.**

2. Key Measurement Principles

2.1 **Any Equity Equivalent contributions towards the Ownership Element of B-BBEE made by an entity recognising equity equivalents are measurable against the value of their operations in the Republic of South Africa.**

2.2 **Equity Equivalent contributions may take the form of, but is not limited to, additional B-BBEE Transaction Finance, Access to Financial Services, Targeted Investments, Enterprise Development etc. These additional contributions may only be counted under either Equity Equivalents or the respective element, not under both.**

2.2.1 For avoidance of doubt, where an Equity Equivalent contribution may qualify under, for example, Empowerment Financing it must only be included under either Empowerment Financing or Ownership.

2.2.2 Further, any "single" Equity Equivalent contribution may only be counted as an Equity Equivalent contribution in its entirety under either Ownership or the pillar scorecard. Measured entities may not split a contribution and attribute part of that contribution to Ownership and part of the contribution to a specific pillar. However, should a measured entity have achieved 100% of its target in a qualifying pillar, it may apply to the Council to allocate the excess portion of a particular qualifying transaction to another pillar.

- The target for Equity Equivalents shall be the Rand Value of 5% (for local entities) /or 25% (foreign branches) of the measured enterprise measured using a standard valuation as at 31 December 2010.

2.3 **Local measured entities seeking to utilise Equity Equivalent Contributions may only utilise these contributions for a maximum of 5% of the Measured Entity (calculated as a percentage of South African operations of that measured entity at 31 December 2010) with respect to its ownership target of 15% direct ownership.**

2.4 **Lending types of Equity Equivalent contributions will be recognised as follows:**

- The origination amounts shall be recognised under paragraphs 2.1 to 2.5 of the Ownership Scorecard:
  - For the purpose of paragraph 2.1 of the ownership scorecard Equity Equivalent contributions shall be deemed to hold voting rights;
  - For the purpose of paragraph 2.2 of the ownership scorecard 50% of the voting rights recognised under paragraph 2.1 shall be deemed to be held by Black Women;
  - For the purpose of paragraph 2.3 of the ownership scorecard Equity Equivalent contributions shall be deemed to hold Economic interest;
  - For the purpose of paragraph 2.4 of the ownership scorecard, 50% of the economic interest recognised under paragraph 2.3 shall be deemed to be held by Black Women;
  - For the purpose of paragraph 2.5 of the ownership scorecard, 50% of the economic interest recognised under paragraph 2.3 shall be deemed to be held by Black Designated Groups.
- Only the balance sheet exposure as at measurement date shall be recognised under paragraph 2.6 of the ownership scorecard.

3. Recognition of Equity Equivalent Programmes

3.1 **Any Equity Equivalent Programme forming part of this Sector Code constitutes an approved programme. Specifically, the Equity Equivalent Programmes described in paragraph 8 constitute approved programmes.**

3.2 **The Minister of Trade and Industry may approve certain Equity Equivalent Programmes after the entity applying for recognition of Equity Equivalents has consulted with the Minister of Finance with respect to their Equity Equivalent proposal and the Minister of Finance has forwarded a recommendation to the Minister of Trade & Industry.**

3.3 **Equity Equivalent Programmes are preferably Sector Specific, but the Minister of Finance may consider requests for approval of programmes that are not Sector Specific.**

3.4 **Equity Equivalent Programmes may involve:**

3.4.1 Programmes that support:

3.4.1.1 The new Growth Path;

3.4.1.2 The Industrial Policy Action Plan;

3.4.1.3 The National Skills Development Strategy;

3.4.1.4 The National Treasury policy priorities referred to in the document "A Safer Financial Sector to Serve South Africa better";

3.4.1.5 The DBSA Jobs Fund;

3.4.1.6 The Accelerated and Shared Growth Initiative for South Africa;

3.4.1.7 The Joint Initiative for Priority Skills

3.4.2 Programmes that promote enterprise creation in respect of co-operatives that are:

3.4.2.1 More than 50% owned by Black People; or

3.4.2.2 More than 30% owned by Black Women; or

3.4.2.3 More than 50% owned by members of Black Designated Groups;

3.4.3 Any other programmes that promote Socio-Economic advancement or contribute to the overall social development of the Republic of South Africa.

3.5 **Equity Equivalent Programmes must include:**

3.5.1 A full description of programme objectives and projected outcomes;

3.5.2 Qualification criteria for participation in the programme;

3.5.3 Timelines for implementation and delivery with milestones against which progress is measurable; and

3.5.4 Details regarding the sponsors of the programme.

3.6 **Equity Equivalent Programmes are not limited to Multinationals subject to a Global Practice or local branches of foreign banks, but are available to all Measured Entities in the Sector, subject to the limitation on local measured entities as per paragraph 2.3 above.**

3.7 **Equity Equivalent Programmes may have any of the following as their beneficiaries:**

3.7.1 Enterprises in which:

3.7.1.1 Black People hold more than 50% of the exercisable voting rights and more than 50% of the economic interest;

3.7.1.2 Black Women hold more than 30% of the exercisable voting rights and more than 30% of the economic interest; and

3.7.1.3 Black Designated Groups hold more than 50% of the exercisable voting rights and more than 50% of the economic interest; or

3.7.1.4 Communities, natural persons or groups of natural persons where at least 75% of the beneficiaries are Black People and the same percentage of economic value is derived by Black People.

4. Measurement of Equity Equivalent Contributions on the Ownership Scorecard

4.1 **The ownership score of a Measured Entity participating in an Equity Equivalent Programme is calculated in terms of paragraph 4.3. A foreign Multinational (including local branches of International Banks) participating in an Equity Equivalent Programme cannot receive any points for ownership under any Statement in Code Series 100 other than this statement. For avoidance of doubt local banks or domestic multinationals may only utilise Equity Equivalents to a maximum of 5% of its measurable portion and may, therefore receive points for Ownership under any Statement in Code series 100.**

4.2 **Contributions to Equity Equivalent Programmes are measured as actual Rand Value of contributions made using the general principles as set out in paragraph 8 of this Statement 103 and Code series FS600, FS700 and FS800 (Note that certain general principles defined under paragraph 8 may be the same as certain general principles in Code series FS600, FS700 and FS800) against the following target:**

4.2.1 25% of the value of the South African operations of the Foreign Multinational or branch of a foreign bank qualifying for the recognition of Equity Equivalents. The 25% value is determined by using a Standard Valuation and calculated as at 31 December 2010; or

4.2.2 A maximum of 5% of the Rand value of the South African operations for Local Measured Entities calculated as at 31 December 2010.

4.3 **The Ownership Score under an Equity Equivalent Programme using the target in paragraph 4.2 must be calculated in terms of Annexe 103(A) using the principles as defined under paragraph 2.1 to 2.4 of this Statement 103.**

5. Examples of Equity Equivalent Programmes

5.1 Enterprise creation:

5.1.1 If the Equity Equivalent contribution of the entity involves the creation of a new enterprise:

5.1.1.1 The new enterprise must qualify as a Value-Adding enterprise;

5.1.1.2 The creation of the new enterprise must comply with the requirements for a Qualifying Transaction as defined in statement 102;

5.1.1.3 The creation of the new enterprise cannot contribute to the entity's score under Code series FS600; and

5.2 Investment in social advancement:

5.2.1 An Equity Equivalent contribution of the entity applying for recognition of Equity Equivalents that involves enhanced Socio-Economic Development.

5.2.1.1 Must comply fully with Code series FS700; and

5.2.1.2 Cannot form part of the score of the entity applying for recognition of Equity Equivalents under Code series FS700.

5.3 Empowerment Finance:

5.3.1 An Equity Equivalent contribution of the entity applying for recognition of Equity Equivalents that involves enhanced Empowerment Finance.

5.3.1.1 Must comply fully with Code series FS600; and

5.3.1.2 Cannot form part of the score of the entity applying for recognition of Equity Equivalents under Code series FS600.

5.4 Investment in Access to Financial Services:

5.4.1 An Equity Equivalent contribution of the entity applying for recognition of Equity Equivalents that involve enhanced Access to Financial Services:

5.4.1.1 Must comply fully with Code series FS800; and

5.4.1.2 Cannot form part of the score of the entity applying for recognition of Equity Equivalents under Code series FS800.

6. Specific Rules on Entities Applying for Recognition of Equity Equivalents

6.1 Any contributions towards the Ownership Element of B-BBEE made by entities applying for recognition of Equity Equivalents are measurable against the value of their operations in the Republic of South Africa.

6.2 **In calculating their ownership score, entities applying for recognition of Equity Equivalents must apply the Exclusion Principle to any portion of the business value of their South African operations gained from non-South African sources. A Standard valuation method must be used to determine the value of the South African operations.**

6.3 **In calculating their ownership score, entities applying for recognition of Equity Equivalents may recognise sales of Equity Instruments in non-South African Enterprises to Black People, on the following basis:**

6.3.1 The non-South African Enterprise must form part of the chain of ownership between the entities applying for recognition of Equity Equivalents and its eventual holding company; and

6.3.2 The transaction must comply with South African exchange control requirements; and

6.3.3 The percentage of the value of the Equity Instruments sold to the value of the business of the entity applying for recognition of Equity Equivalents represents the recognisable black claim to Economic Interest; and

6.3.4 The percentage of Exercisable Voting Rights ceded to the buyers of the Equity Instruments in the business of the entity applying for recognition of Equity Equivalents represents the recognisable black right to Exercisable Voting Rights; and

6.3.5 The rights of ownership in the Equity Instruments are comparable to rights that would have accrued had the Equity Instrument been in the business of the entity applying for recognition of Equity Equivalents.

7. Specific Rules on Multinationals

7.1 **Bonus points for Multinationals:**

7.1.1 Multinationals are not restricted to Equity Equivalent Programmes in the Financial Sector. However in order to qualify for the bonus point under paragraph 2.2 of Table 2b of the Ownership scorecard the 25% Direct Ownership target must be achieved via Equity Equivalent Programmes targeted within the Financial Sector.

8. Empowerment Financing and Access to Financial Services Equity Equivalent Programmes

8.1 **Measured Entities must register every programme, other than paragraph 8 programmes, that constitutes Empowerment Financing and Access to Financial Services Equity Equivalent Programmes with the Financial Sector Council at the commencement of the programme.**

8.1.1 The registration will include details of the B-BBEE status of the recipient/s where relevant, a description of the transaction/s in the context of Code series FS600 and/or FS700 and/or FS800 and the Rand value of the Equity Equivalent and term over which it is claimed.

8.1.2 The transaction cannot form part of the score of the entity under Code series FS600 and/or FS700 and/or FS800.

8.1.3 Contributions to Equity Equivalent programmes that are the same in nature to contributions contemplated under Code series FS600 and/or FS700 and/or FS800 and have already been claimed under Code Series FS600 and/or FS700 and/or FS800 may not be claimed under paragraph 2 of Code FS100, Statement 100. For avoidance of doubt no double counting of the same contribution will be allowed under Ownership and any other element.

8.2 **Measurement principles:**

8.2.1 Equity Equivalent contributions will be recognised as follows:

- The target for Equity Equivalents shall be the Rand Value of 5% (for local entities) or 25% (for foreign multinationals/branches of foreign multinationals) of the measured enterprise measured using a standard valuation as at 31 December 2010
- For local entities, the origination amounts shall be recognised under paragraphs 2.1 to 2.5 of the Ownership Scorecard
- For the purpose of paragraph 2.1 of the Ownership scorecard equity equivalent contributions shall be deemed to hold voting rights
- For the purpose of paragraph 2.2 of the Ownership scorecard 50% of the voting rights recognised under paragraph 2.1 shall be deemed to be held by Black Women
- For the purpose of paragraph 2.3 of the Ownership scorecard equity equivalent contributions shall be deemed to hold Economic interest
- For the purpose of paragraph 2.4 of the Ownership scorecard, 50% of the economic interest recognised under paragraph 2.3 shall be deemed to be held by Black Women
- For the purpose of paragraph 2.5 of the Ownership scorecard, 50% of the economic interest recognised under paragraph 2.3 shall be deemed to be held by Black Designated Groups.

8.2.2 Only the balance sheet exposure as at measurement date shall be recognised under paragraph 2.6 of the Ownership scorecard (Table 2a) for local entities.

Annexe 103(A)

This formula is for determining the Ownership Score under an Equity Equivalent Programme using either of the targets in paragraph 4.2.1 or 4.2.2.

For Foreign Branches:
A = B/C x 14
Where

A is ownership points of the entity in any year arising from its Equity Equivalent contribution

B is the balance sheet value of contributions made, as at Measurement Date

C is the target of 25% of the standard value of its South African operations as at 31 December 2010

For Local Measured Entities:

A = (B/C x 2) + [(B x 50%) /D x 0.67] + [(B x 50%) /E x 0.33] + (F/G x 1.33)

Where

A is ownership points of the entity in any year arising from its Equity Equivalent contribution

B is the Origination value of contributions made

C is the target of 5% (15%/3) of the standard value of its South African operations as at 31 December 2010 – relating to paragraphs 2.1 and 2.3 of the Ownership Scorecard

D is the target of 2% (6%/3) of the standard value of its South African operations as at 31 December 2010 relating to paragraphs 2.2 and 2.4 of the Ownership Scorecard

E is the target of 3.33% (10%/3) of the standard value of its South African operations as at 31 December 2008 - relating to paragraph 2.5 of the Ownership Scorecard

F is the balance sheet value of contributions made as at Measurement Date
G is the target as per Formula A and Formula B

201707—E

This formula is for determining the Ownership Score under an Equity Equivalent Programme using either of the targets in paragraphs 4.2.1 and 4.2.2, where the contribution is made on an annual basis towards a ten year target is as follows:

A = B/C x (1/(5% or 25% x D) x 13 or 4.33

Where

A is ownership points of the entity in any year arising from its equity equivalent contribution

B is the value of total contributions made prior to the date of measurement

C is the financial value of the target in paragraph 4.2.1 or 4.2.2 or the ten year value of contributions to be made over the life of this statement

D is the time-based graduation factor outlined below:

- 10% for the first year after the commencement of statement 000.
- 20% for the second year after the commencement of statement 000.
- 40% from the first day of the third year after the commencement date of statement 000 to the last day at the end of the fourth year after the commencement date of statement 000.
- 60% from the first day of the fifth year after the commencement date of statement 000 to the last day at the end of the sixth year after the commencement date of statement 000.
- 80% from the first day of the seventh year after the commencement date of statement 000 to the last day at the end of the eighth year after the commencement date of statement 000.
- 100% from the first day of the ninth year after the commencement date of statement 000 to the last day at the end of the tenth year after the commencement date of statement 000.

Interpretation Note on Code FS100, Statement 100

1. The Ownership Scorecard

Ownership	Points	Targets
2.1. Voting Rights of Black People	3	25% + 1 Vote
2.2. Voting Rights of Black Women	1	10% + 1 Vote
2.3. Economic Interest of Black People	3	25% + 1 Share
2.4. Economic Interest of Black Women	1	10% + 1 Share
2.5. Economic Interest of Black Designated Groups, Black Participants in Employee Share Ownership Schemes, Black Participants in Broad Based Ownership Schemes and / or Black Participants in Co-ops	1	2.5%
Ownership Fulfillment		
2.6. Net Equity Value (Formula A and B as per para.4 of Annexe 100 (C)	3	
2.7. Direct or Indirect Ownership in Excess of 15%	2	10%
Total	**14**	
Bonus Points		
2.8. Ownership by Black New Entrants	2	10%
2.9. Ownership by ESOPs and Co-ops	1	10%
Total Including Bonus Points	**17**	

2. Illustrative example

The following is an illustrative example:

- BEE (Pty) Ltd purchases 10 ordinary shares in Bank A for R100 on 30 June 2005. The total number of ordinary shares in issue of Company A as at that date is 120. i.e. the value of Bank A at R10 per share on 30 June 2005 is R1,200
- All ordinary shares rank equally in terms of economic flows and voting rights
- The purchase price is paid for as follows:
  - BEE (Pty) Ltd contributes R10 from its own reserves
  - Bank A subscribes for Preference shares in BEE (Pty) Ltd to the value of R90, i.e. BEE (Pty) Ltd provides R10 own contribution and secures financing of R90 to fund the purchase of 10 shares in Bank A for R100
- Bank A is a local multinational but it has been reasonably estimated that 90% of Bank A's operations are South African; and;
- Eight of Bank A's shares are held by Public Entities and Bank A has no Mandated Investments
- The baseline number of shares to be used in calculating the percentage of Company A held by BEE (Pty) Ltd on the transaction date is as follows:
- Total shares in issue = 120 (less) 8 shares held by public entities (less) 10% of 120 shares (12 shares) for foreign operations
- Baseline number of shares = (120 – 8 – 12) = 100
- Therefore percentage held by BEE (Pty) Ltd at inception = 10 / 100 = 10%
- The shareholders of BEE (Pty) Ltd is comprised as follows:

- 50 shares held by black men (25 of the 50 are held via an Employee Trust). Therefore, black men have an effective interest of 5% in Company A; and
- A Broad-Based BEE Scheme holds 2.5% effective economic interest in Company A
- 50 shares are held by Black Women who are all defined as new entrants. Therefore, Black Women hold an effective interest of 5% in Co. A; and
- New entrants hold a 5% effective interest in Co. A

Ownership Scorecard of Bank A as at 31 December 2005:

Calculations:

Effective Voting Rights and Economic Interest attributable to Black People (paragraphs 2.1. and 2.3 of the scorecard):

= total number of shares (voting rights) attributable to Black People / total number of baseline shares

= 10 /100

= *10%*

Effective Voting Rights and Economic Interest attributable to Black Women (paragraphs 2.2. and 2.4 of the scorecard):

= total number of shares (voting rights) attributable to Black Women / total number of baseline shares

= (50% of 10) /100

= 5%

Effective Voting Rights and Economic Interest held by Black Designated Groups (paragraph 2.5 of the scorecard):

= total number of shares (voting rights) attributable to Black Designated Groups / total number of baseline shares

= ((2.5 - employee trust) + (5 - new entrants)) /100

= 7.5%

Net Equity Value attributable to Black People (paragraph 2.6 of the scorecard):

= the lower of Formula A or Formula B

Formula A:

= (1%/2.5%) x 3

= 1.2 points

Formula B:

= (10%/25%) x 3

= 1.2 points

Direct or Indirect Ownership in excess of 15% (paragraphs 2.7 of the scorecard):

= 0%

Bonus Points

- Ownership Attributable to black new entrants (paragraph 2.8 of the scorecard)
  = (50% of 10) / 100

  = 5%

- Ownership Attributable to black ESOPs and Co-Ops (paragraph 2.9 of the scorecard)
  = (50% of 5) / 100

  = 2.5%

Ownership Scorecard of Bank A as at 31 December 2005

Ownership	Points	Targets	Bank A	Points Scored
2.1. Voting Rights of Black People	3	25% + 1 Vote	10%	1.2
2.2. Voting Rights of Black Women	1	10% + 1 Vote	5%	0.5
2.3. Economic Interest of Black People	3	25% + 1 Share	10%	1.2
2.4. Economic Interest of Black Women	1	10% + 1 Share	5%	0.5
2.5. Economic Interest of Black Designated Groups, Black Participants in Employee Share Ownership Schemes, Black Participants in Broad Based Ownership Schemes and / or Black Participants in Co-ops	1	2.5%	7.5%	1
Ownership Fulfillment				
2.6. Net Equity Value (Formula A and B as per para.4 of Annexe 100 (C)	3	A/B	A	1.2
2.7. Direct or Indirect Ownership in Excess of 15%	2	10%		0
Total	**14**			**5.6**
Bonus Points				
2.8. Ownership by Black New Entrants	2	10%	5%	1
2.9. Ownership by ESOPs and Co-ops	1	10%	2.5%	0.25
Total Including Bonus Points	**17**			**6.85**

Illustrative example continued:

- On 1 June 2009 a portion of the deal matures and BEE (Pty) Ltd elects to sells 2 shares on the open market at R12 a share. The company is therefore valued at R1,440 as at that date
- BEE (Pty) Ltd now holds 8 shares and has received R24 for the 2 shares that were sold. The debt outstanding amounted to R8 per share, i.e. the BEE shareholders realize R4 per share
- Bank A is a Level 3 Contributor excluding any ownership points
- On 1 January 2011, the lock-in period expires (the balance of the deal matures) and BEE (Pty) Ltd decides to sell their entire 8 shares on the open market for an average price of R12 per share, i.e. the company is still valued at R1,440
- The proceeds are used to settle the outstanding debt of R7 per share and the balance of R5 per share is realized by the shareholders of BEE (Pty) Ltd.

As per the Financial Sector Code any dilutions of Ownership that occur on or before 31 December 2010 may only be claimed to the extent of the Continuing Consequences Formula. Any dilutions that occur on or after 1 January 2011 may be claimed as per the protections afforded for dilutions occurring:

- As a result of regulatory requirement and/or;
- As a result of deals maturing and BEE shareholders electing to sell to Non-BEE parties

Scorecard of Bank A as at 31 December 2010:

Calculations:

a) Effective Voting Rights and Economic Interest attributable to Black People (paragraphs 2.1. and 2.3 of the scorecard):

= (total number of shares (voting rights) attributable to Black People (less) number of shares (voting rights) sold as a result of the June 2009 dilution) / total number of baseline shares

= 8/100

= 8%

***Add** percentage allowable via continuing consequences:*

A = B x C x D

Where

A is the percentage of rights of ownership that survive the sale/loss of an Equity Instrument by a black participant in paragraph 3.5.1.2 to 3.5.4.3.

B is the percentage of rights of Ownership for each of the indicators in the ownership scorecard that were attributable to the black participant immediately before his or her sale.

C The net value realized/created in black hands after the liquidation of debt as a % of the value of the Sale Shares of each of the indicators immediately prior to exit. The net value created in black hands is equal to the current value of the shares less any own contribution made by the BEE party at the inception date of the transaction.

D is the most recently determined BEE Recognition Level of the Measured Entity (which must be less than 1 year old) based on its Generic Scorecard result for all Elements other than ownership determined using statement 000.

For paragraphs 2.2, 2.4 and 2.5, **A** shall be equal to the percentage held by Black Women/Designated Groups immediately before their sale of shares multiplied by the result of the calculation under this paragraph 5.1.

A = 2% X ((24 – 16 – 2) / 24) x 110%

= 0.55%

Therefore performance under paragraphs 2.1 and 2.3 of the scorecard = <u>8.55%</u>

b) Effective Voting Rights and Economic Interest attributable to Black Women (paragraphs 2.2. and 2.4 of the scorecard):

= total number of shares (voting rights) attributable to Black Women / total number of baseline shares

= (50% of 8.55) /100

= 4.28%

c) Effective Voting Rights and Economic Interest held by Black Designated Groups (paragraph 2.5 of the scorecard):

= total number of shares (voting rights) attributable to Black Designated Groups / total number of baseline shares

= (75% of 8.55) /100

= 6.41%

d) Net Equity Value attributable to Black People (paragraph 2.6 of the scorecard):

= the sum of points from Formula "A" and Formula "B" below

Where:

Formula A is the points available for Net value attributable to the actual remaining shares as per the standard formulas; and

Formula "B" is the points from Net Value attributable to the sale shares as per Formula B below.

Formula "B"

A = B X C X D

B is the percentage of the Equity Instruments diluted, determined on the date of measurement immediately before his or her sale.

C is the value of the equity interests sold (less) the value of any own contribution made at the inception date of the deal in relation to the shares sold (less) the carrying value of any acquisition debts of the relevant Black Participants on the date of sale or loss divided by the value of the measured entity at the date of sale or loss.

D is the the recognition level of the measured entity excluding Ownership immediately prior to the loss or sale.

A = 2% X ((24 – 2 – 16) / 1440)) X 100%

= 0.01%

Points available = 0.01

e) Direct or Indirect Ownership in excess of 15% (paragraphs 2.7 of the scorecard):

= 0%

f) Bonus Points

- Ownership Attributable to black new entrants (paragraph 2.8 of the scorecard)
  = (50% of 8.55) / 100

  = 4.28%

- Ownership Attributable to black ESOPs and Co-Ops (paragraph 2.9 of the scorecard)
  = (50% of 4.28) / 100

  = 2.14%

Ownership Scorecard of Bank A as at 31 December 2010

Ownership	Points	Targets	Bank A	Points Scored
2.1. Voting Rights of Black People	3	25% + 1 Vote	8.6%	1.03
2.2. Voting Rights of Black Women	1	10% + 1 Vote	4.3%	0.43
2.3. Economic Interest of Black People	3	25% + 1 Share	10%	1.2
2.4. Economic Interest of Black Women	1	10% + 1 Share	8.6%	0.86
2.5. Economic Interest of Black Designated Groups, Black Participants in Employee Share Ownership Schemes, Black Participants in Broad Based Ownership Schemes and / or Black Participants in Co-ops	1	2.5%	6.4%	1
Ownership Fulfillment				
2.6. Net Equity Value (Formula A and B as per para.4 of Annexe 100 (C)	3	A/B	A	0.01
2.7. Direct or Indirect Ownership in Excess of 15%	2	10%	0%	0
Total	**14**			**4.52**
Bonus Points				
2.8. Ownership by Black New Entrants	2	10%	4.3%	0.85
2.9. Ownership by ESOPs and Co-ops	1	10%	2.1%	0.21
Total Including Bonus Points	**17**			**5.58**

The Ownership scorecard from 31 December 2011 will be unchanged because the dilution that occurs on 1 January 2011 is as a result of the deal maturing and BEE (PTY) Ltd electing to sell to non-BEE parties.

CODE SERIES FS200: THE MEASUREMENT OF THE MANAGEMENT AND CONTROL ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Issued under Section 9 of the Broad-Based Black Economic Empowerment Act of 2003

Arrangement of this statement

1. Objectives of this Statement

The objectives of this statement are to specify:

1.1 **The scorecard for measuring the Management Control Element of B-BBEE;**

1.2 **Define the key measurement principles associated with the Management Control Element of B-BBEE; and**

1.3 **The calculations for measuring compliance.**

2. The Management Control scorecard

Management Control – Measurement Criteria	Weighting	Target
2.1 Board Participation		
2.1.1 Voting rights of Black board members as a percentage of voting rights of all board members	0.5	50%
2.1.2 Voting rights of Black women board members as a percentage of voting rights of all board members	0.5	25%
2.1.3 Black executive members of the Board as a percentage of all executive members of the board	1.0	50%
2.1.4 Black women executive members of the Board as a percentage of all executive members of the board	1.0	25%
2.2 Top Management		
2.2.1 Black Senior Top Management as a percentage of all Senior Top Management	1.5	40%
2.2.2 Black women Senior Top Management as a percentage of all Senior Top Management	1.5	20%
2.2.3 Black Other Top Management as a percentage of all Other Top Management	1.0	40%
2.2.4 Black women Other Top Management as a percentage of all Other Top Management	1.0	20%
Total	8	
2.3 Bonus Points		
2.3.1 Black Independent Non-Executive Board Members as a percentage of all Independent Non-Executive Board Members*	1.0	40%

***As defined in terms of the Latest King Report**

3. The Board and Common Examples of Top Management

Board Participation:

- Board means the body consisting of persons appointed to undertake the executive management of the enterprise. Their main functions are to design, formulate and implement policy and undertake strategic planning, as well as to plan, direct and co-ordinate the overall policies and activities of the enterprise. These are also the persons responsible for governance of the enterprise as defined in the King Report.
- Board participation refers to the level of control exercised by a person over the decisions of the Board.
- Measured entities that do not have a Board of Directors may apply to the Sector Council for dispensation to deem their Executive Committee to be a Board. Any measured entity that does not have a formal Board of Directors may apply to the Sector Council for a dispensation to deem their Executive Committee as a Board.
- Notwithstanding this provision, the onus shall be on the measured entity applying for this dispensation to provide sufficient evidence to the Sector Council that members claimed as part of an Executive Committee do in fact hold responsibility that can be deemed to be of such a senior nature as to justify their claim.

The inclusion of the following examples of Top Management is for guidance purposes only:

3.1 **Senior Top Management positions include the chief executive officer (managing director), the chief operating officer, the chief financial officer and other people holding similar positions.**

3.2 **Other Top Management positions include the chief information officer, the head of marketing, the head of sales, the head of public relations, the head of transformation, the head of human resources and other people holding similar positions.**

4. Key measurement principles

4.1 **Subject matter of this paragraph:**

4.1.1 This paragraph relates to the following statements within the Generic CoGP:

4.1.1.1 Code 200 Statement 200; and

4.1.1.2 Code 800 Statement 802.

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

4.2.1 The following terms when used in this FS Code have these meanings:

4.2.1.1 Top Management means employees of a financial institution who are members of the occupational category of "Top Management" as determined using the EE Regulations and as defined in Code 200 of the CoGP.

4.2.1.2 Senior Top Management means any Top Management of a financial institution, appointed by or on the authority of the Board to undertake the day-to-day management of that financial institution and who:

- Have individual responsibility for the overall management and for the financial management of that financial institution; and
- Are actively involved in developing and implementing the financial institution's overall strategy, as defined in Code 200 of the CoGP.

4.2.1.3 Other Top Management means any Top Management of a financial institution that does not meet the definitional requirements of the category Senior Top Management.

4.2.2 The measurement principle referred to as the Adjusted Recognition for Gender does not apply to measurement of Management Control contributions under this Code.

- If, in terms of a Global Policy to which a financial institution, that is a 100% owned local subsidiary of a multinational or external company (Section 1 of the Companies Act (Act 71 of 2008, as amended, repealed or superseded) or branch of a multinational or external company, is subject

- Any Board members, executive or senior managers (who are not South African citizens) who are imposed on the local operation, those personnel will not be taken into account for the purposes of calculating ratios in terms of this paragraph.

4.2.3 Notwithstanding the provisions of paragraph 4.2.2 above, any such exclusion of "imposed" personnel shall be limited to a maximum of 20% of the total number of individuals within the specified category of Management. There shall be a sub-minimum of 1 person allowed to be excluded.

4.2.3.1 Notwithstanding 4.2.3 above, should an institution subject to global policy, send black South African employees, who are the intended beneficiaries of this Code, on secondment or rotation to branches abroad, they shall be allowed to exclude one (1) additional foreign imposed staff for every one (1) intended beneficiary sent abroad in addition to the 20% cap.

4.2.4 A financial institution that is a branch of a multinational or external company that does not have a local Board of Directors will be exempt from the Management Control provisions for Board representation, but may elect to deem their Executive Committees as a Board of Directors, subject to the deeming provisions of paragraph 3 above. To avoid any doubt, an entity must elect to deem its Executive Committee or elect to be excluded from the provisions for Board representation and once that election has been made, the measured entity must maintain that election until the first full review of this Code to be conducted after 31 December 2017.

4.2.4.1 Measured Entities electing to be excluded from the provisions for Board representation will still be measured for Top Management as per paragraph 2.2.

4.2.5 Notwithstanding the provisions of paragraph 4.2.4, any person including non-South African citizens serving on the Board or the Top Management of a financial institution and not excluded from measurement under that paragraph, shall be subject to the definition of a Black person as stipulated in part 2 of Schedule 1 of Section 9(1) of the B-BBEE Act.

4.3 **A Measured Entity must use the data, in calculating its score under the Management Control scorecard, used in its return with the Department of Labour under the Employment Equity Act. This does not apply to Measured Entities exempt from filing such returns.**

4.4 **A Measured Entity that does not distinguish between Top Management and Senior Management may include its Senior Management under this statement. If a Measured Entity adopts this approach:**

4.4.1 The corresponding targets for Senior Management in Code FS300 will apply to the Management Control scorecard.

4.4.2 Senior Management included in this statement is not measurable under Statement FS300.

4.5 **If a Measured Entity does not distinguish between Senior Top Management and Other Top Management, then Top Management is measurable as:**

4.5.1 Top Management - 2,5 Points

4.5.2 Black Women Top Management - 2,5 Points

4.6 **If Measured Entities do appoint Independent Non-Executive Board Members, they are encouraged to appoint persons who do not serve in that capacity for any other Measured Entity.**

5. Calculating Compliance

5.1 **The Management Control indicators provided for in the Management Control scorecard must be calculated in terms of formulas "B" and "C" in Annexe FS200(A).**

5.2 **If a Measured Entity gains a score for a Management Control indicator that is more than the relevant weighting points, that Entity will only receive the maximum weighting points.**

Annexe 200(A)

This formula is for determining the Management Control Score

A = B/C x 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

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[7] target for Middle Management	1	87.5%
2.11 Bonus points for meeting or Exceeding EAP[7] 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 x 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

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:**

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 x 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

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 = sum of (B x 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 x 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

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% x Indicative Profit Margin (NPAT/Turnover) x 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

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		
Black SME Financing	12	R48bn
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) x 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] x 12

A = 5.66 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) x 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 x 12

A = 10.4 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) x 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 x 12

A = 4.8 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 Infrastructure

Definition

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 Financial Sector 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 FS Code:

- 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

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 x 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.**

1.3

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%

2.1

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 Sector 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 Code 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 "FS Code 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 x 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 FS Code 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 Sector Council post gazetting.

CODE SERIES FS800
STATEMENT 803:
THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOERWENT 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

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 sector code 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 Financial Sector 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.

CODE SERIES FS900: FRAMEWORK FOR MEASURING BROAD-BASED BLACK ECONOMIC EMPOWERMENT FOR QSFIS

STATEMENT 900: GENERAL PRINCIPLES AND THE SCORECARD
Issued under Section 9 of the Broad-Based Black Economic Empowerment Act of 2003

Arrangement of this statement

1. Objectives of this statement

The objectives of this statement are to:

1.1. Specify the measurement principles for QSFIs

1.2. Specify the scorecard for QSFIs

1.3. Specify the scoring methodology for QSFIs

2. Measurement Principles for QSFIs

2.1. QSFIs are subject to the same rules, provisions, scorecards and measurement principles as entities subject to Codes FS000 to FS800 (inclusive).

2.2. QSFis must produce audited BEE Scorecards as per Code Series 100

3. The QSFI Scorecard

Element	Available Points	Adjusted % Weighting*	Primary Reference
Ownership	14 + 3 bonus	20%	Code FS100 To be read with Code 100 of the Generic Codes
Management Control	8 + 1 bonus	20%	Code FS200 To be read with Code 200 of the Generic Codes
Employment Equity	15 + 3 bonus	20%	Code FS300 To be read with Code 300 of the Generic Codes
Skills Development	10	20%	Code FS400 To be read with Code 400 of the Generic Codes
Preferential Procurement	16	20%	Code FS500 To be read with Code 500 of the Generic Codes
Empowerment Financing	15	20%	Code FS600
Enterprise Development*	5	20%	Code FS600 to be read with Code 600 of the Generic Codes
Socio-Economic Development	3	20%	Code FS700 to be read with Code 700 of the Generic Codes
Access to Financial Services	14	20%	Code FS800
Total	**100 + 7 bonus**	100%	

**the sum of the elements shall be weighted to 100% as per 4 below*

3.1. QSFIs may elect 5 of the 9 elements to be measured against, one of which must be Ownership during the first measurement period of this FS Code

3.2. Once a QSFI has selected which 5 elements (one of which must be Ownership) to be measured against, it shall be measured against those elements for all measurement periods following the first measurement period. For avoidance of doubt, it may not change its selection at each measurement period, subject to the exception under 3.2.1 below.

3.2.1. In the event that the FS Code is amended as a result of the interim review or full review or for any other reason, then a QSFI will have the option to re-elect which 5 elements it shall be measured against.

3.3. The QSFI must be measured using all key measurement principles, rules, scorecards and provisions as contemplated under Code Series' 100 to 800 for their specific chosen elements.

4. THE SCORING METHODOLGY FOR QSFIs

4.1. Company A shall select 5 elements to be measured against.

4.2. Company A shall then apply the applicable Code Series for each specific element it has chosen. For avoidance of doubt the Code Series to be applied are 5 of the 9 Code Series being FS Codes 000, 100, 200, 300, 400, 500, 600, 700 and 800 in their entirety, including all definitions, key measurement principles and scorecards in determining its performance.

4.3. Once Company As performance against the selected elements has been determined it shall weight its performance to 100.

4.4. The weighted score out of 100 shall determine the QSFIs B-BBEE Recognition level according to table 1 below:

4.4.1. Weighted Score shall be determined using the Formula:

A = (B/C) x 100

Where:

A is the weighted score to be applied against Table 1 below

B is the sum of actual scores (including any applicable bonus points) obtained by the Measured Entity for its 5 chosen elements

C is the sum of the total points available to the measured entity for it 5 chosen elements

Table 1

B-BBEE Status	Qualification	B-BBEE Recognition Level
Level One Contributor	≥ 100% on the FSC Scorecard	135%
Level Two Contributor	≥ 85% but < 100% on the FSC Scorecard	125%
Level Three Contributor	≥ 75% but < 85 % on the FSC Scorecard	110%
Level Four Contributor	≥ 65% but < 75% on the FSC Scorecard	100%
Level Five Contributor	≥ 55% but < 65% on the FSC Scorecard	80%
Level Six Contributor	≥ 45% but < 55% on the FSC Scorecard	60%
Level Seven Contributor	≥ 40% but < 45% on the FSC Scorecard	50%
Level Eight Contributor	≥ 30% but < 40% on the FSC Scorecard	10%
Non Compliant Contributor	< 30% on the FSC Scorecard	0%

4.5. Illustrative example

Company A is a QSFI and elects to be measured against the following 5 elements:

- Ownership
- Management
- Employment Equity
- Preferential Procurement
- SED

Company A shall apply FS Codes 000, 100, 200, 300, 500 and 700 in their entirety, including all definitions, key measurement principles and scorecards in determining its performance.

Company A has determined its performance as follows:

Element	Available Points	Company A's Actual Points
Ownership	14 + 3 bonus	10 (incl. Bonus)
Management Control	8 + 1 bonus	6 (incl. Bonus)
Employment Equity	15 + 3 bonus	11 (incl. Bonus)
Preferential Procurement	16	12
Socio-Economic Development	3	3
Totals	**56 + 7 bonus = 63**	42 (incl. Bonus)

As per the formula detailed in paragraph 4.4.1 above:

Weighted Points = (42/63) x 100

= *66.67%*

Company A's B-BBEE Recognition Level as per Table 1 above is therefore a ***Level 4 B-BBEE Contributor***

BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT SECTION 9(1) FINANCIAL SECTOR CODES OF GOOD PR4CTICE

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.

2.8.17 **The 'gap' market** means financing of housing and housing developments that falls outside the State housing subsidised market (lower limit) and the private developed housing or housing funding below a gross monthly income of R10, 800 (to be adjusted annually – upper limit).