

GOVERNMENT NOTICES • GOEWERMENTSKENNISGEWINGS

DEPARTMENT OF TRADE AND INDUSTRY

NO. 257

17 MARCH 2016

CODES OF GOOD PRACTICE ON BROAD BASED BLACK ECONOMIC
EMPOWERMENT

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

- (a) Issue the following **Draft Amended Financial Services Sector Code** for public comment in terms of **section 9 (5)** of the Broad-Based Black Economic Empowerment Amendment Act 2003, (Act No. 53 of 2003) as amended by the B-BBEE Act 46 of 2013
- (b) Invite interested persons to submit inputs and comments on the draft amended sector code within 60 days from the date of this publication.

Interested parties are requested to forward their comments in writing for the attention of **Mr Jacob Maphutha** and **Ms Mologadi Leshiba**, to the following email address fscsectorcode@thedti.gov.za or

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Dr Rob Davies, MP
Minister of Trade and Industry
10 March 2016

DRAFT AMENDED FINANCIAL SECTOR CODE 2016**Acronyms**

| | |
|---------------|---|
| ASISA | Association for Savings and Investment South Africa |
| BASA | Banking Association of South Africa |
| B-BBEE | Broad-Based Black Economic Empowerment |
| CoGP | Codes of Good Practice |
| DBSA | Development Bank of Southern Africa |
| DTI | Department of Trade and Industry |
| EAP | Economically Active Population |
| EME | Exempted Micro Enterprise |
| ESOP | Employee Share Ownership Programme |
| FSC | Financial Sector Code |
| INCA | Infrastructure Investment Corporation |
| NPAT | Net Profit After Tax |
| NPBT | Net Profit Before Tax |
| PEF | Private Equity Fund |
| PBO | Public Benefit Organisation |
| PFMA | Public Financial Management Act 1 of 1999 |
| QSFI | Qualifying Small Financial Institution |
| SAIA | South African Insurance Association |
| SDA | Skills Development Act of 1998 |
| SDLA | Skills Development Levies Act of 1999 |
| SETA | Sector Education and Training Authority |
| SME | Small and Medium Enterprises |
| SMME | Small, Medium and Micro Enterprises |
| TCTA | Trans Caledon Tunnel Authority |
| UJV | Unincorporated Joint Venture |
| WSP | Workplace Skills Plan |

DRAFT AMENDED FINANCIAL SECTOR CODE FOR BLACK ECONOMIC EMPOWERMENT**Preamble**

This Draft Amended Financial Sector Code (FSC) has been prepared in terms of Broad-Based Black Economic Empowerment Act of 2003 as amended by Act 46 of 2013. It is based on a harmonisation of the Department of Trade and Industry Amended Codes of Good Practice (CoGP) and the Financial Sector Code published in the Government Gazette in terms of Section 9 (1) of the Act on 26 November 2012.

The Financial Sector Charter (the Charter) came into effect in January 2004 as a result of a voluntary offer to develop an industry transformation Charter by the financial sector at the National Economic Development and Labour Council (Nedlac) Financial Sector Summit. Nedlac is the multilateral social dialogue forum which brings together the 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 associations¹ and the Association of Black Securities and Investment Professionals (Absip²), with government³ acting as observers. Although the labour⁴ and community⁵ constituencies were not included in the drafting of the Charter, they agreed to participate in its governing structure, the Financial Sector Charter Council (the Council), alongside government, business and Absip to finalise outstanding elements of the Charter and to participate in overseeing the implementation of the Charter and in the process of aligning the Charter with the CoGP.

In the alignment process to produce this revised Code, all the Council participants committed to developing a sector transformation code aligned to the CoGP, noting that:

- Notwithstanding significant progress since the establishment of a democratic government in 1994, South African society remains characterised by racially income and social services inequalities. This is not only unjust, but inhibits the country's ability to achieve its full economic potential. Broad-Based Black Economic Empowerment (B-BBEE) is a mechanism aimed at addressing inequalities and mobilising the energy of all South Africans to contribute to sustained economic growth, development and social transformation in South Africa.
- 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 (FSC) commits all participants to actively promoting a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, 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.

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; The Women's National Coalition; SA Youth Council; SA Civics Organisation.

The FSC is the product of the interaction between the financial sector trade associations, Absip, labour, community and government. The FSC 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 Financial Sector Code

Recognising the unique position that financial institutions hold in the development of South Africa, two unique elements exist in the FSC scorecard over and above the five elements 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 Small, Medium and Micro Enterprises (SMMEs) and agricultural activities, and investing in various types of transformational infrastructure that help to create the necessary platform to grow the economy on an equitable basis.

The unique elements of the Code are derived from similar initiatives which were at the core of the original Charter. It is recognised that the sector can better play a role in the creation of sustainable wealth across a broad base through leveraging 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 in Code FS100, Statement 100 and Sales of Assets as contemplated in Code FS100, Statement 102, measured entities are also entitled to achieve equity ownership points through equity equivalent programmes as contemplated in Code 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, National Development Plan (NDP) aligned initiatives, black industrialisation, enterprise development, empowerment financing and access to financial services.

Scope of Application

This Draft Amended FSC 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:

1. Banking;
2. Long-term insurance;
3. Short-term insurance;
4. Re-insurance;
5. Retirement fund administration;
6. The management of collective investment scheme assets;
7. Financial services intermediation and brokerage;
8. Public entities involved in the financial sector e.g. DBSA, Land Bank
9. Asset management, consulting and administration;
10. Private equity, venture capitalist and impact investors;
11. 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
12. Underwriting management agents.

This Draft Amended FSC does not apply to:

1. Natural or juristic persons who do not have trading operations in the Republic of South Africa;
2. The trading operations of natural or juristic persons outside the Republic of South Africa; and
3. Managers of investments on behalf of the public who are not subject to regulation by the Financial Services Board, such as lawyers who hold money in intermediate trusts.

Status of this Code

It is recorded that the Minister of Trade and Industry has previously gazetted the Financial Sector Code as a Sector Code in terms of Section 9 (1) of the Broad-Based Black Economic Empowerment Act (the Act).

The Financial Sector Charter Council (the Council) is of the opinion that this Draft Amended Financial Sector Code (Draft Amended FSC) meets all of the requirements of paragraph 3 of Code 000, Statement 003 of the amended CoGP. The Council has applied to the Minister of Trade and Industry to publish the Draft Amended Draft Amended FSC in terms of Section 9(5) of the Act for public comment and to publish the Draft Amended FSC in terms of Section 9(1) of the Act in the Government Gazette.

In conceptualising, implementing and measuring any B-BBEE initiatives, financial institutions and other interested parties must apply this Draft Amended Draft Amended FSC, read together with the CoGP gazetted on 11 October 2013 in Section 9(1) of the Act. The gazetting of this Code in Section 9(1) of the Act 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 Draft Amended FSC is silent on a particular aspect of B-BBEE that is covered in the CoGP.

Once published as a Sector Code in the Government Gazette in terms of Section 9(1) of the Act, the Code will remain in effect until amended, substituted or repealed.

INDEX FOR THE DRAFT AMENDED FSC

| Financial Sector Code Series | Code Title | Page |
|---|---|-------------|
| FS000 | Framework for measuring Broad-Based Black Economic Empowerment | 10 |
| FS100 | Measurement of the Ownership Element of Broad-Based Black Economic Empowerment | 20 |
| FS200 | Measurement of the Management Control Element of Broad-Based Black Economic Empowerment | 47 |
| FS300 | Measurement of the Skills Development Element of Broad-Based Black Economic Empowerment | 52 |
| FS400 | Measurement of the Procurement, Enterprise and Supplier Development Element of Broad-Based Black Economic Empowerment | 59 |
| FS500 | Measurement of the Socio-Economic Development and Consumer Education Element of Broad-Based Black Economic Empowerment | 72 |
| FS600 | Measurement of the Empowerment Financing, Enterprise and Supplier Development Element of Broad-Based Black Economic Empowerment | 78 |
| FS700 | Measurement of the Access to Financial Services Element of Broad-based Black Economic Empowerment | 86 |
| FS800 | Measurement of the Qualifying Small Financial Institutions of Broad-Based Black Economic Empowerment | 110 |
| Schedule 1 | Voluntary Dispensation for Top 100 Retirement Funds Including Umbrella Funds | 117 |
| Schedule 2 | Interpretation and Definitions | 119 |

Index for Statements

| Statement Number | Financial Sector Code Series | Statement Title | Page |
|------------------|------------------------------|--|------|
| 000 | Code Series FS000 | General principles and the Scorecard | 10 |
| 100 | Code Series FS100 | The General principles for measuring Ownership | 20 |
| 102 | Code Series FS100 | Recognition of the Sale of Assets | 37 |
| 103 | Code Series FS100 | The recognition of Equity Equivalents | 40 |
| 200 | Code Series FS200 | The general principles for measuring Management Control | 47 |
| 300 | Code Series FS300 | The general principles for measuring Skills Development | 52 |
| 400 | Code Series FS400 | The general principles for measuring Procurement, Enterprise and Supplier Development | 59 |
| 500 | Code Series FS500 | The general principles for Socio-economic Development and Consumer Education | 72 |
| 600 | Code Series FS600 | The general principles for measuring Empowerment Financing | 78 |
| 700 | Code Series FS700 | The General Principles for measuring Access to Financial Services | 96 |
| 701 | Code Series FS700 | The general principles for measuring Access to Financial services as it relates to Banks | 97 |
| 702 | Code Series FS700 | The general principles for measuring Access to Financial services as it relates to Long-Term Assurers | 103 |
| 703 | Code Series FS700 | The general principles for measuring Access to Financial services as it relates to Short-Term Insurers | 106 |
| 800 | Code Series FS800 | General principles and the Qualifying Small Financial Institution (QSFI) Scorecard | 111 |
| 801 | Code Series FS800 | The General principles for measuring Ownership for QSFIs | 112 |
| 802 | Code Series FS800 | The general principles for measuring Management Control for QSFIs | 113 |
| 803 | Code Series FS800 | The general principles for measuring Skills Development for QSFIs | 114 |
| 804 | Code Series FS800 | The general principles for measuring Enterprise and Supplier Development for QSFIs | 115 |
| 805 | Code Series FS800 | The General Principles for measuring Socio-economic Development for QSFIs | 116 |

**DRAFT AMENDED FSC SERIES FS000: FRAMEWORK FOR MEASURING BROAD-BASED BLACK ECONOMIC
EMPOWERMENT
STATEMENT 000: GENERAL PRINCIPLES AND THE SCORECARD**

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013

Arrangement of Statement 000

| Paragraph | Subject | Page |
|------------------|--|-------------|
| 1 | OBJECTIVES OF STATEMENT 000 | 11 |
| 2 | KEY PRINCIPLES | 11 |
| 3 | APPLICATION OF THE FINANCIAL SECTOR CODE | 12 |
| 4 | ELIGIBILITY AS AN EXEMPTED MICRO ENTERPRISE (EME) | 14 |
| 5 | ELIGIBILITY AS A QUALIFYING SMALL FINANCIAL INSTITUTIONS (QSFI) | 14 |
| 6 | START-UP ENTERPRISES | 15 |
| 7 | THE ELEMENTS OF B-BBEE IN TERMS OF THE SCORECARD | 15 |
| 8 | THE DRAFT AMENDED FSC SCORECARD | 16 |
| 9 | ENHANCED RECOGNITION FOR CERTAIN CATEGORIES OF BLACK PEOPLE | 18 |
| 10 | TRANSITIONAL PERIOD | 18 |
| 11 | ADJUSTMENT OF THRESHOLDS | 19 |
| 12 | DURATION OF THE DRAFT AMENDED FSC | 19 |
| 13 | INTERPRETIVE GUIDES, GUIDANCE NOTES, PRACTICE DIRECTIVES AND STANDARDS DOCUMENTS | 19 |

1 OBJECTIVES OF STATEMENT 000

The objectives of this Statement are to:

- 1.1 Specify the interpretative principals of B-BBEE as they relate to the financial sector;
- 1.2 Specify the application of the Draft Amended FSC and the basis for measurement in terms of the Draft Amended FSC;
- 1.3 Indicate the qualifying threshold for measured entities to qualify as Exempted Micro Enterprises (EMEs) 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 in the Generic Scorecard and QSFI Scorecard;
- 1.6 Specify the Generic Scorecard and QSFI Scorecard;
- 1.7 Specify the basis for determining compliance by measured entities with the Draft Amended FSC; and
- 1.8 Give the Financial Sector Charter Council the power to provide interpretive guidance and practice directives as well as standards documents with regard to the application or intention of the Draft Amended FSC in consultation with **the dti**.

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 Draft Amended FSC, any reasonable interpretation consistent with the objectives of the Act and the B-BBEE Strategy in Section 11 of the Act must take precedence
- 2.3 This formula for measuring B-BBEE initiatives in the Draft Amended FSC is:
 - 2.3.1 for the ownership and management control elements, the B-BBEE compliance of the measured entity at the measurement date; and
 - 2.3.2 for the skills development, enterprise and supplier development', access, empowerment financing and socio-economic development' elements, the B-BBEE compliance of the measured entity over the measurement period.
- 2.4 Any misrepresentation or attempt to misrepresent an entity's true B-BBEE status will be dealt with in accordance with the provisions set out in the Act, and may lead to the disqualification of the entire scorecard of the entity concerned.
- 2.5 Initiatives which separate or divide enterprises solely as a means of ensuring eligibility as an EME, a QSFI or a start-up enterprise are a circumvention of the Act and will be dealt with in accordance with the provisions set out in the Act. This may lead to the disqualification of the entire scorecard of the entities concerned.
- 2.6 When determining eligibility as an EME, a QSFI or a Large Enterprise, which is defined as an entity with an annual turnover of R50 million or more, only the South African revenue will be considered, unless the entity is seeking a consolidated verification inclusive of its subsidiaries. The aggregate revenue of related enterprises will only be considered in terms of paragraphs 17.15 and 17.16 of Appendix 2 of the Verification Manual gazetted on 18 July 2008 (as amended) where:
 - 2.6.1 the intent to defraud described in 2.5 above is present; or where
 - 2.6.2 a holding entity that does not house the operations of the group is measured separately.

- 2.7 Any representation made by an entity about its B-BBEE compliance must be supported by suitable evidence or documentation. An entity that does not provide suitable evidence or documentation must not receive any recognition for that initiative. 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, B-BBEE compliance must be supported by appropriate evidence or documentation.
- 2.8 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 Draft Amended FSC
- 2.9 The measurement of Unincorporated Joint Ventures will be done as follows:
- 2.9.1 Unincorporated Joint Ventures (UJVs) are required to compile a consolidated verification certificate. This certificate consolidates the verified compliance data of the joint venture partners in accordance with paragraph 2.9.2 below as if those measured entities were a single entity.
- 2.9.2 The consolidation of compliance data shall be based on a weighting in accordance with the relevant joint venture agreement. Therefore, if two companies enter into a UJV, their respective scores in terms of the Draft Amended FSC will be weighted according to their proportionate share in the joint venture and added together for a combined score out of 100.
- 2.10 Where all the partners in the joint venture are defined as empowering suppliers, the UJV will also qualify as an empowering supplier. If they are not, the compliance of the UJV with the empowering supplier requirements must be measured as though it is a single measured entity. Each partner will contribute to the categories of measurement for empowering supplier status, in proportion to its share in the joint venture.
- 2.11 Where the Draft Amended FSC is silent, the provisions of the generic codes apply.
- 2.12 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), 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 FS100.
- 2.13 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 the points it earned for each of the remaining scorecard elements. The B-BBEE compliance level shall be the sum of the points earned, divided by the total points available, that is, the scorecard total less exempted elements.
- 2.14 All scores achieved by financial institutions according to the scorecards in paragraph 8.1 of Code FS000 and Code FS800, must be used to determine the compliance level in line with paragraph 8.3 of Code FS000.
- 2.15 The verification of B-BBEE compliance of financial institutions will be undertaken by B-BBEE verification professionals as determined by the Act.

3 APPLICATION OF THE DRAFT AMENDED FSC

- 3.1 This Draft Amended FSC is applicable to all entities as defined in the paragraph titled, "Scope of Application in 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 as follows:
- 3.2.1 Paragraph 4, in the case of an EME
- 3.2.2 The generic scorecard and QSF1 scorecard in paragraph 8 in the case of other entities.

- 3.2.3 A measured entity in a sector in respect of which a sector code has been issued under Section 9 of the Act, may only be measured for compliance in accordance with that code.
- 3.3 Priority Elements, Subminimum and Discounting Principal
- 3.3.1 The Priority Elements are as follows:
- a. Ownership: The sub-minimum requirement for ownership is 40% of net value (40% of the three points) based on the time-based graduation factor in Annexe 100 (c).
 - b. Skills Development: The sub-minimum requirement for skills development is 40% of the total weighting points (40% of the 15 points), excluding bonus points) for skills development.
 - c. Enterprise and Supplier Development: The sub-minimum for Enterprise and Supplier Development is 40% of the total weighting points (excluding bonus points) of each of the three broad categories, within the Enterprise and Supplier Development element, namely Preferential Procurement; Supplier Development and Enterprise Development. Supplier and Enterprise Development are not applicable in this element for companies doing Empowerment Financing. This means that the measured entity must achieve at least:
For companies exempt from Empowerment Financing:
 - 8 points in the Preferential Procurement category;
 - 4 points in the Supplier Development category;
 - 2 points in the Enterprise Development category;
 - d. Empowerment Financing and Enterprise and Supplier Development: The sub-minimum for Empowerment Financing and Enterprise and Supplier Development is 40% of the total weighting points (excluding bonus points) of each of the three broad categories, within the element, namely Empowerment Financing; Supplier Development and Enterprise Development.
- 3.3.2 Compliance with Priority Elements:
- a. A large enterprise is required to comply with all of the priority elements except in cases where they have been exempted from that element.
 - b. A QSFI is required to comply with ownership as a priority element, and either skills development or enterprise and supplier development.
- 3.3.3 Discounting Principle Effect
- 3.3.3.1 Non-compliance with the 40% sub-minimum requirements of any of the priority elements, as per paragraph 3.3.2 above, will result in the following outcomes for both large enterprises and QSFIs:
- a. The points scored by the measured entity and the consequent level that the measured entity would have achieved if it had complied with the 40% sub-minimum requirements, will be recognised by the verification agent but will not be reflected on the BEE Certificate. Only the discounted level will appear on the BEE Certificate.
 - b. Notwithstanding the recognition in paragraph 3.3.3.1.a above, the measured entity's B-BBEE status level and corresponding B-BBEE recognition level will be discounted by one level until the next applicable verification period in which the measured entity can demonstrate compliance with the 40% sub-minimum requirements. At this point, the discounted recorded level on the BEE Certificate will become the applicable ratings level for that measured entity in that verification period.

- 3.3.3.2 If the measured entity fails to achieve the sub-minimum requirements in one or more of the priority elements, a maximum discount of one level will be applied.
- 3.3.4 Compliance with the Employment Equity Act
- 3.4.1 Generic and QSFI that are not classified as designated employers in the Employment Equity Amendment Act (Act 47 of 2013) are not required to submit reports to the Department of Labour. However, for the purpose of measurement they are required to submit sufficient evidence for verification purposes.
- 3.4.2 Compliance with the reporting requirements of the Employment Equity Amendment Act is not a pre-requisite for claiming points in the management control element as long as the measured entity is able to submit sufficient evidence for verification purposes to support its claim in that element.

4 ELIGIBILITY AS AN EXEMPTED MICRO-ENTERPRISE

- 4.1 Any enterprise with total annual revenue of up to R10 million, qualifies as an Exempted Micro-Enterprise (EME).
- 4.2 An EME is deemed to have a B-BBEE status of a level four contributor, with a B-BBEE recognition level of 100% in terms of paragraph 8.3.
- 4.3 Enhanced B-BBEE recognition level for an EME:
 - 4.3.1 Notwithstanding paragraph 4.2, an EME which is 100% black-owned qualifies for elevation to level one contributor with a B-BBEE recognition level of 135%
 - 4.3.2 Notwithstanding paragraphs 4.2 and 4.3.1 an EME which is more than 50% black owned (where there is an existing equity deal in place) or at least 51% Black Owned (for all deals concluded after the commencement date of this Draft Amended FSC), but less than 100% black-owned, qualifies for elevation to level two contributor with a B-BBEE recognition level of 125%.
- 4.4 Notwithstanding paragraphs 4.2 and 4.3, an EME is allowed to be measured in terms of the QSFI scorecard if it wishes to maximise its points and move to a higher B-BBEE recognition level.
- 4.5 An EME is required to obtain a sworn affidavit or a Companies and Intellectual Property Commission (CIPC) issued certificate on an annual basis, confirming:
 - 4.5.1 Total annual revenue of R10 million or less; and
 - 4.5.2 Level of black ownership
- 4.5.6 Any misrepresentation in terms of paragraph 4.5 above constitutes a criminal offence as set out in the Act.
- 4.6 Notwithstanding paragraph 4.5, an EME may elect to obtain a verification certificate from an accounting officer or verification professional approved in terms the Act.

5 ELIGIBILITY AS A QUALIFYING SMALL FINANCIAL INSTITUTIONS (QSFI)

- 5.1 A measured entity with total annual revenue of more than R10 million but less than R50 million qualifies as a Qualifying Small Financial Institution (QSFI).
- 5.2 A QSFI must comply with all of the elements of B-BBEE for the purposes of measurement, unless exempted from compliance with any element or sub-element.
- 5.3 Enhanced B-BBEE recognition level for QSFI:
 - 5.3.1 A QSFI which is 100% black owned qualifies for level one B-BBEE recognition.

- 5.3.2 A QSFI, which is more than 50% black owned (where there is an existing equity deal in place) or at least 51% Black Owned (for all deals concluded after the commencement date of this Draft Amended FSC), but less than 100% black owned, qualifies for B-BBEE recognition at Level 2.
- 5.4 A QSFI that is more than 50% black owned (where there is an existing equity deal in place) or at least 51% Black Owned (for all deals concluded after the commencement date of this Draft Amended FSC), or 100% black owned, is only required to obtain a sworn affidavit on an annual basis, confirming the following:
- 5.4.1 Total annual revenue of R50 million or less; and
- 5.4.2 Level of black ownership; and
- 5.4.3 Empowering supplier status.
- 5.5 Any misrepresentation in terms of paragraph 5.3 above constitutes a criminal offence as set out in the Act.
- 5.6 Notwithstanding paragraph 5.3, a QSFI that is more than 50% black owned or 100% black owned, may elect to obtain a verification certificate from a verification professional.
- 5.7 All QSFI's other than those referred to in paragraph 5.4 and which elect to be measured, will be required to obtain a verification certificate to substantiate their B-BBEE status.

6 START-UP ENTERPRISES

- 6.1 A start-up enterprise must be measured as an EME in this statement for the first year following the commencement of its operations. This provision applies regardless of the expected total revenue of the start-up enterprise.
- 6.2 A start-up enterprise is deemed to have the qualifying B-BBEE status in accordance with the principles of paragraph 4 of this statement.
- 6.3 In order to qualify as a start-up enterprise, the enterprise must provide confirmation of its status in accordance with paragraph 4.5.
- 6.4 Notwithstanding paragraphs 6.1 and 6.2, a start-up enterprise must submit a QSFI scorecard when tendering for any contract, or seeking any other economic activity covered by Section 10 of the Act, with a value higher than R10 million but less than R50 million. For contracts of R50 million or more, the enterprise must submit the generic 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 effective ownership of entities by black people
- 7.2 The Management Control element, as set out in Code series F200, measures the effective control of entities by black people.
- 7.3 The Skills Development element, as set out in Code series FS300, measures the extent to which employers carry out initiatives designed to develop the competencies of black employees and black people internally and externally.

- 7.4 The Enterprise and Supplier Development element, as set out in Code series FS400, measures the extent to which entities buy goods and services from Empowering Suppliers with various B-BBEE recognition levels. This element also measures the extent to which enterprises carry out supplier development and enterprise development initiatives intended to assist and accelerate the growth and sustainability of black enterprises.
- 7.5 The Socio-Economic Development and Sector Specific Contributions elements, as set out in Code series FS500, FS600 and FS700, measure the extent to which entities carry out initiatives that contribute towards socio-economic development or sector specific initiatives that promote access to the economy for black people.

8 THE DRAFT AMENDED FSC SCORECARD

8.1 Generic Scorecard

The following table represents the B-BBEE Generic Scorecard to be used for Large Entities.

| ELEMENT | WEIGHTING | | | |
|---|----------------------------------|-------------------------------|------------------------------|-----------------------|
| | Banks and Life offices scorecard | Short Term Insurers scorecard | Other Institutions scorecard | Code Series Reference |
| OWNERSHIP | 20 | 20 | 20 | FS100 |
| MANAGEMENT CONTROL | 20 | 20 | 20 | FS200 |
| SKILLS DEVELOPMENT | 15 | 15 | 15 | FS300 |
| PROCUREMENT and ESD | 15 | 35 | 35 | FS400 |
| SOCIO ECONOMIC DEVELOPMENT and CONSUMER EDUCATION | 5 | 5 | 5 | FS500 |
| EMPOWERMENT FINANCING and ESD | 25 | 0 | 0 | FS600 |
| ACCESS TO FINANCIAL SERVICES | 12 | 12 | 0 | FS700 |
| TOTAL | 112 | 107 | 95 | |

8.2 Qualifying Small Financial Institution Scorecard

The following table represents the B-BBEE scorecard to be used for Qualifying Small Financial Institutions (QSFI).

| ELEMENT | WEIGHTING | CODE SERIES FS800 |
|-------------------------------------|-------------------|-------------------|
| OWNERSHIP | 25 POINTS | FS801 |
| MANAGEMENT CONTROL | 15 POINTS | FS802 |
| SKILLS DEVELOPMENT | 25 POINTS | FS803 |
| ENTERPRISE AND SUPPLIER DEVELOPMENT | 30 POINTS | FS804 |
| SOCIO-ECONOMIC DEVELOPMENT | 5 POINTS | FS806 |
| TOTAL | 100 POINTS | |

8.2.1 B-BBEE Recognition Levels

Based on the overall performance of a measured entity using the generic scorecard and QSF scorecard, the entity will receive one of the following B-BBEE status qualifications with the corresponding B-BBEE recognition level:

| B-BBEE Status | % Qualification | B-BBEE Recognition Level |
|---------------------------|-------------------------------|--------------------------|
| Level One Contributor | $\geq 100/109$ | 135% |
| Level Two Contributor | $\geq 95/109$ but $< 100/109$ | 125% |
| Level Three Contributor | $\geq 90/109$ but $< 95/109$ | 110% |
| Level Four Contributor | $\geq 80/109$ but $< 90/109$ | 100% |
| Level Five Contributor | $\geq 75/109$ but $< 80/109$ | 80% |
| Level Six Contributor | $\geq 70/109$ but $< 75/109$ | 60% |
| Level Seven Contributor | $\geq 55/109$ but $< 70/109$ | 50% |
| Level Eight Contributor | $\geq 40/109$ but $< 55/109$ | 10% |
| Non-Compliant Contributor | $< 40/109$ | 0% |

The formula used to calculate the number of points required for each level of recognition is:

Number of points in the CoGP scorecard / Total number of DTI points x Total number of available industry points as set out in 8.1 and 8.2 above.

Example:

Level 6 would be:

Large Enterprises (generic scorecard)

Banks = $70/109 \times 112$

Short-term Insurers = $70/109 \times 107$

Others = $70/109 \times 95$

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, if any division, business unit or subsidiary within a measured Entity is deemed to be a significant division, business unit or subsidiary, it shall, if requested by the Council, submit its own scorecard to the Council for information purposes. The scorecard does not need to be independently verified; however, the head of that division, business unit or subsidiary must attest to the accuracy of the scorecard.

- 8.3.3.1 Notwithstanding the provision in 8.3.3, should such a division, business unit or subsidiary be a separate legal entity and a client or potential client requests a bespoke B-BBEE Certificate the entity is obliged to produce one and submit the report to the Council
- 8.3.3.2 The division, 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 described in paragraph 8.3.3 above, if that scorecard is verified.
- 8.3.3.3 A significant division, business unit or subsidiary is defined as:
- Any subsidiary, division or business unit forming part of a consolidated group 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 Council on its progress implementing the provisions of this Draft Amended FSC.

9 ENHANCED RECOGNITION FOR CERTAIN CATEGORIES OF BLACK PEOPLE

- 9.1 Throughout the Draft Amended FSC, various criteria appear which advance the interests of certain categories of black people. These include:
- 9.2 Black women, who should make up between 40% and 50% of the beneficiaries of the relevant elements of the scorecard;
- 9.3 Black people with disabilities, black youth, black people living in rural areas and black unemployed people, who should make up part of the beneficiaries of the relevant elements of the scorecard.

10 TRANSITIONAL PERIOD

Entities that are measurable in terms of the Draft Amended FSC may accept valid verification certificates and compliance reports for contributors to their scorecard. Valid certificates or reports are those where verifications were conducted in terms of the previous or old sector codes, for as long as they are valid as determined by the DTI.

For this purpose the following terms in the old codes will contribute to measurement in terms of this Draft Amended FSC as though they equated to the corresponding FSC terms below:

| Amended Codes term | Equivalent Old Codes term |
|---|---|
| EME | EME |
| QSE | QSE |
| 51% Black Owned | More than 50% black owned |
| 51% Black Women Owned | More than 50% black women owned |
| 30% Black Women Owned | 30% black women owned |
| Empowering Supplier | Value Adding Supplier |
| Enterprise & Supplier Development Beneficiaries | Category A Enterprise Development Beneficiaries |

11 ADJUSTMENT OF THRESHOLDS

The Minister may, by notice in the Government Gazette, adjust the thresholds in paragraphs 4 to 6. Any such changes apply to compliance reports of measured entities prepared for measurement periods that commence after the gazetting of the adjustment.

12 DURATION OF THIS DRAFT AMENDED FSC

This Draft Amended FSC shall be effective from date of gazetting and will and remain in effect until expressly amended, substituted or repealed in terms of in Section 9 of the Act.

The Minister may review the Codes at any stage and any amendments to the CoGP may result in a review of the Draft Amended FSC for purposes of alignment. The process for the amendment of this Draft Amended FSC will follow the process set out in the CoGP for the development of sector codes. Regular reviews by the FSC Council will take place to monitor the implementation of B-BBEE throughout the economy.

The Financial Sector Charter Council will also monitor the overall B-BBEE ownership levels of the sector as reported by measured entities by performing an interim ownership review after the code has been effective for 5 years. If the review shows that the B-BBEE ownership mechanisms now contained in Code FS100, with specific reference to paragraph 3.9.2.1 of Code FS100, have not been complied with in aggregate by the sector, then the dispensation will be re-considered in view of the overall transformation objectives of the ownership element.

13 INTERPRETIVE GUIDES, GUIDANCE NOTES, PRACTICE DIRECTIVES AND STANDARDS DOCUMENTS

The Council shall, from time to time, issue interpretive guides, guidance notes, practice directives and standards documents in consultation with **the dti**.

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 Draft Amended FSC.

In issuing such documents, the Financial Sector Charter Council shall be obliged to provide interpretations that are consistent with the substance of these codes. Such documents shall not supersede the Draft Amended FSC, Amended CoGP or the B-BBEE Act.

**DRAFT AMENDED FSC SERIES FS100: MEASUREMENT OF THE OWNERSHIP ELEMENT OF BROAD-BASED
BLACK ECONOMIC EMPOWERMENT**

STATEMENT FS100: THE GENERAL PRINCIPLES FOR MEASURING OWNERSHIP

Issued in terms of Section 9 (5) of the Broad-Based Black Economic Empowerment Amendment Act 46 of 2013

Arrangement of Statement 100

| Paragraph | Subject | Page |
|------------------|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 21 |
| 2 | THE OWNERSHIP SCORECARD | 21 |
| 3 | KEY MEASUREMENT PRINCIPLES | 22 |
| 4 | BROAD-BASED OWNERSHIP AND EMPLOYEE OWNERSHIP SCHEMES | 26 |
| 5 | PRIVATE EQUITY FUNDS | 26 |
| 6 | NON PROFIT COMPANIES AND COMPANIES LIMITED BY GUARANTEE | 27 |
| 7 | TRUSTS ³⁴ | 28 |
| 8 | OPTIONS AND SHARE WARRANTS | 28 |
| 9 | EQUITY INSTRUMENTS CARRYING PREFERENTIAL RIGHTS | 28 |
| 10 | NET VALUE | 29 |
| 11 | THE POINTS IN TABLE 2A | 29 |
| 12 | THE BONUS POINTS IN TABLE 2B | 29 |
| | ANNEXE FS100 (A): Examples of mandated investments | 30 |
| | ANNEXE FS100 (B): Rules for certain types of enterprises | 30 |
| | ANNEXE FS100 (C): Measurement of Ownership | 32 |

1. OBJECTIVES OF STATEMENT 100

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:

| | | Description | Points | Target |
|-----|-------|--|-----------|--------------------------------------|
| 2.1 | 2.1.1 | Exercisable voting rights in the measured entity in the hands of black people | 4 | 25%+ 1 Vote |
| | 2.1.2 | Exercisable voting rights in the measured entity in the hands of black women | 2 | 10% |
| 2.2 | 2.2.1 | Economic interest rights in the measured entity to which black people are entitled | 3 | 25% |
| | 2.2.2 | Economic interest rights in the measured entity to which black women are entitled | 2 | 10% |
| | 2.2.3 | Economic interest in the hands black designated groups; black participants in Employee Share Ownership Programmes; black people in Broad-based Ownership Schemes and black participants in co-operatives | 3 | 3% |
| | 2.2.4 | New entrants | 3 | 2% |
| 2.3 | | Net value | 3 | Formula Annexe 100(C) |
| | | Total before bonus | 20 | |
| 2.4 | | Bonus: Direct/Indirect ownership in excess of 15% | 3 | 10% |
| 2.5 | | Bonus: Economic interest and voting rights above 32.5% | 2 | 1 point @ 32.5% and 1 point @ 40% |

Table 2a

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.

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

| | Ownership | Weighting | Targets | Notes |
|-----|--|------------------|----------------|---|
| 2.1 | Additional black Industrialist financing or other qualifying equity equivalent contributions | 20 | 25% | Target is equal to 25% of the value of the measured entity as at 31/12/2010 |
| | Bonus Points | | | |
| 2.2 | Funding of black industrialist financing or other qualifying equity equivalent contributions in the financial sector | 5 | 25% | |

Table 2b

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 paragraph 2a or 2b of this Draft Amended FSC statement. Black people may hold their rights of ownership in a measured entity as direct participants or as participants through a form of business such as:

- a. A company with shares;
- b. A close corporation;
- c. A co-operative;
- d. Any form of juristic person recognised in South African law;
- e. A partnership or other association of natural persons;
- f. A Broad-Based Ownership Scheme;
- g. An Employee Ownership Programme; and
- h. 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 accrue to the beneficiaries.

3.1.2 Any domestic or foreign measured entity may also receive points on the ownership scorecard in paragraphs 2a or 2b, via equity equivalent contributions. These are dealt with in detail in Code FS100, Statement 103.

3.1.3 Measured entities may also receive points on the ownership scorecard in paragraphs 2a or 2b through the sales of assets. These are dealt with in detail in FS Code 100, Statement 102.

3.2 Sub-minimum Requirements

3.2.1 A measured entity is required to achieve a minimum of 40% of the net value points (i.e. 40% x 3 points = 1,2 points) based on Annexe 100 (C), paragraph 4 of this statement.

3.2.2 Non-compliance with this sub-minimum target, as detailed in paragraph 3.2.1, will result in the achieved B-BBEE status level being discounted in accordance with paragraph 3.7 in statement FS000 of the CoGP.

3.3 The Flow-through Principle:

- 3.3.1 As a general principle, when measuring the rights of ownership of any category of black people in a measured entity, 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.
- 3.3.2 An exception to this general principle exists with regard to recognition in the ownership scorecard for domestic measured entities via equity equivalents. This exception to the general principle is dealt with in further detail in Code FS100, Statement 103.
- 3.3.3 The method of applying the flow-through principle across one or more intervening juristic persons is as follows:
- a. Multiply the percentage of the participants' rights of ownership in the juristic persons through which those rights pass by the percentage of rights of ownership of each of those juristic persons successively to the measured entity; and
 - b. The result of this calculation represents the percentage of rights of ownership held by the participant.
- 3.4 The Modified Flow-through Principle:
- 3.4.1 The modified flow-through principle applies to any B-BBEE owned or controlled company owned by the measured entity.
- 3.4.2 In calculating exercisable voting rights in paragraph 2.1.1 and economic interest in paragraph 2.2.1, the following applies:
- 3.4.3 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.
- 3.4.4 The modified flow-through principle may only be applied in the calculation of the indicators in paragraphs 2.1.1, which sets out the voting rights of black people, and 2.2.1, which describes the economic interest of black people, in table 2a. In all other instances, the flow-through principle applies. The modified flow-through calculation may be applied once in each chain of ownership.
- 3.5 The Exclusion of specified entities when determining ownership:
- 3.5.1 When determining ownership in a measured entity, ownership held directly by organs of state or public entities in the Republic of South Africa must be excluded.
- 3.5.2 Exclusion of ownership held by the organs of state or public entities is to be effected before any other ownership discounting methods are applied.
- 3.6 B-BBEE Facilitator Status
- 3.6.1 Notwithstanding paragraphs 3.5.1 and 3.5.2, the Minister of Trade and Industry may, by notice in the Government Gazette, designate certain organs of state or public entities as B-BBEE facilitators. In calculating their ownership score, measured Entities must treat B-BBEE facilitators as having rights of ownership held:
- a. 100% by black people;
 - b. 40% by black women;
 - c. 20% by black designated groups;
 - d. Without any acquisition debts; and
 - e. Without any third-party rights.
- 3.7 Mandated Investments

- 3.7.1 When determining ownership in a measured entity, rights of ownership of Mandated Investments may be excluded.
- 3.7.2 The maximum percentage of the ownership of any measured entity that may be so excluded is 40%.
- 3.7.3 Mandated Investments are those investments as defined in Schedule 1 of the CoGP published in Government Gazette No. 36928, with examples of mandated investments in Annexe 100 (A).
- 3.7.4 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.
- 3.7.5 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.
- 3.8 Dilution due to regulatory requirements
- 3.8.1 Any dilution in the percentage of black ownership in a measured entity that occurs due to the entity having to increase its capital base as a direct result of new or existing regulatory requirements, will for the purposes of this Draft Amended FSC not result in a dilution of the percentage black ownership claimed on the scorecard in paragraph 2, Table 2a.
- 3.8.2 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.
- 3.8.3 This principle will not apply if the institution is required to raise additional capital due to it having written "bad business".
- 3.9 The recognition of ownership after the sale or loss of shares by black participants
- 3.9.1 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. The portion recognisable where such sale or loss occurs is as follows:
- 3.9.2 In the event of a dilution in the percentage of black ownership in a measured entity, as a result of black participants electing to sell their shares and realise the net value attributable to those shares when they have become eligible for sale or transfer, the net value percentage created for black participants at the date of exit can be carried forward in terms of paragraph 2, Table 2a above, subject to the following conditions:
- a. The black participant has held those shares for a minimum period of three (3) years;
 - b. The net value must have been created for the benefit of black people;
 - c. Transformation has taken place within the measured enterprise.
- 3.9.3 A measured entity subject to code FS600 (banks and life offices) can top up the shortfall in its ownership points through the provision of commercial risk capital for the financing of black industrialists, as an equity equivalent that becomes available on exit of empowerment partners. Such financing can be provided at an individual company level or as a collaborative effort with other industry players.
- 3.9.4 The extent of the equity equivalent will be determined using the following criteria:
- a. Target net value created for black people by the measured entity as at the date of exit, less actual net value created for black people by the entity at the date of exit. The difference between these two figures can form the basis for the measured entity's contribution to the equity equivalent.
 - b. Further to the above, the measured entities not subject to code FS600 i.e. entities other than banks and life offices, can top up the shortfall in its ownership points from the sale of shares through enterprise

development contributions over and above the targets contained in code FS400, or by way of an equivalent value to support black students studying at post-school education and training institutions in South Africa

- 3.9.5 In the event of a dilution in the percentage of black ownership in a measured entity as a result of all other sales of shares except the sale of shares described in paragraphs 3.8 or 3.9.2. above, a portion of the percentage may be recognisable subject to the following criteria:
- a. The black participant has held those shares for a minimum period of three years;
 - b. Net value based on the time based graduation factor in Annexe 100 (C) must have been created for 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; and
 - c. Transformation has taken place within the entity using the B-BBEE recognition level from the period of entry of black participants to their exit.
- 3.9.6 The formula for calculating continued recognition for sales of shares in circumstances as contemplated in paragraph 3.9.2 is contained in paragraph 5 of Annexe 100 (C) of this Code Statement. Black participation arising from continued recognition of black ownership cannot contribute more than 40% of the score on the ownership scorecard.
- 3.9.7 In the case of a loss of shares by a black investor, the following additional rules apply:
- 3.9.7.1 A written tripartite agreement between the measured entity, the black participant and a lender must record the loan or security arrangement, unless the measured entity is the lender; and
- 3.9.7.2 The period during which the continued recognition points are allocated or recognisable will not exceed the period over which the shares were held.
- 3.9.8 The ownership points in paragraph 3.9.2 (which deals with the loss of shares, unless that loss of shares is outside the control of the measured entity) that are attributable to the entity, will be calculated by multiplying the following elements:
- 3.9.8.1 The value created for black participants as a percentage of the value of the measured entity at the date of the loss of shares as a percentage of the entity's value;
- 3.9.8.2 The ownership points attributable to the measured entity on the date of sale or loss.
- 3.9.9 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 most recent B-BBEE recognition level of the measured entity (not more than one year old and 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

4 BROAD-BASED OWNERSHIP AND EMPLOYEE OWNERSHIP SCHEMES

4.1 Black participants in Broad-Based ownership Schemes and Employee Share Ownership Programmes (ESOPs) Programmes holding rights of ownership in a measured entity may contribute:

4.2 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).

4.3 100% 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

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:

5.1.2 At least 51% of any of the private equity managers' exercisable voting rights associated with the equity instruments through which the private equity fund holds rights of ownership, must be held by black people;

5.1.3 At least 51% of the private equity fund's executive management and senior management must be black people;

5.1.4 At least 51% of the profits made by the private equity fund manager after realising any investment made by it, must by written agreement, accrue to black people;

5.2 The term 'profit' in this instance is deemed to be profit from the operations of the private equity fund manager and the carried interest that the private equity fund manager (and/or its associated entities, provided that at least 51% of the profits of the associated entities accrue to the private equity fund manager) receives after realising any investment made by it;

5.3 The private equity fund manager must be a black owned company as defined;

5.4 The private equity fund manager must invest at least 51% of the value of funds in management in companies that have at least a 25% direct black shareholding, post investment of the investment by the private equity fund, using the modified flow-through principle;

5.5 The private equity Fund manager can facilitate direct black shareholding at the time of entering into the transaction if the target company does not meet the requirement of at least 25% black shareholding at the time that the transaction is concluded;

5.6 This determination will be made at each measurement date and the status given to the private equity fund manager will be applicable for a period of 12 months;

- 5.7 In recognition of the fact that it is currently a challenge for private equity fund managers to find companies to invest in, that already have a significant black shareholding, they are allowed to achieve the 51% target over a period of time based on the formulation detailed below. It must be noted that this formulation is in line with that of the net value calculation above. This rule will apply to all investments made after 11 October 2014. The commencement date is the later of 11 October 2014 and the date of establishment of a new fund;
- 5.7.1 Within one year from the commencement date, more than 5% of the value of funds invested by the private equity fund must at all times be invested in enterprises that have at least 25% direct black shareholding;
- 5.7.2 Within two years from the commencement date, more than 10% of the value of funds invested by the private equity fund must at all times be invested in enterprises that have at least 25% direct black shareholding;
- 5.7.3 From the first day of the third year and the last day of the fourth year from the commencement date, more than 20% of the value of funds invested by the private equity fund must at all times be invested in enterprises that have at least 25% direct black shareholding;
- 5.7.4 From the first day of the fifth year and the last day of the sixth year from the commencement date, more than 30% of the value of the funds invested by the private equity fund must at all times be invested in enterprises that have at least 25% direct black shareholding;
- 5.7.5 From the first of the seventh year and the last day of the eighth year from the commencement date, more than 40% of the value of the funds invested by the private equity fund must at all times be invested in the enterprises that have at least 25% direct black shareholding;
- 5.7.6 From the first day of the ninth year and beyond from the commencement date, at least 51% of the value of the funds invested by the private equity fund must at all times be invested in enterprises that have at least 25% direct black shareholding;
- 5.8 The measurement of at least 51% of the value of funds invested by any private equity fund that must be invested in enterprises with at least 25% direct black shareholding is to be measured with reference to the cost of the investment made by the private equity fund;
- 5.9 In the case of private equity funds that were fully invested prior to 11 October 2014, investments by the fund managers will be considered as being made by black people if the private equity fund management entities meet the following criteria:
- 5.9.1 At least 51% of any of the private equity fund manager's exercisable voting rights associated with the equity instruments through which the private equity fund holds rights of ownership in a measured entity, must be held by black people;
- 5.9.2 At least 51% of the profits accruing to the private equity fund manager after realising any investment made by it, must by written agreement, accrue to black people; and
- 5.10 The private equity fund manager must be a B-BBEE owned company.

6 NON PROFIT COMPANIES AND COMPANIES LIMITED BY GUARANTEE

- 6.1 A measured entity may elect to include or exclude these companies for the purposes of measuring ownership in terms of this statement.
- 6.2 A non-profit company or company limited by guarantee that houses a Broad-Based Ownership Scheme or an ESOP 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 these non-profit companies 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 companies.
- 6.5 Black participants in such companies 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) and SOP 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) and ESOP set out in Annexe 100(B).

7 TRUSTS

- 7.1 Black participants in a trust holding rights of ownership in a measured entity may contribute:
- 7.2 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).
- 7.3 100% 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:
- 8.2 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;
- 8.3 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.
- 8.4 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 participant, it may be subject to measurement in 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 in 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.
- 10.2 Points are awarded in accordance with the formula in Annexe 100(C). The formula reflects that all acquisition debt should be extinguished within nine years of the acquisition of equity interests by participants in order to score full points.

11 THE BONUS POINTS IN TABLE 2A

- 11.1 A measured entity with 15% direct black economic interest, can receive a maximum of 3 points for an additional 10% economic interest held by black participants held either as direct or indirect ownership, measured in increments of 0.75 points for every 2.5% additional economic interest.
- 11.2 All contributions that are considered as ownership (including sales of assets, sales of shares, equity equivalents and indirect ownership) count in paragraphs 2.4 of Table 2a.

12 THE BONUS POINTS IN TABLE 2B

- 12.1 The bonus points relating to paragraph 2.2 of Table 2b are available only to local branches of foreign entities. Measured entities that qualify as local branches of foreign entities may meet their entire ownership targets through FS Code 100, Statement 103.
- 12.1.1 A foreign branch may receive a maximum of five bonus points if it satisfies its equity equivalent contribution requirements (as per FS Code 100, Statement 103) by contributing the total required amount for black industrialist financing or other qualifying equity equivalents in the financial sector. If a foreign branch funds transactions to the value of 12, 5% in the financial sector, it may receive 2, 5 bonus points – $[(12.5\% / 25\%) \times 5]$.

ANNEXE FS100 (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 insurers 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 FS100 (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:

- a. The management fees of the scheme must not exceed 15%;
- b. The constitution of the scheme must record the rules governing any portion of economic interest received and reserved for future distribution or application:
- c. At least 85% of the value of benefits allocated by the scheme must accrue to black people;
- d. 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
- e. At least 50% of the fiduciaries of the scheme must be black people and at least 25% must be black women;
- f. The chairperson of the scheme must be independent; and
- g. 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. The participants must take part in:
- 2.1.5 Appointing at least 50% of the fiduciaries of the scheme;
- 2.1.6 Managing the scheme at a level similar to the management role of shareholders in a company having shareholding;
- 2.1.7 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
- 2.1.8 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
- 2.1.9 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 A written record of the names of the beneficiaries or the use of a defined class of natural person satisfies the requirement for identification
- 3.1.2 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
- 3.1.3 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 accrues 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:
- 4.2 That the trust was created for a legitimate commercial reason, which must be fully disclosed; and;
- 4.3 That the terms of trust do not directly or indirectly seek to circumvent the provisions of the Draft Amended FSC 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 Programme (ESOP), or in the absence of such a track-record demonstrable evidence of full operational capacity to operate as a Broad-Based Ownership Scheme or ESOP;
- 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 FS 100 (C)

1 MEASUREMENT OF VOTING RIGHTS

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

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

Where

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

B is the percentage of exercisable voting rights held by black participants in a measured entity as a percentage of all voting rights of that entity

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 2.1.1 and 2.1.2

D is the weighting points allocated to the applicable measured ownership indicator in paragraphs 2.1.1 and 2.1.2

If an enterprise gains a score in the formula above that is more than the weighting points in paragraphs 2.1.1 and 2.1.2, that enterprise will only receive the weighting points.

2 MEASUREMENT OF ECONOMIC INTEREST

The calculation of the ownership indicators provided for in paragraphs 2.2.1, 2.2.2 and 2.2.3 is as follows:

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

Where

A is the recognisable percentage of a black participant's claim to economic interest in the measured entity

B is the percentage of economic interest, which participants who fall within the category of black people in that measured entity hold to all economic interest which all participants of that measured entity 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 2.2.1, 2.2.2 and 2.2.3

D is the weighting points allocated to the applicable measured ownership indicator in paragraphs 2.2.1, 2.2.2 and 2.2.3

If an enterprise gains a score in the formula above that is more than the weighting points in paragraphs 2.2.1, 2.2.2 and 2.2.3, 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 measurement Date

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

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 measurement date

4 NET VALUE

The "Net Value" points in paragraph 2.3 is the lower result of Formula A and Formula B as follows:

Formula A

$$A = B \times (1 / (25\% \times C)) \times 3$$

Where

A is the score in paragraph 2.3

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:

- a. 10% for the first year after the current equity interest date.
- b. 20% for the second year after the current equity interest date.
- c. 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.
- d. 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.
- e. 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.

- f. 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

$$A = B/C \times 3$$

Where

A is the score in paragraph 2.3

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

If a measured entity gains a score in paragraph 4.1 that is more than the weighting points in paragraph 2.3, that entity 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 3.9.1 of Code 100, Statement 100, use the following formula:

For paragraphs 2.1.1 and 2.2.1 of the ownership scorecard

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

Where

A is the percentage of rights of ownership that survive the sale of an Equity Instrument by a black participant in paragraphs 3.9.1 to 3.9.6

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/her sale.

C The net value realised or created for black participants after the liquidation of debt as a % of the value of the sale of shares of each of the indicators immediately prior to exit.

The net value created for black participants is equal to the current value of the shares less any own contribution made by the black participants at the inception date of the transaction.

D is the most recently determined B-BBEE recognition level of the measured entity (which must be less than one year old) based on its Generic Scorecard result for all elements other than ownership determined using statement 000.

For paragraphs 2.1.2, 2.2.2 and 2.2.3, A is equal to the percentage held by black women or designated groups immediately before their sale of shares, multiplied by the result of the calculation in paragraph 5.1.

For paragraph 2.3 of the ownership scorecard, 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:

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

Where

A is the percentage of rights of ownership that survive the sale of an equity instrument by a black participant in paragraphs 3.9.1 to 3.9.6.

B is the percentage of the equity instruments diluted, determined on the date of measurement immediately before his/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 recognition level of the measured entity excluding ownership immediately prior to the loss or sale.

Illustrative example

Assume that a 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.

At the commencement date, the value of this holding is R150 (enterprise value R1 500) and the value of the associated debt is R100.

The 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 this date, the value of the holding has grown to R180 and the debt is R80. The value of the business is therefore R1 800.

The measured entity is a level 3 contributor excluding ownership as at 31/12/2012.

Calculation for paragraphs 2.1.1 and 2.1.3 of the ownership scorecard:

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

$$B = 10\%$$

$$C = ((180-80-10)/180) = 50\%:$$

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 in paragraphs 2.1.1 and 2.1.3 of the scorecard will be:

$$10\% \times 50\% \times 110\% = 5.5\%$$

The continued recognition in paragraphs 2.1.2, 2.2.2 and 2.2.3 of the scorecard will be:

$$50\% \times 5.5\% = 2.75\%$$

Calculation for paragraph 2.3 of the ownership scorecard:

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

$$B = 10\%$$

$$C = (180 - 80 - 10) / 1800 = 5\%$$

$$D = 110\%$$

The continued recognition in paragraph 2.3 is therefore $10\% \times 5\% \times 110\% = 0.55\%$.

6 THE BONUS POINTS

The calculation of the bonus points as it relates to paragraph 2.4 of the ownership scorecard uses the following formula:

$$A = B/C \times D/25 \times E$$

Where

A is the bonus points awarded in paragraph 2.4

B is the percentage that economic Interest to which participants who fall within that category of black people in that measured entity holds to the total of all economic Interest of that measured entity

C is the percentage compliance target for economic Interest for the measured ownership indicator in paragraph 2.4.

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 2.4.

**DRAFT AMENDED CODE SERIES FS100: MEASUREMENT OF THE OWNERSHIP ELEMENT OF BROAD-BASED
BLACK ECONOMIC EMPOWERMENT
STATEMENT 102: RECOGNITION OF THE SALE OF ASSETS**

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013

Arrangement of Statement 102

| Paragraph | Subject | Page |
|------------------|--|-------------|
| 1 | OBJECTIVES OF STATEMENT 102 | 38 |
| 2 | APPLICATION | 38 |
| 3 | KEY MEASUREMENT PRINCIPLES | 38 |
| 4 | MEASUREMENT PRINCIPLES | 38 |
| 5 | RECOGNITION OF SALE OF ASSETS, EQUITY INSTRUMENTS AND BUSINESS | 39 |

1 OBJECTIVES OF STATEMENT 102

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 assets, 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 in the enterprise development element.
- 3.2 Qualification Criteria:
 - 3.2.1 For ownership points to be recognised the transaction:
 - a. Must result in the creation of sustainable businesses or business opportunities for black people; and
 - b. 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:
 - a. No unreasonable limitations (generally accepted arm's length limitations may be imposed and may include but not be limited to limitations such as normal arm's length restraints of trade limitations); as to its clients or customers; and
 - b. 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 arms-length on a fair and reasonable basis.
 - 3.2.4 The following transactions do not constitute qualifying transactions:
 - a. Transfers of business rights by way of license, lease or other similar legal arrangements not conferring unrestricted ownership; and
 - b. Sales of franchises by franchisors to franchisees, but includes sales of franchises from franchisees to other or 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 paragraphs 4.1.1 to 4.1.3 must use a standard valuation method.
- 4.3 Equivalency percentages in 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 in 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 the measurement date;
- 5.1.2 For each year thereafter, based on:
- a. The Indicator percentages at the measurement date; and
 - b. The values of the qualifying transaction and benefit to the seller at the measurement date in the third year after the transaction.

ANNEXE 102(A)

This formula determines the equivalency percentages in paragraphs 2.1 to 2.2 of Table 2a of the ownership scorecard.

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

Where

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

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

STATEMENT FS103: THE RECOGNITION OF EQUITY EQUIVALENTS

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013

Arrangement of Statement FS103

| Paragraph | Subject | Page |
|---|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 41 |
| 2 | KEY MEASUREMENT PRINCIPLES | 41 |
| 3 | RECOGNITION OF EQUITY EQUIVALENT PROGRAMMES | 42 |
| 4 | MEASUREMENT OF EQUITY EQUIVALENT CONTRIBUTIONS ON THE OWNERSHIP SCORECARD | 43 |
| 5 | TWO SPECIFIC EXAMPLES OF EQUITY EQUIVALENT PROGRAMMES | 43 |
| 6 | SPECIFIC RULES FOR APPLYING FOR RECOGNITION OF EQUITY EQUIVALENTS | 44 |
| 7 | SPECIFIC RULES ON MULTINATIONALS | 44 |
| 8 | EMPOWERMENT FINANCING AND ACCESS TO FINANCIAL SERVICES EQUITY EQUIVALENT PROGRAMMES | 45 |
| ANNEXE 103(A): Calculation of Ownership score in an equity equivalent programme | | 45 |

1. OBJECTIVES OF STATEMENT FS103

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 are not limited to, additional black industrialist financing, access to financial services, targeted investments, enterprise development, and other elements. These additional contributions may only be counted in either equity equivalents or the respective element, not in both.
- 2.3. Where an equity equivalent contribution may qualify in, for example, the empowerment financing element, it must only be included in either empowerment financing or ownership.
- 2.4. Further, any equity equivalent contribution may only be counted as an equity equivalent contribution in its entirety in either ownership or the elements scorecard. Measured entities may not split a contribution and attribute part of that contribution to ownership and part of the contribution to a specific element.
- 2.5. The target for equity equivalents shall be the Rand value of 5% for local entities or 25% for foreign branches of the entity measured using a standard valuation as at 31 December 2010.
- 2.6. 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 entity at 31 December 2010) with respect to its ownership target of 15% direct ownership.
- 2.7. Lending types of equity equivalent contributions will be recognised as follows:
 - 2.7.1. The origination amounts shall be recognised in paragraphs 2.1 to 2.2 of the ownership scorecard:
 - a. For the purpose of paragraph 2.1.1 of the ownership scorecard equity equivalent contributions shall be deemed to hold voting rights;
 - b. For the purpose of paragraph 2.1.2 of the ownership scorecard 50% of the voting rights recognised in paragraph 2.1.1 shall be deemed to be held by black women
 - c. For the purpose of paragraph 2.2.1 of the ownership scorecard equity equivalent contributions shall be deemed to hold economic Interest;
 - d. For the purpose of paragraph 2.2.2 of the ownership scorecard, 50% of the economic interest recognised in paragraph 2.2.1 shall be deemed to be held by black women;
 - e. For the purpose of paragraph 2.2.3 of the ownership scorecard, 50% of the economic interest recognised in paragraph 2.2.1 shall be deemed to be held by black designated groups
 - 2.7.2. Only the balance sheet exposure as at measurement date shall be recognised in paragraph 2.3 of the ownership scorecard.

3. RECOGNITION OF EQUITY EQUIVALENT PROGRAMMES

- 3.1 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 about its equity equivalent proposal and the Minister of Finance has forwarded a recommendation to the Minister of Trade & Industry.
- 3.2 Notwithstanding 3.1, any equity equivalent programme forming part of this Draft Amended FSC constitutes an approved programme. Specifically, the equity equivalent programmes described in paragraph 8 constitute approved programmes and no further approvals are necessary.
- 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:
- a. The National Development Plan;
 - b. The National Skills Development Strategy III;
 - c. The National Treasury policy priorities referred to in the document "A Safer Financial Sector to Serve South Africa better";
 - d. The New Growth Path;
 - e. The Jobs Fund.
- 3.4.2 Enterprise creation in co-operatives that are:
- a. More than 50% owned by black people; or
 - b. More than 30% owned by black women; or
 - c. 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 about the sponsors of the programme.
- 3.6 Equity equivalent programmes are not limited to multinational corporations that are subject to a global policy or local branches of foreign banks, but are available to all measured entities in the sector, subject to the limitation on local entities in paragraph 2.3 above.
- 3.7 Equity equivalent programmes may have any of the following as their beneficiaries:
- 3.7.1 Enterprises in which:
- a. Black people hold more than 50% of the exercisable voting rights and more than 50% of the economic interest;
 - b. Black women hold more than 30% of the exercisable voting rights and more than 30% of the economic interest; and

- c. Black designated groups hold more than 50% of the exercisable voting rights and more than 50% of the economic interest; or
- 3.7.2 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 corporation (including foreign branches of international banks) participating in an equity equivalent programme cannot receive any points for ownership in any statement in Code Series 100 other than this statement. Local banks or domestic multinationals may only utilise equity equivalents to a maximum of 5% of their measurable portion and may therefore receive points for ownership in any statement in Code series 100.
- 4.2 Contributions to equity equivalent programmes are measured at Rand value of contributions made using the general principles set out in paragraph 8 of this Statement 103 and code series FS500, FS600 and FS700. Certain general principles defined in paragraph 8 may be the same as certain general principles in code series FS500, FS600 and FS700 against the following target:
- 4.2.1 25 % of the value of the South African operations of the foreign multinational subject to a global policy 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 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 at 31 December 2010.
- 4.3 The ownership score in an equity equivalent programme using the target in paragraph 4.2 must be calculated in terms of Annexe 103(A) using the principles defined in paragraphs 2.1 to 2.7 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:
- a. The creation of the new enterprise must comply with the requirements for a qualifying transaction as defined in Statement 102;
 - b. The creation of the new enterprise cannot contribute to the entity's score in code series
 - c. 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.
- a. Must comply fully with code series FS500; and
 - b. Cannot form part of the score of the entity applying for recognition of equity equivalents in code series FS500.
- 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.

a. Must comply fully with code series FS600; and

b. Cannot form part of the score of the entity applying for recognition of equity equivalents in 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 involves enhanced access to financial services:

a. Must comply fully with code series FS700; and

b. Cannot form part of the score of the entity applying for recognition of equity equivalents in code series FS700.

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 lack 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 in paragraph 2.2 of Table 2b of the ownership scorecard, the 25% direct ownership target must be achieved via equity equivalent programmes within the financial sector.

8. EMPOWERMENT FINANCING AND ACCESS TO FINANCIAL SERVICES EQUITY EQUIVALENT PROGRAMMES

8.1 Measured entities must register every transaction that constitutes a part of empowerment financing and access to financial services equity equivalent programmes with the Council at the commencement of the transaction:

8.1.1. The registration will include details of the B-BBEE status of the recipient where relevant, a description of the transaction in the context of code series FS500 and/or FS600 and/or FS700 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 in terms of code series FS500 and/or FS600 and/or FS700.

8.1.3 Contributions to equity equivalent programmes that are the same in nature to contributions contemplated in code series FS500 and/or FS600 and/or FS700 and have already been claimed in code series FS600 and/or FS700 and/or FS700 may not be claimed in paragraph 2 of code FS100, Statement 100. No double counting of the same contribution will be allowed in ownership and any other element.

8.2 Measurement principles:

8.2.1 Equity Equivalent Contributions will be recognised as follows:

- a. The target for equity equivalents shall be the Rand value of 5% or 25% of the value of the South African operations of the entity measured using a standard valuation as at 31 December 2010
- b. The origination amounts shall be recognised in paragraphs 2.1.1 to 2.2.3 of the ownership scorecard:
 - i. For the purpose of paragraph 2.1.1 of the ownership scorecard, equity equivalent contributions shall be deemed to hold voting rights
 - ii. For the purpose of paragraph 2.1.2 of the ownership scorecard, 50% of the voting rights recognised in paragraph 2.1.1 shall be deemed to be held by black women
 - iii. For the purpose of paragraph 2.2.1 of the ownership scorecard, equity equivalent contributions shall be deemed to hold economic interest.
 - iv. For the purpose of paragraph 2.2.2 of the ownership scorecard, 50% of the economic Interest recognised in paragraph 2.2.1 shall be deemed to be held by black women.
 - v. For the purpose of paragraph 2.2.3 of the ownership scorecard, 50% of the economic Interest recognised in paragraph 2.2.1 shall be deemed to be held by black designated groups.
- c. Only the balance sheet exposure as at measurement date shall be recognised in paragraph 2.3 of the ownership scorecard.

ANNEXE 103(A)

This formula is for determining the ownership score in an equity equivalent programme using either of the targets in paragraphs 4.2.1 or 4.2.2.

For foreign branches:

$$A = B/C \times 14$$

Where

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

B is the 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:

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

Where

A is ownership points of the measured 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 2008 – relating to Paragraphs 2.1.1 and 2.2.1 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 2008 relating to paragraphs 2.1.2 and 2.2.2 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 2.2.3 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

This formula for determining the ownership score in 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 10 year target is as follows:

$$A = B/C \times (1/ (5\% \text{ or } 25\% \times D) \times 13 \text{ or } 4.33$$

Where

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

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

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 detailed 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. |

DRAFT AMENDED FSC SERIES FS200: MEASUREMENT OF THE MANAGEMENT CONTROL ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

STATEMENT FS200: THE GENERAL PRINCIPLES FOR MEASURING MANAGEMENT CONTROL

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013

Arrangement of Statement FS200

| Paragraph | Subject | Page |
|---|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 48 |
| 2 | MANAGEMENT CONTROL SCORECARD | 48 |
| 3 | KEY MEASUREMENT PRINCIPLES | 49 |
| 4 | MEASUREMENT OF THE MANAGEMENT CONTROL CRITERIA | 51 |
| ANNEXE 200 (A) : Measurement of Management Control Indicators | | 51 |

1 OBJECTIVES OF STATEMENT FS200

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

2 MANAGEMENT CONTROL SCORECARD

The following table represents the criteria used for deriving a score for management control in terms of Statement FS200:

| Management Control Scorecard | | | |
|-------------------------------------|--|---------------|---------------|
| | Description | Points | Target |
| 2.1 | Board Participation | 5 | |
| 2.1.1 | Exercisable voting rights of black board members as a percentage of all board members | 1 | 50% |
| 2.1.2 | Exercisable voting rights of black female board members as a percentage of all board members | 1 | 25% |
| 2.1.3 | Black executive directors as a percentage of all executive directors | 1 | 50% |
| 2.1.4 | Black female executive directors as a percentage of all executive directors | 1 | 25% |
| 2.1.5 | African executive directors as a percentage of all executive directors | 1 | EAP % |
| 2.2 | Other Executive Management | 3 | |
| 2.2.1 | Black executive management as a percentage of all executive management | 1 | 60% |
| 2.2.2 | Black female executive management as a percentage of all executive management | 1 | 30% |
| 2.2.3 | African executive managers as a percentage of all executive managers | 1 | EAP % |
| 2.3 | Senior management | 4 | |
| 2.3.1 | Black employees in senior management as a percentage of all such employees | 2 | 60% |
| 2.3.2 | Black female employees in senior management as a percentage of all senior managers | 1 | 30% |
| 2.3.3 | African senior managers as a percentage of all senior managers | 1 | EAP % |
| 2.4 | Middle management | 4 | |
| 2.4.1 | Black employees in middle management as a percentage of all middle management | 2 | 75% |
| 2.4.2 | Black female employees in middle management as a percentage of all middle management | 1 | 38% |
| 2.4.3 | African middle managers as a percentage of all middle managers | 1 | EAP % |

| | | | |
|-------|--|-----------|-------|
| 2.5 | Junior management | 3 | |
| 2.5.1 | Black employees in Junior management as a percentage of all junior management | 1 | 88% |
| 2.5.2 | Black female employees in Junior management as a percentage of all junior management | 1 | 44% |
| 2.5.3 | African junior managers as a percentage of all junior managers | 1 | EAP % |
| 2.6 | Black employees with disabilities as a percentage of all employees | 1 | 2% |
| | Total | 20 | |

3 KEY MEASUREMENT PRINCIPLES

- 3.1 A measured entity receives points for its achievement towards the targets for participation of black people, black women and African people at board, executive management, senior middle and junior management, and of black employees with disabilities
- 3.2 A measured entity must use the current payroll data as at the measurement date in calculating its score in the management control scorecard.
- 3.3 If a measured entity does not distinguish between other executive management and senior management, then other executive management is measurable as a single indicator with a weighting of 7, split as follows:
- 3.3.1 Black executive management: 3
- 3.3.2 Black female executives: 2
- 3.3.3 African executive managers: 2
- 3.4 Where a measured entity does not have any employees in middle- or junior management, then the weightings of the indicator which has no employees must be evenly distributed among the remaining categories of senior, middle or junior management. Where there is no senior, middle or junior management, the aggregate weightings of these three categories will be allocated to the category 'Other Executive Management'. Male weighting points must be aligned to male, female to female and African to African.
- 3.5 When combining categories of Management, the higher target will apply to the combined category.
- 3.6 If a financial institution is a 100% owned local subsidiary of a multinational or external company (as defined in Section 1 of the Companies Act) or is a branch of a multinational or external company, and is subject to a global policy:
- 3.6.1 Any board members, executive or senior managers who are not South African citizens and who are imposed on the local operation will not be taken into account for the purposes of calculating ratios in terms of this paragraph.
- 3.6.2 Notwithstanding the provisions of paragraph 3.6.1 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 one person who may be excluded.
- 3.7 Notwithstanding paragraph 3.6.2 above, if an institution subject to global policy sends black South African employees, who are the intended beneficiaries of this Draft Amended FSC, on secondment or rotation to branches abroad, it may exclude one additional foreign imposed staff for every one intended beneficiary sent abroad. This is in addition to the 20% cap.

- 3.8 Board Participation
- 3.8.1 Board means the governing body consisting of independent and executive directors of the enterprise. Their main functions are to govern the enterprise as defined in the King Report; formulate and implement policy; undertake strategic planning; plan, direct and co-ordinate the activities of the enterprise.
- 3.8.2 Board participation refers to the level of control exercised by a person over the decisions of the board.
- 3.8.3 Measured entities that do not have a board of directors may apply to the Council for dispensation to deem their executive committee to be a board.
- 3.8.4 Notwithstanding the provision in paragraph 3.8.3, the onus shall be on the measured entity applying for this dispensation to provide sufficient evidence to the Council to show that the executive committee does in fact hold responsibility that justifies the application.
- 3.8.5 Notwithstanding the provision in paragraphs 3.8.3 and 3.8.4, 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 its executive committee as the board of directors. A measured entity must elect to deem its executive committee as a board of directors or elect to be excluded from the provisions for board representation. Once that election has been made, it must be maintained.
- 3.8.6 Measured entities electing to be excluded from the provisions for board representation will still be measured for the category 'Other Executive Management' as per paragraph 2.2.
- 3.8.7 Notwithstanding the provisions of paragraph 3.8.5, any person including non-South African citizens serving on the board or other executive management of a financial institution, and not excluded from measurement in that paragraph, shall be subject to the definition of a black person as stipulated in the Act.
- 3.9 Defining Other Executive Management
- 3.9.1 Executive management positions include the executive directors of the measured entity.
- 3.9.2 Executive management positions also include executive managers who do not serve on the board. Examples include: Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Human Resource Executive, Transformation Executive and other people holding executive management positions.

4. MEASUREMENT OF THE MANAGEMENT CONTROL CRITERIA

The criteria in the management control scorecard are measured in terms of the formula set out in Annexe 200(A).

ANNEXE FS200 (A)**MEASUREMENT OF MANAGEMENT CONTROL INDICATORS**

The Management Control criteria provided for in paragraphs 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6 is calculated as follows:

$$A = \frac{B}{C} \times D$$

Where

- A** is the score achieved by a measured entity in respect of the measurement of the criteria specified in paragraph 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6 of the management control scorecard
- B** in the case of paragraph 2.1, is the voting rights of black directors as a percentage of voting rights of all directors in the measured entity; or
- B** in the case of paragraph 2.2, is the percentage of black employees in the Other executive management category of the measured entity; or
- B** in the case of paragraph 2.3, 2.4 and 2.5, is the percentage of black employees for each of the indicators in those paragraphs as calculated in Annexe 200 (B); or
- B** in the case of paragraph 2.6, is the percentage of black employees with a disability as a percentage of all employees
- C** is the percentage compliance target in respect of the applicable criteria being measured as specified in paragraph 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6 of the management control scorecard
- D** means the weighting points allocated to the applicable criteria being measured as specified in paragraph 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6 of the management control scorecard.

**DRAFT AMENDED FSC SERIES FS300: MEASUREMENT OF THE SKILLS DEVELOPMENT ELEMENT OF BROAD-BASED
BLACK ECONOMIC EMPOWERMENT**

**STATEMENT FS300: THE GENERAL PRINCIPLES FOR MEASURING
SKILLS DEVELOPMENT**

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013

Arrangement of statement FS300

| Paragraph Subject | | Page |
|---|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 53 |
| 2 | THE SKILLS DEVELOPMENT ELEMENT SCORECARD | 53 |
| 3 | KEY MEASUREMENT PRINCIPLES | 54 |
| 4 | SUBMINIMUM AND DISCOUNTING PRINCIPLE | 54 |
| 5 | GENERAL PRINCIPLES | 54 |
| 6 | LEGITIMATE TRAINING EXPENSES | 55 |
| 7 | MEASUREMENT OF SKILLS DEVELOPMENT INDICATORS | 55 |
| ANNEXE 300 (A): Categories of Skills Development Programmes | | 56 |
| ANNEXE 300 (B) : Calculation of Skills Development Indicators | | 58 |

1 OBJECTIVES OF STATEMENT FS300

- 1.1 Specify 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 Indicate the formula for measuring the skills development element.

2 THE SKILLS DEVELOPMENT ELEMENT SCORECARD

This table represents the criteria used for scoring skills development in terms of this statement:

| | Description | Points | Target |
|-----|--|------------|--------|
| 2.1 | Senior management | 1.5 | |
| | 2.1.1 Skills development expenditure on learning programmes specified in the learning programme matrix for black senior and executive managers as a percentage of the leviab amount applicable to this level | 1 | 2.00% |
| | 2.1.2 Skills development expenditure on learning programmes specified in the learning programme matrix for black women senior and executive managers as a percentage of the leviab amount applicable to this level | 0.5 | 1.00% |
| 2.2 | Middle management | 1.5 | |
| | 2.2.1 Skills development expenditure on learning programmes specified in the learning programme matrix for black middle managers as a percentage of the leviab amount applicable to this level | 1 | 3.00% |
| | 2.2.2 Skills development expenditure on learning programmes specified in the learning programme matrix for black women middle managers as a percentage of the leviab amount applicable to this level | 0.5 | 1.50% |
| 2.3 | Junior management | 2 | |
| | 2.3.1 Skills development expenditure on learning programmes specified in the learning programme matrix for black junior managers as a percentage of leviab amount applicable to this level | 1 | 5.00% |
| | 2.3.2 Skills development expenditure on learning programmes specified in the learning programme matrix for black women junior managers as a percentage of the leviab amount applicable to this level | 1 | 2.50% |
| 2.4 | Black people and non-management staff | 2 | |
| | 2.4.1 Skills development expenditure on learning programmes specified in the learning programme matrix for black people and non-management staff as a percentage of the leviab amount applicable to this level | 1 | 8.00% |
| | 2.4.2 Skills development expenditure on learning programmes specified in the learning programme matrix for black women and non-management staff as a percentage of the leviab amount applicable to this level | 1 | 4.00% |

| | | | |
|-----|---|-----------|-------|
| 2.5 | Skills development expenditure on learning programmes specified in the learning programme matrix for black employees with disabilities as a percentage of the leviable amount | 2 | 0.30% |
| 2.6 | Number of black people, (employed or unemployed) participating in learnerships, apprenticeships and internships as a percentage of total employees | 6 | 5.00% |
| | Total | 15 | |
| 2.7 | Bonus Points: Number of unemployed black people absorbed by the measured entity/industry at the end of the learnership programme | 4 | 100% |

3 KEY MEASUREMENT PRINCIPLES

- 3.1 The following criteria must be fulfilled in order for the measured entity to receive points on the skills development scorecard:
- 3.1.1 A Workplace Skills Plan, an Annual Training Report and a Pivotal Report which are SETA approved; and
- 3.1.2 Implementation of a priority skills programme in general, and for black people in particular.
- 3.2 The compliance targets in paragraphs 2.4.1 and 2.4.2 includes external training expenditure for black people that are not employed by the measured entity.
- 3.3 A trainee tracking tool has to be developed in order for the measured entity to score in terms of paragraph 2.7.
- 3.4 If less than 100% of the trainees are absorbed in terms of paragraph 2.7, the percentage absorbed will be recognised.
- 3.5 Skills development expenditure on black people who are counted on the skills development scorecard may not be counted again in any other B-BBEE element of the QSFI or generic scorecard.

4 SUB-MINIMUM AND DISCOUNTING PRINCIPLE

- 4.1 A measured entity must achieve a minimum of 40% of the total weighting points (excluding bonus points) set out in the skills development element.
- 4.2 Non-compliance with the threshold targets will result in the overall achieved B-BBEE recognition level being discounted in accordance with paragraph 3.3.3 of Statement 000.

5 GENERAL PRINCIPLES

- 5.1 Skills development must:
- 5.1.1 contribute to the achievement of the country's economic growth and social development goals that will enrich the creation of decent work and sustainable livelihoods;
- 5.1.2 support 'Professional, Vocational, Technical and Academic Learning (Pivotal)' programmes, achieved by means of professional placements, work-integrated learning, apprenticeships, learnerships and internships, that meet the critical needs for economic growth and development; and
- 5.1.3 strengthen the skills and human resource base by encouraging the support of skills development initiatives with an emphasis on skills development and career pathing for all working people in order to support employment creation.

- 5.2 Recognisable skills development expenditure includes any legitimate training expenses (see paragraph 6 for examples), incurred for any learning programme offered by a measured entity to its black employees and black people, evidenced by an invoice or appropriate internal accounting record.
- 5.3 Skills development expenditure arising from category G learning programmes in the learning programmes matrix cannot in aggregate represent more than 15% of the total value of skills development expenditure.
- 5.4 The following legitimate training expenses incurred by the measured entity cannot in aggregate represent more than 15% of the total value of skills development expenditure:
- 5.4.1 accommodation of learners;
 - 5.4.2 catering for learners at learning site;
 - 5.4.3 traveling of learners to and from the learning site.
- 5.5 Salaries or wages paid to an employee of the measured entity participating as a learner in any learning programme constitute skills development expenditure only if the learning programme is a learnership, internship or apprenticeship (category B, C and D of the learning programme matrix). Salaries or wages paid to the employee may be claimed only for the period during which that employee was participating in the learnership, internship or apprenticeship.
- 5.6 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 employee or if the grant of the scholarship or bursary is conditional. Notwithstanding the foregoing, if the right of recovery or the condition involves either of the following obligations of the employee, the expenses are recognisable:
- 5.6.1 the obligation of successful completion in the studies within the time period allocated; or
 - 5.6.2 the obligation of continued employment by the measured entity for a period following successful completion of the studies, that is not more than the period of the studies.

6 LEGITIMATE TRAINING EXPENSES

- 6.1 Legitimate training expenses include, but are not necessarily limited to:
- 6.1.1 costs of training materials;
 - 6.1.2 costs of trainers;
 - 6.1.3 costs of training facilities, including costs of catering;
 - 6.1.4 scholarships and bursaries;
 - 6.1.5 course fees;
 - 6.1.6 accommodation and travel; and
 - 6.1.7 administration costs such as the organisation of training including, where appropriate, the measured entity's costs of employing a skills development facilitator, a training manager or other training staff.

7 MEASUREMENT OF SKILLS DEVELOPMENT INDICATORS

The formulae and example that explains the method of measurement of the criteria in the skills development scorecard is set out in Annexe 300 (B).

ANNEXE FS300 (A)

| Cat | Programme | Narrative Description | Delivery Mode | Learning Site | Learning Achievement |
|-----|---------------------------------|---|---|---|--|
| A | Bursaries | 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 formal institution of learning |
| B | Internships | Institution-based theoretical instruction as well as some practical learning with an employer or in a simulated work environment – formally assessed through the institution | 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 | Internships / Articles | Recognised or registered structured 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 | Learnerships or Apprenticeships | 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 issued by an accredited or registered formal institution of learning |
| E | Work – integrated learning | Occupationally- directed instructional and work-based learning programme that does not require a formal contract – formally assessed by an accredited body | Structured, supervised experiential learning in the workplace which may include some institutional instruction | Workplace, institutional as well as ABET providers | Credits awarded for registered unit standards, continued professional development, improved performance or skills (e.g. evidence of outputs based on Performance Development Programme) |
| F | Workplace training | 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 standard (in some instances) |
| G | Informal training | Work-based informal programmes | Informal training | Workplace | Increased understanding of job or work context or improved performance of skills |

ANNEXE FS300 (B)

MEASUREMENT OF SKILLS DEVELOPMENT INDICATORS

The Skills Development criteria provided for in paragraph 2 of the scorecard are calculated as follows:

$$A = \frac{B}{C} \times D$$

Where

A is the score achieved by a measured entity in respect of the measurement of the skills development criteria specified in paragraph 2

B in the case of paragraphs 2.1, 2.2, 2.3, 2.4 and 2.5, is the amount of skills development expenditure expressed as a percentage of the relevant leviable amount of the occupational level or the measured entity, as calculated in Annexe 300(C); **or**

B in the case of paragraph 2.6, is the number of black people who are doing learnerships, apprenticeships and internships, expressed as a percentage of the total number of employees of the measured entity, as calculated in Annexe 300(C); **or**

B in the case of paragraph 2.7, is the number of black people who completed a learnership programme during the measurement period and who have been subsequently absorbed by the measured entity or the industry, expressed as a percentage of the total number of learnership programmes that black people were enrolled for and that ended during the measurement period.

C is the percentage compliance target in respect of the applicable criteria being measured as specified in the skills development scorecard

D is the weighting for the applicable criteria being measured as specified in the skills development scorecard

**DRAFT AMENDED FSC SERIES FS400: MEASUREMENT OF THE PROCUREMENT ENTERPRISE AND SUPPLIER
DEVELOPMENT ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

**STATEMENT FS400: THE GENERAL PRINCIPLES FOR MEASURING PROCUREMENT ENTERPRISE AND SUPPLIER
DEVELOPMENT**

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013

Arrangement of Statement FS400

| Paragraph | Subject | Page |
|--|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 60 |
| 2 | ENTERPRISE AND SUPPLIER DEVELOPMENT SCORECARD | 61 |
| 3 | KEY MEASUREMENT PRINCIPLES | 63 |
| 4 | GENERAL PRINCIPLES | 64 |
| 5 | TOTAL MEASURED PROCUREMENT SPEND | 65 |
| 6 | EXCLUSIONS FROM TOTAL MEASURED PROCUREMENT SPEND | 66 |
| 7 | MEASUREMENT OF B-BBEE PROCUREMENT SPEND | 66 |
| 8 | THE CALCULATION OF PREFERENTIAL PROCUREMENT CONTRIBUTIONS | 67 |
| 9 | ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT | 69 |
| 10 | MEASUREMENT OF ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT CONTRIBUTIONS | 69 |
| ANNEXE 400(A)(a): Calculation of B-BBEE Procurement spend | | 70 |
| ANNEXE 400(A)(b): Calculation of Preferential Procurement contributions to B-BBEE | | 70 |
| ANNEXE 400(B): Enterprise Development and Supplier Development Benefit Factor Matrix | | 71 |

1 OBJECTIVES OF STATEMENT FS400

- 1.1 Specify the scorecard for measuring qualifying enterprise and supplier development contributions;
- 1.2 Specify the key measurement principles applicable to calculating preferential procurement contributions; qualifying enterprise development and supplier development contributions;
- 1.3 Define the principles applicable when calculating B-BBEE procurement spend and enterprise development and supplier development spend; and
- 1.4 Indicate the formula for calculating the individual criteria specified in the enterprise and supplier development scorecard.

2 PROCUREMENT ENTERPRISE AND SUPPLIER DEVELOPMENT SCORECARD

The following table represents the criteria for deriving a score for Procurement Enterprise and Supplier Development in this statement

| | Description | Others | Banks and Life offices | Targets year 1-3 | Targets year 3+ |
|------------|--|------------|------------------------|------------------|-----------------|
| | | Weightings | | Targets | |
| 2.1 | Procurement | 20 | 15 | | |
| 2.1.1 | B-BBEE Procurement Spend from all <i>Empowering Suppliers</i> based on the B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 5 | 4 | 75% | 80% |
| 2.1.2 | B-BBEE procurement spend from empowering suppliers who are QSEs based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 3 | 2 | 14% | 18% |
| 2.1.3 | B-BBEE procurement spend from empowering suppliers who are EMEs based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 2 | 2 | 8% | 12% |
| 2.1.4 | B-BBEE procurement spend from empowering suppliers that are at least 51% black owned based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 7 | 5 | 20% | 30% |
| 2.1.5 | B-BBEE procurement spend from empowering suppliers that are at least 30% black women owned based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 3 | 2 | 9% | 10% |

| | | | | |
|------------|--|-----------|-----------|--------------|
| 2.2 | Supplier Development | 10 | 0 | |
| 2.2.1 | Annual value of all supplier development contributions made by the measured entity | 10 | 0 | 2% of NPAT |
| 2.3 | Enterprise and Supplier Development | 5 | 0 | |
| 2.3.1 | Annual value of enterprise development contributions and sector specific programmes made by the measured entity | 5 | 0 | 1% of NPAT |
| | Total | 35 | 15 | |
| 2.4 | Bonus Points | | | |
| 2.4.1 | Graduation of one or more enterprise development beneficiaries to graduate to the supplier development level. | 1 | 0 | 1 |
| 2.4.2 | For creating one or more jobs directly as a result of supplier development and enterprise development initiatives by the measured entity. | 1 | 0 | 1 |
| 2.4.3 | B-BBEE procurement spend from black stockbrokers, black fund managers and intermediaries who are empowering suppliers based on the B-BBEE procurement recognition levels as a percentage of total value of all trade allocated | 2 | 2 | 5% |
| 2.4.4 | B-BBEE procurement spend from designated group suppliers that are at least 51% | 2 | 2 | 3% 4% |
| 2.4.5 | Enterprise development support of black stockbrokers, black fund managers or intermediaries | 3 | 0 | 0.5% of NPAT |
| | Total bonus points | 9 | 4 | |

3 KEY MEASUREMENT PRINCIPLES

3.1 The Enterprise and Supplier Development scorecard consists of:

3.1.1 Preferential Procurement; and

3.1.2 Enterprise Development and Supplier Development

3.2 Qualifying Enterprise Development and Supplier Development Contributions will be recognised as a percentage of the previous year's annual Net Profit after Tax (NPAT) of the measured entity.

If the measured entity does not make a profit, then Qualifying Enterprise Development and Supplier Development Contributions of an average of the last 3 years contributions will earn the measured entity the full points in Paragraphs 2.2 and 2.3 respectively.

3.3 Sub-minimum and Discounting Principle:

3.3.1 A measured entity, excluding banks and life offices, must achieve a minimum of 40% of each of the total weighting points (excluding bonus points) of each of the three categories, within the enterprise and Supplier Development element, namely Preferential Procurement; Supplier Development and enterprise Development. This means that the measured entities must achieve at least:

- a. 8 points in the Preferential Procurement category;
 - b. 4 points in the Supplier Development category;
 - c. points in the Enterprise Development category;
- 3.3.2 For companies other than banks and life offices, non-compliance with the threshold targets will result in the overall achieved B-BBEE status level being discounted in accordance with Paragraph 3.3.3 of statement 000.
- 3.4 An Empowering Supplier within the context of the Draft Amended FSC is:
- 3.4.1 A measured entity that is B-BBEE Compliant and
- 3.4.2 Must be compliant with three of the five requirements listed below:
- a. At least 25% of procurement spend must be from local suppliers.
 - b. 50% of new jobs created during the measurement period must be for black people and the total proportion of black people since the last measurement period cannot have dropped.
 - c. At least 25% of SED contributions must be directed at education activities or at least 25% of ED contributions must be directed at black women owned businesses.
 - d. At least 85% of leviable amount should be paid to South African employees by service industry entities.
 - e. Skills transfer - Organisations need to spend a minimum number of days as indicated in the table below, in assisting enterprise or supplier development beneficiaries to increase their operational and/or financial capacity. This process can be outsourced.

| Number of employees in the organisation | Number of days spent doing skills transfer with beneficiaries |
|---|---|
| 0 – 20 | 1 |
| 21 – 150 | 3 |
| 151 – 500 | 6 |
| > 500 | 12 |

- 3.5 Exempted Micro Enterprises and Start-ups are automatically recognised as empowering suppliers.
- 3.6 The weighting points in the enterprise and supplier development scorecard represent the maximum number of points possible for each of the criteria.
- 3.7 Enhanced Procurement Recognition
- If a measured entity procures goods and services from a supplier that is:
- 3.7.1 a recipient of qualifying Supplier Development Contributions from a measured entity in code series FS400 that has a minimum three (3) year contract with the measured entity, the recognisable B-BBEE procurement spend that can be attributed to that supplier is multiplied by a factor of 1.2;
- 3.7.2 a more than 50% black owned QSE or QSFI or EME which is not a supplier development beneficiary but that has a minimum three (3) year contract with the measured entity, the recognisable B-BBEE procurement spend that can be attributed to that supplier is multiplied by a factor of 1.2;
- 3.7.3 a first time supplier to the measured entity, the recognisable B-BBEE procurement spend that can be attributed to that supplier is multiplied by a factor of 1.2;

- 3.8 Procurement of goods and services and any other activities that fall in paragraph 2.1 will not qualify for scoring in paragraphs 2.2 and 2.3 and *vice versa*.
- 3.9 Beneficiaries of qualifying supplier development and enterprise development contributions are EMEs, QSFIs or QSEs which are more than 50% black owned or are more than 50% black woman owned.
- 3.10 Where a QSE or EME supplier's turnover in the current measurement period exceeds the QSE or EME turnover threshold the measured entity may continue to count the preferential procurement spend in either paragraph 2.1.2 or 2.1.3 for a period of three (3) years post the supplier exceeding the turnover threshold, provided that:
- 3.10.1 The measured entity procured from the supplier prior to the supplier exceeding the specified turnover threshold and;
- 3.10.2 The measured entity having made an enterprise or supplier development contribution prior to the supplier exceeding the turnover threshold.

4 GENERAL PRINCIPLES

- 4.1 To strengthen local procurement in order to help build South Africa's industrial base in critical sectors of production and value adding manufacturing, which are largely labour-intensive industries.
- 4.2 To increase local procurement through capacity building achieved by incentivising appropriate local supplier development programmes by businesses supplying imported goods and services.
- 4.3 The import provisions do not apply to the designated sectors and products for local production, as and when published.
- 4.4 To actively support procurement from more than 50% black owned QSFIs and EMEs by identifying opportunities to increase procurement from local suppliers in order to support employment creation.
- 4.5 To support procurement from more than 50% black owned and 30% black woman owned businesses in order to increase the participation of these businesses in the mainstream economy.
- 4.6 To promote the use of the more than 50% black owned professional service providers and entrepreneurs as suppliers.
- 4.7 Measured entities receive recognition for any qualifying enterprise and supplier development contributions that are quantifiable as a monetary value using a standard valuation method.
- 4.8 Measured entities are encouraged to align their enterprise and supplier development initiatives with the designated sectors of government's localisation and value adding programmes, where this is possible in the financial services sector.
- 4.9 Measured entities are encouraged to align their enterprise and supplier development initiatives with their supply chain requirements thereby linking enterprise and supplier development with preferential procurement.
- 4.10 Qualifying enterprise and supplier development contributions of any measured entity are recognisable on an annual basis.
- 4.11 Where grant contributions, programmes and/or initiatives span over multiple years, the total contribution amount must be divided by the number of years, and the average per year is then to be utilised for the annual contribution, where such contributions can be annualised.

- 4.12 Measured entities are encouraged to develop and implement an enterprise development plan and supplier development plan for a beneficiary of their contributions. The plan should include:
- 4.12.1 Clear Objectives
 - 4.12.2 Priority interventions
 - 4.12.3 Key performance indicators; and
 - 4.12.4 A concise implementation plan with clearly articulated milestones.
- 4.13 Measured entities will not get recognition for the same activities undertaken in paragraphs 2.2 and 2.3; they will only get recognition for one of the two i.e. 2.2 or 2.3.
- 4.14 No portion of the value of any contribution that is payable to the beneficiary or on behalf of the beneficiary after the last day of the measurement period can form part of any calculation in this statement.
- 4.15 Supplier development beneficiaries are enterprise development beneficiaries from which the measured entity procures goods or services.

5. TOTAL MEASURED PROCUREMENT SPEND

The following procurement is measurable within total measured procurement spend:

- 5.1 Cost of sales: all goods and services procured that comprise the cost of the sales of the measured entity;
- 5.2 Operational expenditure: all goods and services procured that comprise the operational expenditure of the measured entity;
- 5.3 Capital expenditure: all capital expenditure incurred by the measured entity;
- 5.4 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.
- 5.5 Public sector procurement:
 - 5.5.1 all goods and services procured from organs of state and public entities listed in schedules 2 and 3 of the Public Finance Management Act, (Act 1 of 1999). Notwithstanding this, procurement by a measured entity from a local government authority, which is a reseller of that service, is measurable at the B-BBEE recognition level of the primary supplier of the service; and
 - 5.5.2 in any event, any procurement of any goods or services from any organ of state or public entity that enjoys a statutory or regulated monopoly in the supply of such goods or services, is excluded;
- 5.6 Monopolistic procurement: all goods and services procured from suppliers that enjoy a monopolistic position;
- 5.7 Third-party procurement: all procurement for a third-party or a client, where the cost of that procurement is an expense recorded in the measured entity's annual financial statements;
- 5.8 Labour brokers and independent contractors: any procurement of the measured entity that is outsourced labour expenditure;
- 5.9 Pension and medical aid contributions and administration payments: payments made to any post retirement funding scheme or to a medical aid scheme or similar medical insurer by a measured entity for its employees, excluding any portions of such payments, which are a contribution to a capital investment of the employee;

- 5.10 Trade commissions: any commission or similar payments payable by a measured entity to any other person pursuant to the business or trade of the measured entity;
- 5.11 Empowerment related expenditure: all goods and services procured in carrying out B-BBEE. The total measured procurement spend does not include the contribution portion recognised in section 2.2 and 2.3 of this statement and code series 500, but does include any expenditure incurred in facilitating those contributions;
- 5.12 Imports: all goods and services that are imported or procured from a non-South African source;
- 5.13 Intra-group procurement: all goods and services procured from subsidiaries or holding companies of the measured entity. This is not applicable where the subsidiaries or holding companies form part of the entities consolidated B-BBEE certificate; and
- 5.14 Broker insurance intermediary commissions: this inclusion will only apply for the first three (3) years following the implementation date of the Draft Amended FSC.

6 EXCLUSIONS FROM TOTAL MEASURED PROCUREMENT SPEND

The following list provides permissible exclusions from total measured procurement spend recognisable in terms of Paragraph 5:

- 6.1 Taxation: any amount payable to any person which represents a lawful tax or levy imposed by an organ of state authorised to impose such tax or levy, including rates imposed by a municipality or other local government;
- 6.2 Salaries, wages, remunerations, and emoluments: any amount payable to an employee as an element of their salary or wages and any emolument or similar payment paid to a director of a measured entity;
- 6.3 Pass-through third-party procurement: all procurement for a third-party or a client that is recorded as an expense in the third-party or client's annual financial statements but is not recorded as such in the measured entity's annual financial statements;
- 6.4 Empowerment related procurement:
- 6.4.1 Investments in or loans to an associated enterprise;
- 6.4.2 Investments, loans or donations qualifying for recognition in any statement in code series FS400 or FS500;
- 6.5 Imports: the following imported goods and services:
- 6.5.1 Imported capital goods or components for value-added production in South Africa provided that:
- a. there is not sufficient existing local production of such capital goods or components; and
 - b. importing those capital goods or components promotes further value-added production within South Africa;
- 6.5.2 Imported goods and services other than those listed in Paragraph 6.5.1 if there is not sufficient local production of those goods or services including, but not limited to, imported goods or services that
- a. carry a brand different to the locally produced goods or services; or
 - b. have different technical specifications to the locally produced goods or services.
- 6.5.3 The exclusion of imports listed in 6.5.2 is subject to the measured entity or the industry in which that entity operates having developed and implemented an enterprise development or supplier development plan for supporting qualifying empowering suppliers that manufacture goods and services locally that are otherwise normally imported. The plan does not need to relate to the specific goods or services that the measured entity

imports. This plan should include:

- a. Clear objectives
- b. Priority interventions
- c. Key performance indicators; and
- d. A concise implementation plan with clearly articulated milestones

- 6.5.4 The Department of Trade and Industry will from time to time consult with the industry and issue practice notes with regard to the provisions on import exclusions.
- 6.6 Intra-group procurement: where the measured entity is conducting a consolidated verification of itself together with its affiliates and subsidiaries, then all intra-group procurement of goods and services amongst the group entities forming part of the consolidated verification are excluded.
- 6.7 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;
- 6.8 Reinsurance premiums;
- 6.9 Global suppliers: Any items of procurement where the supplier is imposed in terms of a global policy for technical (but specifically not commercial) reasons;
- 6.10 Broker and insurance intermediary commissions: this exclusion will only apply for the first three (3) years following the implementation date of the Draft Amended FSC. This allows these entities sufficient time to implement their B-BBEE initiatives. After three years broker commissions and commissions paid to insurance intermediaries will be an included procurement spend.

7 MEASUREMENT OF B-BBEE PROCUREMENT SPEND

- 7.1 B-BBEE procurement spend is the value of the procurement falling within paragraph 5 and not excluded by paragraph 6. If a supplier falls within a category of supplier listed in paragraph 3.7, the value of procurement from that supplier is multiplied by the applicable factor listed in that paragraph.
- 7.2 B-BBEE procurement spend can be measured using formula A in Annex FS400 (A).
- 7.3 The B-BBEE procurement spend for a measured entity in respect of a supplier is calculated by multiplying the spend contemplated by paragraph 5 (and not excluded in paragraph 6) in respect of that supplier by the supplier's B-BBEE recognition level.
- 7.4 A measured entity's total procurement spend is the total of all amounts calculated in terms of paragraph 7.3.

8. THE CALCULATION OF PREFERENTIAL PROCUREMENT CONTRIBUTIONS TO B-BBEE

- 8.1 A measured entity receives a score for procurement in proportion to the extent that it meets the compliance target.
- 8.2 The measured entity's score for preferential procurement contributions to B-BBEE in the preferential procurement scorecard can be calculated in terms of formula "B" in Annex FS 400(A).

9. ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT CONTRIBUTIONS

The following is a non-exhaustive list of qualifying enterprise Development and Supplier Development Contributions include, but are not limited to, the following:

- 9.1 investments in qualifying beneficiary entities;
- 9.2 loans made to qualifying beneficiary entities;
- 9.3 guarantees given or security provided on behalf of qualifying beneficiary entities;
- 9.4 credit facilities made available to qualifying beneficiary entities;
- 9.5 grant contributions to qualifying beneficiary entities;
- 9.6 direct costs incurred by a measured entity in assisting and hastening development of qualifying beneficiary entities;
- 9.7 overhead costs of the measured entity directly attributable to qualifying enterprise Development and Supplier Development Contributions;
- 9.8 preferential credit terms granted by a measured entity to qualifying beneficiary entities;
- 9.9 preferential terms granted by a measured entity in respect of its supply of goods and services to qualifying beneficiary entities;
- 9.10 contributions made towards the settlement of the cost of services relating to the operational or financial capacity and/or efficiency levels of a qualifying beneficiary entity including, without limitation:
 - a. professional and consulting services;
 - b. licensing and/or registration fees;
 - c. industry specific levies and/or other such fees; and
 - d. IT services;
- 9.11 discounts given to qualifying beneficiary entities in relation to the acquisition and maintenance costs associated with the grant to those qualifying beneficiary entities of franchise, licence, agency, distribution or other similar business rights;
- 9.12 the creation or development of capacity and expertise for qualifying beneficiary entities needed to manufacture or produce goods or service previously not manufactured, produced or provided in the Republic of South Africa as provided for in Government's economic growth and local supplier development policies and initiatives;
- 9.12.1 such contributions will be measured as the rand value of monetary contributions made, as well as investments into, loans made to or guarantees given to beneficiary entities;
- 9.13 the creation or development of new projects promoting beneficiation by the measured entity for the benefit of qualifying beneficiary entities.
- 9.14 facilitating access to credit for qualifying beneficiary entities without access to traditional credit facilities owing to a lack of credit history, high-risk or lack of collateral on the part of the qualifying beneficiary entity;
- 9.15 provision by the measured entity, of preferential credit facilities to a qualifying beneficiary entity. Examples of such contributions include without limitation:

- 9.15.1 provisions of finance to qualifying beneficiary entities at lower than commercial rates of interest. Such contributions will be measured as the value of the differential between the actual interest rate provided to the beneficiary entity and the applicable rate;
- 9.15.2 relaxed security requirements or absence of security requirements for qualifying beneficiary entities unable to provide security for loans. Such contributions shall be measured as being 3% (three percent) of any positive differential between the initial capital value of the loan and the value of security taken; and
- 9.15.3 settlement of accounts with qualifying 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 after date of invoice. Preferential payment terms that extend beyond 15 days will not qualify as qualifying enterprise Development and Supplier Development Contributions;
- 9.16 the provision of seed or development capital to qualifying beneficiary entities;
- 9.17 provision of training or mentoring by suitably qualified entities or individuals to qualifying beneficiary entities which will assist such entities to increase their operational or financial capacity; and
- 9.18 provision of training or mentoring to qualifying beneficiary entities by the measured entity itself;
- 9.19 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;
- 9.20 a clear justification, commensurate with the seniority and expertise of the trainer or mentor, must support any claim for time costs occurred;
- 9.21 Common forms of such contribution include, without limitation:
- a. Professional and consulting services;
 - b. IT services; and
 - c. any other services which help to increase the entity's financial and/or operational capacity and which have not also been accounted for in code FS300 Skills Development.
- 9.22 Training or mentoring provided as per paragraphs 9.17 and 9.18 above may not be double counted in the skills development scorecard once claimed as qualifying enterprise and supplier development contribution and vice versa.
- 9.23 the maintenance by the measured entity of an enterprise development and supplier development unit which focuses exclusively on support of qualifying beneficiary entities or candidate beneficiary entities.
- 9.23.1 only that portion of salaries and wages attributable to time spent by the staff in, and the other expenses that relates to, promoting or implementing qualifying enterprise and supplier development contributions, qualify for recognition.
- 9.24 payments made by the measured entity to suitably qualified and experienced third parties to perform enterprise development and supplier development on the measured entity's behalf.
- 9.24.1 such contributions are regarded as having been initiated and implemented once they become payable to the third party;

- 10. MEASUREMENT OF ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT CONTRIBUTIONS**
- 10.1 A measured entity other than banks and Life Offices, receives a score for enterprise development and supplier development in proportion to the extent that it meets the compliance target.
- 10.2 Qualifying contributions are measurable using the formula "A" in Annexe FS400 (B)

ANNEXE FS400 (A)

A: B-BBEE PROCUREMENT SPEND:

| |
|---|
| $A = \text{the sum of } (B \times C)$ |
| <p>Where</p> <p>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 in the exclusion from Total measured Procurement Spend;</p> <p>B is the value of procurement falling within Total measured Procurement Spend and not excluded in the exclusion from Total measured Procurement Spend from each Supplier of the measured entity for the measurement period</p> <p>C is the latest B-BBEE procurement Recognition Level of each Supplier of the measured entity that can be supported by a B-BBEE verification certificate (or sworn affidavit in the case of 51% or 100% black owned EME's and QSFI's), that was valid at any time from the commencement of the measurement period up to the issuing of the measured entities B-BBEE verification certificate.</p> |

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

| |
|--|
| $A = \frac{B}{C} \times D$ |
| <p>Where</p> <p>A is the calculated preferential procurement score for paragraphs 2.1.1, 2.1.2, 2.1.3, 2.1.4, 2.1.5 and 2.1.6 respectively in the preferential procurement scorecard in statement 400 for the measured entity;</p> <p>B is the total B-BBEE Procurement Spend of the measured entity calculated for each of the indicators of the Preferential Procurement scorecard (paragraphs 2.1.1, 2.1.2, 2.1.3, 2.1.4, 2.1.5 and 2.1.6) respectively, expressed as a percentage of the Total measured Procurement Spend of that measured entity;</p> <p>C is the compliance Target for each of the indicators of the Preferential Procurement scorecard (paragraphs 2.1.1, 2.1.2, 2.1.3, 2.1.4, 2.1.5 and 2.1.6) respectively;</p> <p>D is the weighting points allocated to each of the indicators of the Preferential Procurement scorecard (paragraphs 2.1.1, 2.1.2, 2.1.3, 2.1.4, 2.1.5 and 2.1.6) respectively.</p> |

ANNEXE FS400 (B)

Annexe 400B – Enterprise Development and Supplier Development Benefit Factor Matrix

| Qualifying Contribution type | Contribution Amount | Benefit Factor |
|---|--|--|
| Grant and Related Contributions | | |
| Grant Contribution | Full Grant Amount | 100% |
| Bad Debt write offs incurred from the financing of Enterprise and Supplier Development Beneficiaries | 100% subject to a maximum of 50% of the non-recoverable target for banks and life assurers in enterprise development | 100% |
| Direct Cost incurred in supporting Enterprise Development and Supplier Development | Verifiable Cost (including both monetary and non-monetary) | 100% |
| Discounts in addition to normal business practices supporting Enterprise Development and Supplier Development | Discount Amount (in addition to normal business discount) | 100% |
| Overhead Costs incurred in supporting Enterprise Development and Supplier Development (including people appointed in Enterprise Development and Supplier Development) | Verifiable Cost (including both monetary and non-monetary) | 70% |
| Loan and Related Contributions | | |
| Interest-Free Loan with no security requirements supporting Enterprise Development and Supplier Development | Outstanding Loan Amount | 70% |
| Prime Loan to Enterprise Development and Supplier Development Beneficiaries | Outstanding Loan Amount | 50% |
| Guarantees provided on behalf of a beneficiary entity | Guarantee Amount | 3% |
| Lower Interest Rate | Outstanding loan amount | Prime Rate – Actual Rate |
| Equity Investments and Related Contributions | | |
| Minority Investment in Enterprise Development and Supplier Development Beneficiaries | Investment Amount | 70% |
| Enterprise Development and Supplier Development Investment with lower dividend to financier | Investment Amount | Dividend Rate of Ordinary Shareholders – Actual Dividend Rate of Contributor |

| Contributions made in the form of human resource capacity | | |
|---|--|--|
| Professional services rendered at no cost and supporting Enterprise Development and Supplier Development | Commercial hourly rate of professional | 60% |
| Professional services rendered at discount and supporting Enterprise Development and Supplier Development | Value of discount based on commercial hourly rate of professional | 60% |
| Time of employees of Measured Entity productively deployed in assisting beneficiaries | Monthly salary divided by 160 | 60% |
| Other Contributions | | |
| Shorter payment periods for paragraph 2.2 of this statement (Supplier Development) | Percentage of invoiced amount multiplied by 15% (being an approximation of the cost of short term funding) | Percentage being 15 days less the number of days from invoice to payment. |
| | | The maximum points that can be scored is 15% of total supplier development points excluding bonus points |

ANNEXE FS400 (B)

A: Qualifying Enterprise and Supplier Development Contributions are measurable on the following basis:

| |
|--|
| $A = \frac{B}{C} \times D$ |
| <p>Where</p> <p>A is the score achieved for the Enterprise and Supplier Development indicators (paragraphs 2.2 and 2.3) in respect of qualifying Enterprise or Supplier Development Contributions made by the measured entity</p> <p>B is the annual value of all qualifying Enterprise or Supplier Development Contributions, whichever the case may be, that have become payable by the measured entity during the measurement period</p> <p>C is the compliance Targets for the Enterprise and Supplier Development indicators (paragraphs 2.2 and 2.3) respectively</p> <p>D is the Weighting points allocated to the Enterprise and Supplier Development indicators (paragraphs 2.2 and 2.3) respectively</p> |

DRAFT AMENDED CODE SERIES FS500: MEASUREMENT OF THE SOCIO-ECONOMIC DEVELOPMENT AND CONSUMER EDUCATION ELEMENTS OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

STATEMENT FS500: THE GENERAL PRINCIPLES FOR MEASURING THE SOCIO-ECONOMIC DEVELOPMENT AND CONSUMER EDUCATION ELEMENT

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of 2003 as amended by Act 46 of 2013

Arrangement of this statement

| Paragraph | Subject | Page |
|---|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 73 |
| 2 | THE SED AND CE SCORECARD | 73 |
| 3 | KEY MEASUREMENT PRINCIPLES | 73 |
| 4 | SED CONTRIBUTIONS | 74 |
| 5 | CE CONTRIBUTIONS | 75 |
| 6 | MEASUREMENT OF SED AND CE CONTRIBUTIONS | 75 |
| 7 | THE BENEFIT FACTOR MATRIX APPLICABLE TO SOCIO-ECONOMIC DEVELOPMENT CONTRIBUTIONS | 76 |
| ANNEXE 500 (A): Benefit Factor Matrix | | 76 |
| ANNEXE 500 (B): Calculation of qualifying contributions | | 77 |

1 OBJECTIVES OF THIS STATEMENT

The objectives of this statement are to specify:

- 1.1 the Socio-economic Development (SED) and Consumer Education (CE) Contributions scorecard;
- 1.2 the key measurement principles applicable when calculating qualifying Socio-economic and Consumer Education Contributions; and
- 1.3 the formula for calculating the individual criteria specified in the SED and CE scorecard.

2 THE SED AND CE SCORECARD

The following table represents the criteria and method used for deriving a score for Socio Economic Development and Consumer Education in this statement:

| | Element | Target for Foreign branches of International Banks and Reinsurers | Target for Other Institutions | Points |
|-------|--|---|-------------------------------|----------|
| 2.1 | Annual value of all Qualifying Socio-Economic Development Contributions by the measured entity as a percentage of NPAT | 0.7% | 0.60% | 3 |
| 2.2 | Annual value of all Qualifying Consumer Education Contributions by the measured entity as a percentage of NPAT | 0 | 0.40% | 2 |
| | Total | 0.7% | 1.00% | 5 |
| 2.3 | Bonus Points | | | |
| 2.3.1 | Additional SED contributions made by the measured entity as a percentage of NPAT | 0.20% | 0.20% | 1 |
| 2.3.2 | Additional CE contributions made by the measured Entity as a percentage of NPAT | 0.10% | 0.10% | 1 |
| 2.3.3 | Grant Contribution to Fundisa Retail Fund | 0.20% | 0.2% | 2 |

The weighting points in the SED and CE scorecard represent the maximum number of points possible for each of the criteria.

3 KEY MEASUREMENT PRINCIPLE

- 3.1 Qualifying socio-economic development and consumer education contributions will be recognised as a percentage of the previous year's Annual Net Profit after Tax (NPAT) of the measured entity. For the avoidance of doubt, if the measured entity does not make a profit then qualifying Contributions of an average of the last 3 years will earn the measured entity the full points in paragraphs 2.1 and 2.2 respectively.
- 3.2 For banks, the Annual Net Profit after Tax to be used for Consumer Education, is the Annual Net Profit after Tax generated by retail operations.

- 3.3 Socio-economic Development Programmes conceptualised and measured in this Draft Amended may include, but will not be limited to, one of the following forms:
- 3.3.1 Education: support for community education facilities, programmes at, secondary and tertiary education levels aimed at promoting the industry, bursaries and scholarships, which are oriented towards the hard sciences;
- 3.3.2 Training: community training, skills development for the unemployed, adult basic education and training in communities, financial literacy programmes in communities;
- 3.3.3 Development programmes for youth and other target groups;
- 3.3.4 Environment: support of conservation projects, community clean-up projects, food garden initiatives;
- 3.3.5 Job Creation: job creation projects external to the workplace or any commitments contained in empowerment financing;
- 3.3.6 Arts and culture: support of development programmes, development of new talent;
- 3.3.7 Health: support of community clinics, health programmes in the community; and
- 3.3.8 Sport: support of developmental programmes.
- 3.4 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).
- 3.5 International Banks and Reinsurers are exempt from Consumer Education contributions.

4 GENERAL PRINCIPLES

- 4.1 Measured entities receive recognition for any Socio-economic Development and Consumer education Contributions that are quantifiable as a monetary value using a Standard Valuation method.
- 4.2 Qualifying Contributions of the measured entity are recognisable annually;
- 4.2.1 Where qualifying Contributions and/or initiatives span over multiple years, the total contribution amount must be divided by the number of years, and the average per year is then to be utilised for the annual contribution.
- 4.2.2 No portion of the value of any Qualifying Contributions that is payable to the beneficiary after the last day of the measurement Period can form part of any calculation in this statement.

5 SOCIO-ECONOMIC DEVELOPMENT CONTRIBUTIONS

- 5.1 Socio-economic Development Contributions consist of monetary or non-monetary contributions actually initiated and implemented in favour of beneficiaries by a measured entity with the specific objective of facilitating income generating activities for targeted beneficiaries.
- 5.2 The full value of Socio-economic Development Contribution made to beneficiaries is recognisable if at least 75% of the value directly benefits black people.
- 5.2.1 If less than 75% of the full value of Socio-economic Development Contributions directly benefits black people, the value of the contribution made multiplied by the percentage that benefits black people, is recognisable.
- 5.3 The following is a non-exhaustive list of Socio-economic Development Contributions:
- 5.3.1 grant contributions;

- 5.3.2 guarantees given or security provided for beneficiaries;
- 5.3.3 direct costs incurred by a Measured entity in assisting beneficiaries;
- 5.3.4 overhead costs of a measured entity directly attributable to Socio-economic Development Contributions;
- 5.3.5 developmental capital advanced to beneficiary communities;
- 5.3.6 preferential terms grants by a measured entity for its supply of goods or services to beneficiary communities;
- 5.3.7 contributions made by the measured entity to third parties to perform socio-economic development on the measured entity's behalf;
- 5.3.7.1 for the avoidance of doubt such contributions are regarded as having been initiated and implemented once they are paid to the third party;
- 5.3.8 provision of training or mentoring to beneficiary communities which will assist them to increase their financial capacity;
- 5.3.8.1 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;
- 5.3.8.2 a clear justification must support any claim for time costs incurred, commensurate with the seniority and expertise of the trainer or mentor).
- 5.3.9 the maintenance by the Measured entity of a socio-economic development unit which focuses only on support of beneficiaries and beneficiary communities;
- 5.3.9.10 only that portion of salaries and wages attributable to time spent by the staff in, and the other expenses related to, promoting and implementing Socio-economic Development, constitute contributions.

6. CONSUMER EDUCATION CONTRIBUTIONS

- 6.1 Definition: Consumer Education is a financial education process which is defined in a guidance note issued by the FSC Council from time to time
- 6.2 Target market: The target market for Consumer Education is defined in the above guidance note
- 6.3 Standards
 - 6.3.1 Consumer Education standards are as published in the relevant Guidance Note issued by the Financial Sector Charter Council.
 - 6.3.2 Consumer Education contributions consist of monetary or non-monetary contributions actually initiated and implemented in favour of beneficiaries by a measured entity with the specific objective meeting the definition of consumer education.
 - 6.3.3 Consumer Education contributions are only recognisable if they comply with Consumer Education Standards.

7. MEASUREMENT OF SOCIO-ECONOMIC DEVELOPMENT AND CONSUMER EDUCATION CONTRIBUTIONS

Qualifying Socio-Economic and Consumer Education Contributions are measurable using the formula in Annexe 500 (B).

8 THE BENEFIT FACTOR MATRIX APPLICABLE TO SOCIO-ECONOMIC DEVELOPMENT CONTRIBUTIONS

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 measured entities for measurement periods that commences after the gazetting of the adjustment.

Annexe 500 (A) – Benefit Factor Matrix

| Qualifying Contribution type | Contribution Amount | Benefit Factor |
|---|--|-----------------------|
| Grant and Related Contributions | | |
| Grant Contribution | Full Grant Amount | 100% |
| Direct Cost incurred in supporting socio-economic development, sector specific initiatives or Qualifying Socio-Economic Contributions | Verifiable Cost (including both monetary and non-monetary) | 100% |
| Discounts in addition to normal business practices supporting socio-economic development, sector specific initiatives or Qualifying Socio-Economic Contributions | Discount Amount (in addition to normal business discount) | 100% |
| Overhead Costs incurred in supporting socio-economic development, sector specific initiatives or qualifying Socio-Economic Contributions | Verifiable Cost (including both monetary and non-monetary) | 80% |
| Contributions made in the form of human resource capacity | | |
| Professional services rendered at no cost supporting socio-economic development, sector specific initiatives or qualifying Socio-economic Contributions | Commercial hourly rate of professional | 80% |
| Professional services rendered at a discount supporting socio-economic development, sector specific initiatives or qualifying Socio-economic Contributions | Value of discount based on commercial hourly rate professional | 80% |
| Time of employees of measured entity productively deployed in assisting beneficiaries and supporting socio-economic development, sector specific initiatives or qualifying Socio-economic Contributions | Monthly salary divided by 160 | 80% |

ANNEXE 500 (B)

A: Qualifying Contributions are measurable on the following basis:

$$A = \frac{B}{C} \times D$$

Where

A is the score achieved in respect of the Socio-economic Development scorecard

B is the value of all qualifying Socio-economic or Consumer education Contributions of the Measured entity that have become payable during the Measurement period

C is the compliance Target in respect of the qualifying Socio-economic Development of Consumer education Contributions as specified in the scorecard for statement 500 (see paragraph 2.1 to 2.3)

D is the Weighting points allocated to the indicator in the Socio economic Development and Consumer education scorecard in statement 500

**DRAFT AMENDED FSC SERIES FS 600: MEASUREMENT OF THE EMPOWERMENT FINANCING AND
ENTERPRISE AND SUPPLIER DEVELOPMENT ELEMENT**

**STATEMENT FS600: THE GENERAL PRINCIPLES FOR MEASURING THE EMPOWERMENT FINANCING
AND ENTERPRISE AND SUPPLIER DEVELOPMENT ELEMENT**

Issued in terms of section 9 (1) of the Broad-Based Black Economic Empowerment Act 46 of 2013

Arrangement of this statement

| Paragraph | Subject | Page |
|------------------|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 79 |
| 2 | THE SCORECARD | 79 |
| 3 | KEY MEASUREMENT PRINCIPLES | 80 |
| 4 | EMPOWERMENT FINANCING DEFINITIONS, STANDARDS AND TARGET | 81 |
| 5 | SUPPLIER DEVELOPMENT | 91 |
| 6 | ENTERPRISE DEVELOPMENT | 93 |
| 7 | MEASUREMENT OF ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT CONTRIBUTIONS | 95 |

1 OBJECTIVES OF THIS STATEMENT

The objectives of this statement are to specify:

- 1.1 Empowerment Financing Scorecards
- 1.2 Enterprise Development (ED) scorecard;
- 1.3 Key measurement principles for calculating qualifying Empowerment Financing and Enterprise Development Contributions; and
- 1.4 Formulae for calculating the individual criteria specified in the scorecards

2 THE SCORECARD

The Empowerment Financing Scorecard

| | Measurement Criteria | Weighting Points | Banks Target | Weighting Points | Long-term Insurers Target |
|-------|---|------------------|--------------|------------------|---------------------------|
| 2.1 | Targeted Investments | 12 | R48bn | 12 | R27bn |
| | Transformational Infrastructure | | | | |
| | Black SME Financing | | | | |
| | Black Agricultural Financing | | | | |
| | Affordable Housing | | | | |
| | Black Industrialist Financing | | | | |
| 2.2 | B-BBEE transaction financing and Risk capital to support economic growth through black industrialisation | 3 | R32bn | 3 | 15bn |
| | Empowerment Financing Total | 15 | | 15 | |
| 2.3 | Annual value of all Supplier Development Contributions made by the measured entity | 7 | 1.8% of NPAT | 7 | 1.8% of NPAT |
| 2.4 | Annual value of all Enterprise Development Contributions made by the measured entity | 3 | 0.2% of NPAT | 3 | 0.2% of NPAT |
| | Total | 25 | | 25 | |
| 2.5 | Bonus Points | | | | |
| 2.5.1 | Graduation of one or more Enterprise Development beneficiaries to graduate to the Supplier Development level. | 1 | | 1 | |
| 2.5.2 | For creating one or more jobs directly as a result of Supplier Development and Enterprise Development initiatives by the measured entity. | 1 | | 1 | |
| 2.5.3 | Development of back stockbrokers, black fund managers and intermediaries | 0 | | 3 | 0.5% NPAT |
| | Total Bonus Points | 2 | | 5 | |

3 KEY MEASUREMENT PRINCIPLES

3.1 The target for local banks 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.

3.1.2 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.

3.2 Illustrative Example for 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 December 2013 it has written new qualifying loans to the value of R5bn and the balance sheet exposure relating to this R5bn as at 31 December 2013 is R3bn.

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

The formula is as follows:

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

Where:

A is the points recognised

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

C is the target and

D is the total points available

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

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

3.3 Illustrative Example for IBA members

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

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

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

The formula is as follows:

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

Where:

A is the points recognised

B is the actual balance sheet exposure at measurement date

C is the target and

D is the total points available

$A = R52m/R60bn \times 12$

A = 10.4 points

3.4 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.

3.4.1 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.

3.5 Illustrative Example for Long Term Insurers:

Insurer A has achieved R1bn of balance sheet exposure for Targeted Investments as at 31 December 2011.

Insurer A's portion of the R27 billion target is R3 billion.

As at 31 December 2013, Insurer A has a total of R1.2 billion qualifying exposure on its balance sheet, comprised of its R1 billion prior balance and R0.2 billion new loans. With respect to calculating its score as at 31 December 2013, A will take its actual R1.2 billion qualifying exposure divided by its target of R3 billion. 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

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

A = 4.8 points

3.6 Supplier Development (SD) Targets: The targets for SD will be phased in over 3 years as follows:

| Year | Supplier Development Target |
|------|-----------------------------|
| 1 | 0.90% |
| 2 | 1.35% |
| 3 | 1.80% |

4 EMPOWERMENT FINANCING DEFINITIONS, STANDARDS AND TARGET

Empowerment Financing comprises Targeted Investments and Black Industrialist Financing

4.1 Targeted Investments (TI)

4.1.1 Definition: Targeted Investments means:

- 4.1.1.1 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.
- 4.1.2 More specifically, targeted investments mean the financing of, or investment in:
- 4.1.2.1 Transformational Infrastructure projects that support economic development in undeveloped areas and contribute to equitable access to economic resources. Such infrastructure projects could be in the following sectors:
- a. Transport;
 - b. Telecommunications;
 - c. Water, waste water and solid waste;
 - d. Energy;
 - e. Social infrastructure such as health, education and correctional services facilities; and
 - f. Municipal infrastructure and services.
- 4.1.2.2 Agricultural Development involving integrated support for black farmers through enabling access to, and sustainable use of, resources.
- 4.1.2.3 Affordable Housing for households with a stable income, the amount of which will be determined annually by the Council.
- 4.1.2.4 Black small and medium enterprises (SMEs).
- 4.1.2.5 Black industrialist financing:
- 4.1.3 Delivery will be measured against a combined target with fungibility between the various sub-components, determined by the business model of the measured entity. If an entity is not able to invest in targeted investments in any of these sub-categories, it must invest the value of the targeted investments in the Enterprise Development element of the Draft Amended. The points of that element will then be adjusted accordingly.
- 4.1.4 Targets: The target for banks in targeted investments will be R48 billion in new balances and for long – term insurers, the target will be R27 billion.
- 4.1.5 Risk capital to support economic growth through black industrialisation; Financing of black industrialists in Targeted Investments can only be done if the measured entity has achieved the full three points for the stand alone B-BBEE transaction / Black Industrialist Financing element of Empowerment Financing.
- 4.1.6 Where a measured entity has scored black industrialist financing in ownership as part of an equity equivalent programme, the same financing cannot be counted in empowerment financing. No double counting will be allowed.

4.2 Transformational Infrastructure (TI)

4.2.1 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:

- a. Transport;
- b. Telecommunications;
- c. Water, waste water and solid waste;
- d. Energy;
- e. Social infrastructure such as health, education and correctional services facilities; and
- f. Municipal infrastructure and services.

4.2.2 Measurement principles

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

4.2.3 Target market and projects

Transformational Infrastructure is any infrastructure that promotes the social and equitable economic development of a specific place, community, region or district. This includes, but is not limited to, the following:

- a. Education which includes schools, learning centres, universities, colleges etc.
- b. Road and rail infrastructure which includes new access roads, upgrading of existing roads, etc.
- c. Community infrastructure such as water, electricity, sewerage, drainage, purification and treatment, amongst others. Infrastructure specific to affordable housing projects are excluded because they are included in that sub-element.
- d. Safety and security, which includes police stations, prisons, etc.
- e. Telecommunications infrastructure, including land, cellular and data
- f. Health, which includes hospitals and clinics etc.
- g. Municipal infrastructure and services including government buildings.
- h. Industrial Development Zone-type infrastructure including logistics hubs.

4.2.4 Categories of TI funding recipients and participants in TI implementation:

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

4.2.5 Products

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

- a. Construction period loans.
- b. Senior or subordinated medium- and long-term loans or bonds.
- c. Asset leases.
- d. Guarantees of the above and other instruments.

- e. Working capital such as general banking facilities or revolving credit facilities.
 - f. Performance guarantees or bonds.
 - g. Mezzanine finance, which may include participating instruments such as participating debentures, convertible loans, etc.
 - h. Equity finance, which may take the form of ordinary shares and shareholder loans.
- 4.2.6 Measurement
- 4.2.6.1 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.
- 4.2.6.2 Measurement and calculation of TI projects will be through the use of a municipal index. Projects funded but not measured using the municipal index 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.
- For clarity, "ring-fenced" means a funding method which provides for a rating of up to 100% where a municipality raises funds exclusively for transformational infrastructure in an underdeveloped area of the municipality as defined by the Council. Such funding may be raised by way of an earmarked bond or facility, or by way of ring fenced project financing.
- a. The current matrix will be reviewed and adjusted accordingly. This will include some blanket project multipliers involved in some of the critical infrastructural developments such as access roads, railway upgrades and low-cost telecommunications. These are Telkom, electricity generation and supply, water supply pipelines, reservoirs and dams, and others.
 - b. An adjudication committee consisting of experts will be established to adjudicate marginal projects or new types of project financing.
 - c. If funding is syndicated, each member will score according to their individual contribution, subject to any multiplier applicable to the project as a whole.
- 4.2.7 Targets: Due to the fungibility of delivery over the sub-categories by the measured entity, targets will be set for Targeted Investments (TI) only and not for the sub-categories. Therefore, transformational infrastructure as a sub-category of TI will not have a specific target.
- 4.3 Affordable housing
- 4.3.1 Home lending standards for qualifying loans are defined as set out below and seek to define a voluntary:
- a. Affordable housing target market;
 - b. Product definition guidelines.
- 4.3.2 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:
- a. Mortgages;
 - b. Unsecured personal loans;

- c. Personal loans secured by a pension or provident fund;
- d. Residential development loans;
- e. Wholesale loans.

4.3.3 Qualifying Loans and Investment Standards

Loans qualifying for inclusion must conform to the following standards: The purpose of the loan should be for housing as set out in Product Category Definitions;

4.3.3.1 Loans should conform to the requirements of the National Credit Act;

4.3.3.2 Loans should be priced in line with regulated interest rate and fee limits specific to the various loan types.

4.3.3.3 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.

4.3.4 Target Market

4.3.4.1 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).

4.3.4.2 For 2015, the Affordable Housing market as calculated by the Banking Association comprises households earning up to R20,000 per month. (See Note 4 under Affordable Housing for further details).

4.3.5 Household income

4.3.5.1 Monthly household income is the primary criteria used to determine whether the lending activity may count towards the affordable housing targets.

4.3.5.2 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.

4.3.5.3 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."

4.3.5.4 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.

4.3.6 **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. |

4.3.7 Product category definitions

| | 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. |

4.3.8 Household Income

Household income is not a term used by 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.

4.3.9 Personal loans

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.

4.3.10 Residential Development

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

4.3.11 Upper income limit

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 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.

Affordable housing target market definition:

For 2015, the upper income limit was calculated as follows:

CPI: average CPI for 2014, 6.1%

BCI: average BCI for 2014, 8.5% the midpoint for CPI and BCI for 2014 was 7.3%

The upper income limit for 2015 was R19,978 rounded off to R20,000

Gap housing target market definition:

For 2015 the upper income limit for gap housing is R15,000.

Non-mortgage loan target market definition:

For 2015, the minimum loan size for non-mortgage loans is R1,129 rounded off to R1,200.

4.3.12 Proposed Working Committee on Gap Market strategy

There is general acknowledgement that there is a lack of stock of housing units available to finance for the gap market segment of the target market, due to a multitude of challenges in our country. The gap market segment is defined as applicants with R10 000 or less monthly income.

Following the gazetting of the Draft Amended FSC, the trade associations together with government, community and labour representatives, will establish a working committee to develop a coherent strategy to address this problem. Solutions may involve Public Private Partnerships between financiers, developers, government and community-based organisations and could include co-operative housing schemes, development rebates, and other initiatives.

4.4 Black SME financing

4.4.1 Definition: Black SME financing means financing of, or investment in, EMEs, QSEs and QSFIs, that have black ownership of 50% or more.

4.4.2 Measurement principles

Preamble: The basis of measuring the qualifying funding for black SMEs will be the stock measure. This is 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.

4.4.3 Target market: Any EME, QSE or QSFI with black ownership of 50% or more.

4.4.4 Products include, but are not limited to:

- a. Term loans of any length, including asset-based finance such as leases and rentals, in the name of the business
- b. Overdraft facilities, measured on usage.
- c. Equity investments by the organisation
- d. Property finance, including commercial mortgages
- e. Invoice discounting including commercial debtor finance
- f. Guarantees
- g. Leverage finance
- h. Indemnity backed loans such as those provided by Khula, Enablis, USAID, UY Fund, and other providers.

4.4.5 Measurement

4.4.5.1 A black SME must meet the legal definition of a business and therefore must be a proprietary limited company, close corporation partnership, sole proprietorship, or co-operative. It will be measured as incremental growth in balance sheet exposure i.e. a stock target. An average exposure method is to be used, based on monthly balances as submitted to the South African Reserve Bank (SARB).

4.4.5.2 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.

4.4.5.3 Equity investments: will be valued at cost.

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

- a. Finance is registered in the name of the business or in any other legal entity but the shareholder(s) will need to prove conformance.
- b. Financing is 100% reserved on the bank's or entity's balance sheet.
- c. Invoice discounting will be subject to the same rules as overdraft facilities. Therefore, discounting at the end of the measurement period will be the average monthly utilisation of the invoice discounting facility over the measurement period.
- d. In all instances scoring will be based on actual exposures, not authorised limits.
- e. In all instances finance obtained in a personal capacity is not to be counted, except in the case of a sole proprietorship, obtained in a personal capacity "trading as".
- f. Graduation rules: Turnover rule: for black SMEs which 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 R5 million, subject to any adjustment allowed.

4.5 Black agriculture financing

4.5.1 Definition

- 4.5.1.1 Black agriculture financing is the financing of agricultural development involving integrated support for black farmers in entities which are 25% or more black owned and or at least a Level 4 B-BBEE contributor, through enabling access to and sustainable use of resources.
- 4.5.1.2 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 finance and goods / services.
- 4.5.2 Measurement principles
- 4.5.2.1 Preamble: The aim is to encourage financial institutions to design and distribute products for existing and new entrants into the agricultural sector.
- 4.5.2.2 Target market: Any enterprise that comprises:
- a. Black farmers, including black owned agricultural entities that are EMEs and QSEs with 25% or more of black ownership. The definition includes large entities i.e. entities with > R50m turnover, if they are 25% black owned.
 - b. 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:
 - i. Primary agricultural production
 - ii. Provision of inputs and services to agricultural production enterprises
 - iii. Storage, distribution and / or trading and allied activities related to non-beneficiated agricultural products.
- 4.5.3 Products Includes, but are not limited to:
- a. Overdraft facilities
 - b. Agriculture Production Loans
 - c. Term loans
 - d. Asset finance
 - e. Lease agreements
 - f. Commodity finance
 - g. Silo certificate finance
 - h. Insurance products and services.
- 4.5.4 Measurement
- 4.5.4.1 If 25% black owned or more, claim 100% funding
- 4.5.4.2 This will be as per the Draft Amended FSC, and includes the farmer and one up level of activity e.g. a dairy farmer with a cold storage facility that is made available to other farmers.
- 4.5.4.3 The principle of "see through" financing/credit to be upheld.
- 4.6 B-BBEE Transaction Financing and Risk Capital to support economic growth through Black industrialisation
- 4.6.1 B-BBEE Transaction Financing

Definition: B-BBEE Transaction Financing means the provision of finance for, or investments in, B-BBEE transactions being:

- a. 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
- b. 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.

4.6.1.1 Measurement principles:

Target market

As defined 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.

4.6.2 Only B-BBEE financing provided in the rules above before the effective date of this code, and still in place at the date of measurement, will contribute to the targets in 2.2 of this statement.

4.6.3 In order to achieve or maintain full compliance in 2.2 of the statement, measured entities will be required to provide financing to support economic growth through black industrialisation.

4.6.4 The rules which will govern the provision of the financing in 4.6.3 above will be prescribed in guidance notes that will be issued by the FSC Council following the publication of the Draft Amended FSC in the Government Gazette.

5 SUPPLIER DEVELOPMENT CONTRIBUTIONS

5.1 Qualifying Enterprise Development and Supplier Development Contributions include, but are not limited to, the following:

5.2 Investments in qualifying beneficiary entities;

5.3 loans made to qualifying beneficiary entities;

5.4 guarantees given or security provided on behalf of qualifying beneficiary entities;

5.5 credit facilities made available to qualifying beneficiary entities;

5.6 direct costs incurred by a measured entity in assisting and hastening development of qualifying beneficiary entities;

5.7 overhead costs of the measured entity directly attributable to qualifying enterprise development and supplier development contributions;

5.8 preferential credit terms granted by a measured entity to qualifying beneficiary entities;

5.9 preferential terms granted by a measured entity in respect of its supply of goods and services to qualifying beneficiary entities;

5.10 contributions made towards the settlement of the cost of services relating to the operational or financial capacity and/or efficiency levels of a qualifying beneficiary entity including, without limitation:

- a. professional and consulting services;

- b. licensing and/or registration fees;
 - c. industry specific levies and/or other such fees; and
 - d. IT services;
- 5.11 discounts given to qualifying beneficiary entities in relation to the acquisition and maintenance costs associated with the grant to those entities of franchise, licence, agency, distribution or other similar business rights;
- 5.12 the creation or development of capacity and expertise for qualifying beneficiary entities needed to manufacture or produce goods or service previously not manufactured, produced or provided in the Republic of South Africa as provided for in government's economic growth and local supplier development policies and initiatives;
- 5.12.1 such contributions will be measured as the rand value of monetary contributions made, as well as investments into, loans made to or guarantees given to beneficiary entities;
- 5.13 facilitating access to credit for qualifying beneficiary entities without access to traditional credit facilities owing to a lack of credit history, high-risk or lack of collateral on the part of the entity;
- 5.14 provision by the measured entity, of preferential credit facilities to a qualifying beneficiary entity. Examples of such contributions include without limitation:
- 5.14.1 provisions of finance to qualifying beneficiary entities at lower than commercial rates of interest. Such contributions will be measured as the value of the differential between the interest rate provided to the beneficiary entity and the applicable rate;
- 5.14.2 relaxed security requirements or absence of security requirements for qualifying beneficiary entities unable to provide security for loans. Such contributions shall be measured as being three percent (3%) of any positive differential between the initial capital value of the loan and the value of security taken; and
- 5.14.3 settlement of accounts with qualifying 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 after date of invoice. Preferential payment terms that extend beyond 15 days will not qualify as qualifying enterprise development and supplier development contributions;
- 5.15 the provision of seed or development capital to qualifying beneficiary entities;
- 5.16 provision of training or mentoring by suitably qualified entities or individuals to qualifying beneficiary entities which will assist such entities to increase their operational or financial capacity; and
- 5.17 provision of training or mentoring to qualifying beneficiary entities by the measured entity itself;
- 5.18 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;
- 5.19 A clear justification, commensurate with the seniority and expertise of the trainer or mentor, must support any claim for time costs occurred;
- 5.20 Common forms of such contribution include, without limitation:
- a. Professional and consulting services;
 - b. IT services; and
 - c. any other services which help to increase the entity's financial and / or operational capacity and which have not also been accounted for in Code FS300 Skills Development.

- 5.21 Training or mentoring provided as per paragraphs 5.17 and 5.18 above may not be double counted in the Skills Development scorecard once claimed as Qualifying Enterprise and supplier development contribution and *vice versa*.
- 5.22 the maintenance by the measured entity of an enterprise development and supplier development unit which focuses exclusively on support of qualifying beneficiary entities or candidate beneficiary entities.
- 5.22.1 only that portion of salaries and wages attributable to time spent by the staff in, and the other expenses that relates to, promoting or implementing qualifying enterprise and supplier development contributions, qualify for recognition.
- 5.23 payments made by the measured entity to suitably qualified and experienced third parties to perform enterprise development and supplier development on the measured entity's behalf.
- 5.24 for the avoidance of doubt such contributions are regarded as having been initiated and implemented once they become payable to the third party.

6 ENTERPRISE DEVELOPMENT CONTRIBUTIONS

The following is a non-exhaustive list of Qualifying Enterprise Development and Supplier Development Contributions:

- 6.1 credit facilities made available to qualifying beneficiary entities;
- 6.2 grant contributions to qualifying beneficiary entities;
- 6.3 direct costs incurred by a measured entity in assisting and hastening development of qualifying beneficiary entities;
- 6.4 overhead costs of the measured entity directly attributable to qualifying enterprise development and supplier development contributions;
- 6.5 preferential credit terms granted by a measured entity to qualifying beneficiary entities;
- 6.6 preferential terms granted by a measured entity in respect of its supply of goods and services to qualifying beneficiary entities;
- 6.7 contributions made towards the settlement of the cost of services relating to the operational or financial capacity and/or efficiency levels of a qualifying beneficiary entity including, without limitation:
- a. professional and consulting services;
 - b. licensing and/or registration fees;
 - c. industry specific levies and/or other such fees; and
 - d. IT services;
- 6.8 discounts given to qualifying beneficiary entities in relation to the acquisition and maintenance costs associated with the grant to those qualifying beneficiary entities of franchise, licence, agency, distribution or other similar business rights;
- 6.9 the creation or development of capacity and expertise for qualifying beneficiary entities needed to manufacture or produce goods or service previously not manufactured, produced or provided in the Republic of South Africa as provided for in government's economic growth and local supplier development policies and initiatives;
- 6.9.1 such contributions will be measured as the rand value of monetary contributions made, as well as investments into, loans made to or guarantees given to beneficiary entities;

- 6.10 the creation or development of new projects promoting beneficiation by the measured entity for the benefit of qualifying beneficiary entities.
- 6.11 facilitating access to credit for qualifying Beneficiary Entities without access to traditional credit facilities owing to a lack of credit history, high-risk or lack of collateral on the part of the qualifying Beneficiary Entity;
- 6.12 provision by the measured entity, of preferential credit facilities to a qualifying Beneficiary Entity. Examples of such contributions include without limitation:
- 6.12.1 provisions of finance to qualifying Beneficiary Entities at lower than commercial rates of interest. Such contributions will be measured as the value of the differential between the actual interest rate provided to the Beneficiary entity and the applicable rate;
- 6.12.2 relaxed security requirements or absence of security requirements for Qualifying Beneficiary entities unable to provide security for loans. Such contributions shall be measured as being 3% (three percent) of any positive differential between the initial capital value of the loan and the value of security taken; and
- 6.12.3 settlement of accounts with qualifying 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 after date of invoice. Preferential payment terms that extend beyond 15 days will not qualify as qualifying Enterprise Development and Supplier Development Contributions;
- 6.13 the provision of seed or development capital to qualifying Beneficiary Entities;
- 6.14 provision of training or mentoring by suitably qualified entities or individuals to qualifying Beneficiary Entities which will assist such entities to increase their operational or financial capacity; and
- 6.15 provision of training or mentoring to qualifying Beneficiary Entities by the measured entity itself;
- 6.16 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;
- 6.17 a clear justification, commensurate with the seniority and expertise of the trainer or mentor, must support any claim for time costs occurred;
- 6.18 common forms of such contribution include, without limitation:
- a. Professional and consulting services;
 - b. IT services; and
 - c. any other services which help to increase the entity's financial and / or operational capacity and which have not also been accounted for in Code FS300 Skills Development.
- 6.19 training or mentoring provided as per paragraphs 6.14 and 6.15 above may not be double counted in the Skills Development scorecard once claimed as qualifying Enterprise and Supplier Development Contribution and *vice versa*.
- 6.20 the maintenance by the measured Entity of an Enterprise Development and Supplier Development unit which focuses exclusively on support of qualifying Beneficiary Entities or candidate beneficiary entities.
- 6.20.1 only that portion of salaries and wages attributable to time spent by the staff in, and the other expenses that relates to, promoting or implementing qualifying Enterprise and Supplier Development Contributions, qualify for recognition.

- 6.21 payments made by the measured entity to suitably qualified and experienced third parties to perform Enterprise Development and Supplier Development on the Measured entity's behalf.
- 6.21.1 such contributions are regarded as having been initiated and implemented once they become payable to the third party;

7 MEASUREMENT OF ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT CONTRIBUTIONS

- 7.1 Banks and Life Offices receive a score for Enterprise Development and Supplier Development in proportion to the extent that it meets the compliance target.
- 7.2 Qualifying Contributions are measurable using the formula "A" in Annexe FS400 (B)

**DRAFT AMENDED FSC SERIES FS700: THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF
BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

STATEMENT FS700

**THE GENERAL PRINCIPLES OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF BROAD-BASED BLACK
ECONOMIC EMPOWERMENT**

**Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013**

- 1. The criteria relating to exemption from the Access 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 FS700 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 FSC Council, it would be inconsistent with its business model for it to extend those products or services to low-income communities, it will be exempt from the provisions of Code FS700 unless it opts to be so bound.

**DRAFT AMENDED FSC SERIES FS700: THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF
BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

STATEMENT FS701

**GENERAL PRINCIPLES FOR THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF BROAD-
BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO BANKS**

**Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013**

Introduction

The South African members of the Banking Industry submit and indicate their willingness to abide by the standards, definitions, and key measurements 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 economically viable model for all participating organisations.

Arrangement of this statement

| Paragraph | Subject | Page |
|------------------|---|-------------|
| 1 | OBJECTIVES | 98 |
| 2 | THE SCORECARD | 98 |
| 3 | THE DEFINITIONS, STANDARDS, TARGET MARKETS AND KEY MEASUREMENT PRINCIPLES OF ACCESS | 99 |

1 OBJECTIVES

- 1.1 The Access scorecard as it relates to members of the Banking Association of South Africa
- 1.2 The definitions, standards, target markets and key measurement principles of the sub- categories of the Access element.

2 THE SCORECARD

| Access to Financial Services | | | | | | |
|------------------------------|----------------------------------|--|--|--|---|------------------|
| | Access Method | Qualifying Market / Area | Qualifying Criteria | Range | Target | Available points |
| 2.1 | Geographic Access (Reach) | | One or more of: | | | 6 |
| 2.1.1 | Transaction point | 50% or more of house-holds fall within LSM 1-5 | draw cash, or | 5 km | 85% | 1 |
| | | | purchase from their accounts | | | |
| 2.1.2 | Service point | | reset a PIN | 10 km | 70% | 1 |
| | | | money transfers, | | | |
| | | | get a statement, or | | | |
| 2.1.3 | Sales point | | Initiate account queries | 15 km | 60% | 2 |
| | | | replace a card, | | | |
| | | | deposit cash into their accounts, or | | | |
| | | | acquire: | | | |
| | | | | a transaction account, a funeral policy, | | |
| | | | a savings account, or | | | |
| | | | a loan. | | | |
| 2.1.4 | Electronic Access | Individuals earning less than R5,000 per month increasing by CPIX p.a. | The use of telephones, mobile phones, internet banking or any other new technology for: money transfers, account to account transfers, prepaid purchases, balance enquiries (list not exhaustive). | National | 19% of account holders within the target market | 2 |

| | | | | | | |
|--------------|---------------------------|---|---|----------|---|-----------|
| 2.2 | Banking Densification | Individuals in the LSM 1-5 group nationally | Access to cash withdrawal facility per measuring unit | National | 1, 500 adults per point of presence | 3 |
| 2.3 | Product related access | Individuals in the LSM 1-5 group nationally | Number of active accounts for qualifying products per institution | National | 12 370 082 active accounts in 2017 (SASSA accounts not included) | 3 |
| Total | | | | | | 12 |

3 THE DEFINITIONS, STANDARDS, TARGET MARKETS AND KEY MEASUREMENT PRINCIPLES OF ACCESS

3.1 Geographic Access

3.1.1 Preamble: Financial inclusion will be accomplished through utilising a combination of bank-managed, third party, and client-owned resources. Only the category of bank-managed 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.

3.1.2 Due to the above, access via these two categories of resources will be measured through different methodologies:

3.1.3 Geographic Banking Access

3.1.4 Definition: Points of representation:

- a. Transaction Points are points at which customers can take cash or make a purchase from their accounts. The target is 85%)
- b. Service Points are points where a customer can reset a PIN, do money transfers, get a statement, or initiate account queries. The target is 70%)
- c. 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. The target is 60%).

3.2 Target market: qualifying areas are municipal suburbs or sub-areas in which more than 50% of households fall within LSM 1 to 5.

3.3 Measurement principles:

3.3.1 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 will be determined and agreed by an industry working committee.

- 3.3.2 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.
- 3.3.3 Measurement
- a. Convenient Access is the presence of:
 - i. A Sales point within a 15km radius of a qualifying area
 - ii. A Service point within a 10km radius of a qualifying area
 - iii. A Transaction point within a 5km radius of a qualifying area
 - b. Any access point that meets all three criteria above may be counted in 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 in all three geographic access line items, since it has all the features of all three points of presence.
- 3.3.4 Geographic access will be evaluated in three steps:
- a. Identify qualifying areas
 - b. Identify sales service and transaction points within the qualifying areas
 - c. 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).
- 3.3.4.1 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 below.
- 3.3.5 Electronic customer infrastructure access: Population Penetration
- 3.3.5.1 Preamble: Since access via a customer's own or third party infrastructure cannot easily be pinpointed by 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.
- 3.3.5.2 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.
- 3.3.5.3 Target market: Target customers are individual customers who earn less than the tax threshold of R73 650.00 p.a. as at 01/03/2016 and adjusted by SARS from time to time. Customer income should be derived from the customer's account behaviour using an agreed formula, still to be determined by an industry working committee.
- 3.3.5.4 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.
- 3.3.5.5 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.
- 3.3.5.6 An industry working committee will 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 be addressed by the industry via all the impacted institutions. Individual institution targets will be formulated and agreed, taking into consideration impact on capital expenditure as well as economic viability.

- 3.4 Banking Access via Densification
- 3.4.1 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.
- 3.4.2 Definition:
- 3.4.2.1 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).
- 3.4.2.2 Whereas geographical access refers to the number of people in LSM 1-5 within a specified radius of a point of representation, which is 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 in LSM 1-5 (the reference point is the suburb rather than the point of presence).
- 3.4.3 Target market: The target market will be the LSM 1-5 group of the population of no less than 1,500 LSM 1-5 individuals within agreed suburbs / measurement units.
- 3.4.4 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 exclude the SA Post Office.
- 3.4.5 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 people in LSM 1-5 will be excluded from the calculations.
- 3.5 Product access**
- 3.5.1 Preamble: Notwithstanding 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.
- 3.5.2 Target market: The target market will be people in the LSM 1-5 group of the economically active population.
- 3.5.3 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.
- 3.5.3.1 The Council will engage with the relevant stakeholders to ensure that approvals are in place where necessary.

- 3.5.4 Participation: Any bank may apply to the 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 standards. 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 its own strategy and in a manner that promotes financial inclusion.
- 3.5.4.1 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.
- 3.5.4.2 The Council notes that 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 are 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:
- i. Whether they are feasible and/or justifiable in that stream; and*
 - ii. 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*".
- 3.5.5 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 Council.

**DRAFT AMENDED FSC SERIES FS700: THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF
BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

STATEMENT FS702

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

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013

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

| Paragraph | Subject | Page |
|------------------|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 104 |
| 2 | THE SCORECARD FOR ACCESS TO FINANCIAL SERVICES | 104 |
| 3 | PRODUCTS AND PRODUCT STANDARDS | 104 |

1 OBJECTIVES OF THIS STATEMENT

- 1.1 The objectives of this statement are to specify:
- 1.2 The Access Scorecard as it relates to companies operating within 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 Industry.

| | Description | Weighting | Target |
|-------|-----------------------------|-----------|----------------------|
| 2.1 | Appropriate Products | 3 | 6 |
| 2.2 | Market Penetration | 7 | 5,7390,23 |
| 2.2.1 | Target: 2014 | | 4,878,170 |
| 2.2.2 | Target: 2015 | | 5,165,121 |
| 2.2.3 | Target: 2016 | | 5,452,072 |
| 2.2.4 | Target: 2017 | | 5,739,023 |
| 2.3 | Transactional Access | 2 | As per Guidance Note |
| | Total | 12 | |

3 PRODUCTS AND PRODUCT STANDARDS

- 3.1 When interpreting the terms of the Draft Amended FSC for life offices and collective investment schemes, "Access" encompasses the following concepts:
- 3.2 Appropriate 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. However, other forms of product are 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. These standards will be determined following the gazetting of this Code and will be published as a Guidance Note.
A process will be put in place to enable the update of these standards from time to time and allow for the creation of new standards.
- 3.3 Transactional access is 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.

- 3.4 Integrated products
- 3.4.1 New standards are created for retirement GAP market products.
- 3.4.2 An integrated consumer focused approach that requires collaboration between banking, short term insurance, long term insurance and CIS will be investigated, based on consumer needs.
- 3.5 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 R73 000 per annum.
- 3.5.1 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.
- 3.5.2 Appropriate Products – Each product that meets the required standards will be FSC compliant.
- 3.5.3 Transactional Access – Measured entities will score points for the proportion of the standard map (covering the adult population based on the recent banking densification study) in which they are able to demonstrate transactional access.
- 3.6 Scoring: Points are scored by measured entities as follows:
- 3.6.1. Three (3) points will be allocated to Appropriate Products. Each compliant product made available by a company will score $1/N \times 3$ points, where N is the total number of products for which standards have been developed. Companies will also have to demonstrate that each qualifying product represents at least 5% of new business access volumes.
- 3.6.2 Seven (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.
- 3.6.3 Two (2) points will be allocated to transactional access.
- 3.7 Key Dependencies
- 3.7.1 Harmonisation of Access product definitions to FAIS regulatory exam requirements - it is critical that Draft Amended FSC definitions for access products are aligned to the various regulatory exam exemptions that may be made available by the Financial Services Board to intermediaries distributing access products.
- 3.7.2 Clarity of government’s intentions to provide savings alternatives at national level to this market.
- 3.7.3 Product and measurement standards including maximum cover limits etc., require updating in the form of guidance notes. This will occur after gazetting.
- 3.7.4 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 Council following the gazetting of the Draft Amended FSC.

**DRAFT AMENDED FSC SERIES FS700: MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF
BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

**STATEMENT FS703: GENERAL PRINCIPLES FOR THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES
ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO
SHORT-TERM INSURERS**

**Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013**

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 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 Draft Amended FSC target market.

Arrangement of Statement FS703

| Paragraph | Subject | Page |
|------------------|--|-------------|
| 1 | OBJECTIVES OF THIS STATEMENT | 107 |
| 2 | THE SCORECARD FOR ACCESS TO FINANCIAL SERVICES | 107 |
| 3 | PRODUCT RELATED ACCESS – PRODUCTS, TARGET MARKETS AND KEY MEASUREMENT PRINCIPLES OF ACCESS | 107 |
| 4 | SCORING | 108 |
| 5 | TARGETS | 109 |

1 OBJECTIVES

The objectives of this statement are to specify:

- 1.1 The Access Scorecard as it relates to companies operating within the Short-term Insurance industry;
- 1.2 The definitions, standards, target markets and key measurement principles of the sub- categories of the Access element.

2 THE SCORECARD FOR ACCESS TO FINANCIAL SERVICES

| | Access to Financial Services | Weighting | Industry Targets | Maximum Sum Insured |
|-----------|--|------------------|-------------------------|----------------------------|
| 2.1 | Appropriate Products | 2 | | |
| 2.2 | Insurance Policies | 10 | | |
| 2.2.1 | Personal Lines Policies | 5 | 868,072 | |
| 2.2.1.1 | Motor vehicle | | | R120,000 |
| 2.2.1.2 | Household contents | | | R100,000 |
| 2.2.1.3 | Property / Homeowners | | | R500,000 |
| 2.2.1.4 | Other | | | R500,000 |
| 2.2.2 | Commercial Policies | 5 | 284,884 | |
| 2.2.2.1 | Black EMEs and QSEs – equipment and contents | | | R250,000 |
| 2.2.2.2 | Black EMEs and QSEs property | | | R500,000 |
| 2.2.2.3 | Agriculture | | | |
| 2.2.2.3.1 | Agriculture – Property | | | R35 million |
| 2.2.2.3.2 | Agriculture – Equipment | | | R500,000 |
| 2.2.2.4 | Livestock | | | R1 million |
| 2.2.2.5 | Black EMEs and QSEs - Liability | | | R1 million |
| 2.2.2.6 | Other | | | R500,000 |
| | Total | 12 | | |

3 PRODUCT RELATED ACCESS – PRODUCTS, TARGET MARKETS AND KEY MEASUREMENT PRINCIPLES OF ACCESS

- 3.1 A maximum 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).
- 3.1.1 The maximum 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.

- 3.1.2 The maximum sum insured will be increased annually by CPI, by the Council
- 3.2 Target Market: The maximum sum insured metric has been used as a proxy for the target market. All products that meet the Access Standards or have been deemed to be appropriate products will be counted, regardless of the person to whom the policy has been issued.
- 3.2.1 The target market for black QSEs and EMEs will be as defined in the Draft Amended FSC
- 3.2.2 The target market for agriculture and livestock will be black farmers as defined in the Draft Amended FSC. Products: The choice of products has been selected to meet the broader Draft Amended FSC 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 categories:
- 3.3.1 Low-income Housing
- 3.3.2 Black QSEs and EMEs
- 3.3.3 Agriculture
- 3.3.4 Infrastructure
- 3.3.5 Co-operatives
- 3.3.6 Low-income individuals
- 3.4 Liability insurance has been identified as a need for small businesses therefore this product has been included in the list of products qualifying for Draft Amended FSC recognition.
- 3.5 Standards: Product standards for each product category will be determined following the gazetting of this Code and will be published as a Guidance Note.
- 3.6 Key measurement principles
- 3.6.1 Measurement will be based on the number of active qualifying policies that meet the relevant product standards or have been deemed appropriate by the Council.
- 3.6.2 The key measurement of success is the product penetration (take-up) 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 Council.
- 3.6.3 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. Companies will be allocated a personal lines target and a commercial lines target. Companies that operate solely in the personal lines or commercial Lines space will be allocated a single target.
- 3.6.4 Companies will be measured against the personal lines and / or commercial lines target. Companies may choose any combination of products within the respective business lines.

4 SCORING

- 4.1 Companies that currently offer both personal and commercial lines products will be allocated a target for each product line and will be measured against each target. The weighting will be five (5) points for each product line. Companies

that currently only offer one of the product lines (either personal or commercial), will only be allocated a target against that product line, based on their overall market share, and that will have a weighting of 10 points.

4.2 Companies can score points in the following areas:

4.2.1 Up to 2 points for the development of products that meet the Draft Amended FSC Access standards, or as otherwise approved as appropriate products by the Council. This has been included as a measurement as these are green field's products for the industry and this is done in order to encourage development of these products. This will be reviewed annually to assess the on-going suitability of this target and measurement.

4.2.2 Up to 10 points for the number of active qualifying policies that meet the relevant product standards, as at the date of measurement.

4.2.3 Products have to meet all the standards to be classified as qualifying products. If a company deems a product appropriate for this market, but it does not meet all of the standards, the company can apply to the Council for the product to be approved as an Appropriate Qualifying Product (AQP) to be included for scoring purposes. The Council will assess the product on its appropriateness for the target market, the intention of the access provisions and how closely the product conforms to the standards. The Council will then determine the rating to be applied to each AQP. Companies need apply only once per product. If a company revises a product to fully comply with the access standards, it must inform the Council.

4.2.4 Where companies sell composite policies, each risk covered in the policy will be counted as a separate policy for scoring purposes. This is necessary in order to prevent the sale of separate products to the same client, thereby adding to the cost of the insurance cover. Each risk covered must comply with the associated access standards.

4.2.5 Appropriate Products: Companies will score points for each product that meets the relevant product standards approved by the Council.

5 TARGETS

5.1 As agreed by the Council, targets will be phased in over a number of years. The targets are as follows:

| Date | Percentage | | Target number of policies | |
|-----------|------------|------------|---------------------------|------------|
| | Personal | Commercial | Personal | Commercial |
| 30/6/2014 | 30% | 50% | 260 422 | 139 668 |
| 30/6/2015 | 45% | 60% | 390 632 | 170 930 |
| 30/6/2016 | 60% | 70% | 520 843 | 199 419 |
| 30/6/2017 | 75% | 80% | 651 054 | 227 907 |
| 30/6/2018 | 100% | 100% | 868 072 | 284 884 |

**DRAFT AMENDED FSC SERIES FS800
CODE SERIES FS800: CODES OF GOOD PRACTICE FOR
QUALIFYING SMALL FINANCIAL INSTITUTIONS (QSFI)**

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
2003 as amended by Act 46 of 2013

Arrangement of Statement FS800

| Paragraph | Subject | Page |
|-----------------|--|------|
| STATEMENT FS800 | FRAMEWORK FOR THE QSFI SCORECARD | 111 |
| STATEMENT FS801 | OWNERSHIP FOR QSFI's | 112 |
| STATEMENT FS802 | MANAGEMENT CONTROL FOR QSFI's | 113 |
| STATEMENT FS803 | SKILLS DEVELOPMENT FOR QSFI's | 114 |
| STATEMENT FS804 | ENTERPRISE AND SUPPLIER DEVELOPMENT FOR QSFI's | 115 |
| STATEMENT FS805 | SOCIO-ECONOMIC DEVELOPMENT AND CONSUMER EDUCATION CONTRIBUTIONS FOR QSFI's | 116 |

DRAFT AMENDED FSC SERIES FS800
STATEMENT FS800: THE FRAMEWORK FOR THE QSFI SCORECARD

Issued under section 9 (5) of the Broad-Based Black Economic Empowerment Act of
 2003 as amended by Act 46 of 2013

1. OBJECTIVES OF STATEMENT FS800

- 1.1 The objectives of this statement are to:
- 1.1.1 specify the elements of B-BBEE measurable in the QSFI scorecard;
- 1.1.2 specify the principles in the Financial Sector Code (FS100 – FS700) applicable to QSFI's;
- 1.1.3 specify the scorecard for measuring the QSFI contributions to B-BBEE

2 KEY MEASUREMENT PRINCIPLES

- 2.1 The key measurement principles for measuring QSFI contribution to B-BBEE are specified in Statement FS000: General Principles and the Generic Scorecard

3 THE QSFI SCORECARD

- 3.1 The following table represents the QSFI scorecard and contains the elements of the scorecard and their weightings for each element:

| Element | Weighting | Code Series FS800 |
|-------------------------------------|-----------|-------------------|
| Ownership | 25 points | FS801 |
| Management control | 15 points | FS802 |
| Skills Development | 25 points | FS803 |
| Enterprise and Supplier Development | 30 points | FS804 |
| Socio-Economic Development | 5 points | FS805 |

The weighting points in respect of any element in the scorecard represent the maximum number of points possible for each of the criteria.

- 3.2 The B-BBEE compliance of a QSFI must be determined in accordance with Code FS000. Any matter concerning the application of the QSFI scorecard that is not dealt with explicitly in this scorecard must be dealt with in terms of Codes FS000-FS700.

STATEMENT FS801: OWNERSHIP FOR QSFI's

1. THE QSFI OWNERSHIP SCORECARD

The following table represents the indicators and method for calculating a score for ownership in this statement:

| Category and Ownership Indicator | Weighting points | Compliance target |
|--|------------------|---------------------------|
| 1.1 Voting rights: | | |
| 1.1.1 Exercisable voting rights in the enterprise by black people | 5 | 25%+1 vote |
| 1.1.2 Exercisable voting rights in the enterprise by black women | 2 | 10% |
| 1.2 Economic Interest: | | |
| 1.2.1 Economic interest of black people in the enterprise | 5 | 25% |
| 1.2.2 Economic interest of black women in the enterprise | 2 | 10% |
| 1.2.3 Economic interest of new entrants or black designated groups | 3 | 2% |
| 1.3. Net value: | 8 | Refer to Annexe FS100 (C) |
| Total | 25 | |
| 1.4 Bonus Points | | |
| 1.4.1 Bonus: Direct / Indirect ownership in excess of 15% | 2 | 10% |
| 1.4.2 Bonus: Economic interest and voting rights above 25% | 2 | 1 @ 32.5% and 1 @ 40% |

2. KEY MEASUREMENT PRINCIPLES AND SUB-MINIMUM REQUIREMENTS

- 2.1 Key measurement principles and sub-minimum requirements in statement FS100 are applicable to this statement.
- 2.2 Any interpretation or calculations of a QSFI score for ownership must be made in accordance with statement FS 100.

STATEMENT FS802: MANAGEMENT CONTROL FOR QSFIs**1 THE QSFI MANAGEMENT CONTROL SCORECARD**

The following table represents the indicators and method for calculating a score for management control in this statement:

| Management Control Element | Weighting Points | Compliance Target |
|---|------------------|-------------------|
| 1.1 Executive Management | | |
| 1.1.1 Black representation in executive management | 5 | 50% |
| 1.1.2 Black female representation in executive management | 2 | 25% |
| 1.2 Non-executive management | | |
| 1.2.1 Black representation in non-executive management | 6 | 60% |
| 1.2.2 Black female representation in non-executive management | 2 | 30% |
| Total | 15 | |

2 KEY MEASUREMENT PRINCIPLES

- 2.1 For the purpose of the QSFI scorecard, executive management include other executive management as described in the general principles of statement FS200.
- 2.2 For the purpose of the QSFI Scorecard, non-executive management refers to all other management positions except those referred to in 2.1.
- 2.3 A measured entity must use the current payroll data in calculating its score under the management control scorecard.
- 2.4 Key measurement principles in statement FS200 are applicable to this statement.
- 2.5 Any interpretation or calculation of a QSFI score for management control must be made in accordance with statement FS 200.

STATEMENT FS803: SKILLS DEVELOPMENT FOR QSFIS**1 THE QSFI SKILLS DEVELOPMENT SCORECARD**

1.1 The following table represents the indicators and methods for calculating a score in this statement:

| Skills Development Element | Weighting points | Compliance target |
|--|-------------------------|--------------------------|
| 1.1 Skills development expenditure on learning programmes specified in the learning programme matrix for black people as a percentage of the leviabale amount. | 20 | 3% |
| 1.2 Skills development expenditure on learning programmes specified in the learning programme matrix for black females as a percentage of leviabale amount. | 5 | 1% |
| Total | 25 | |

2 KEY MEASUREMENT PRINCIPLES AND SUB-MINIMUM REQUIREMENTS

- 2.1. The sub-minimum requirements and discounting principle in Statement FS300 are applicable to this statement. The following criteria must be fulfilled in order for the measured entity to receive points on the skills development element scorecard (where applicable):
- 2.1.1 Workplace Skills Plan, annual training report and pivotal report which are SETA approved; and implementation of a priority skills programme in general, and for black people in particular.
- 2.1.2 Key measurement principles in statement FS300 are applicable to this statement.
- 2.1.3 Any interpretation or calculation of a QSFI score for management control must be made in accordance with statement FS300.

STATEMENT FS804: PREFERENTIAL PROCUREMENT ENTERPRISE AND SUPPLIER DEVELOPMENT FOR QSFIs**THE QSFI PREFERENTIAL PROCUREMENT ENTERPRISE AND SUPPLIER DEVELOPMENT SCORECARD**

The following table represents the criteria for deriving a score for Enterprise and Supplier Development in this statement.

| Preferential Procurement Enterprise and Supplier Development | | Weighting points | Compliance targets |
|--|---|------------------|--------------------|
| 1.1 PREFERENTIAL PROCUREMENT | | | |
| 1.1.1 | B-BBEE procurement spend from all empowering suppliers based on the B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 15 | 60% |
| 1.1.2 | B-BBEE procurement spend from empowering suppliers that are at least 51% black owned, based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 5 | 15% |
| 1.2 SUPPLIER DEVELOPMENT | | | |
| 1.2.1 | Annual value of all supplier development contributions made by the measured entity as a percentage of NPAT. | 5 | 1% |
| 1.3 ENTERPRISE DEVELOPMENT | | | |
| 1.3.1 | Annual value of enterprise development contributions and sector specific programmes made by the measured entity as a percentage of NPAT. | 5 | 1% |
| Total | | 30 | |

2. KEY MEASUREMENT PRINCIPLES AND SUB-MINIMUM REQUIREMENTS

- 2.1 Key Measurement Principles and sub-minimum requirements in Statement FS400 are applicable to this statement.
- 2.2 Qualifying Enterprise Development and Supplier Development Contributions will be recognised as a percentage of the previous year's annual Net Profit After Tax (NPAT) of the measured entity. If the entity does not make a profit, then Qualifying Enterprise Development and Supplier Development Contributions of nominal value will earn the measured entity the full points in paragraphs 1.2 and 1.3 respectively.
- 2.3 Any interpretation or calculation of a QSFI's score for Enterprise and Supplier Development must be made in accordance with statement FS400.

STATEMENT FS805: SOCIO-ECONOMIC DEVELOPMENT AND CONSUMER EDUCATION CONTRIBUTIONS FOR QSFI**1 THE QSFI SOCIO-ECONOMIC DEVELOPMENT AND CONSUMER EDUCATION SCORECARD**

- 1.1 Qualifying socio-economic development (SED) and consumer education (CE) contributions will be recognised as a percentage of the previous year's annual Net Profit After Tax (NPAT) of the measured entity. If the measured entity does not make a profit, then qualifying SED and CE contributions of nominal value will earn the full points in paragraphs 1.3.1 and 1.3.2 respectively.
- 1.2 For banks, the NPAT is the NPAT generated by retail operations.
- 1.3 The following table represents the criteria and method used for deriving a score for SED in this statement:

| | Criteria | Weighting Points | Compliance Target |
|------------|---|-------------------------|--------------------------|
| 1.1.1 | Annual value of all SED by the measured entity as a percentage of NPAT | 3 | 0.60% |
| 1.1 .2 | Annual value of all qualifying CE contributions made by the measured entity as a percentage of NPAT | 2 | 0.40% |
| | Total | 5 | |
| 1.2 | Bonus Points | | |
| 1.2.1 | Additional SED contributions made by the measured entity as a percentage of NPAT | 1 | 0.20% |
| 1.2.2 | Additional CE contributions made by the measured entity as a percentage of NPAT | 1 | 0.10% |
| 1.2.3 | Contributions to the Fundisa Retail Fund made by the measured entity as a percentage of NPAT | 2 | 0.20% |

2 KEY MEASUREMENT PRINCIPLES

Key measurement principles in statement FS500 are applicable to this statement. Any interpretation or calculation of a QSFI score for Management Control must be made in accordance with statement FS500.

**BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT
SECTION 9 (1) CODES OF GOOD PRACTICE AS AMENDED**

SCHEDULE 1

VOLUNTARY DISPENSATION FOR TOP 100 RETIREMENT FUNDS INCLUDING UMBRELLA FUNDS

2. Introduction

Many aspects of South Africa's B-BBEE dispensation are not relevant to retirement funds.

However, funds play a critical role in the South African economy by virtue of the amount of members' savings, which exceeds R4 trillion.

Retirement funds also have a critical role to play in the transformation of the financial sector itself, largely by virtue of the appointment of private sector service providers. Funds are also currently required by Regulation 28 of the Pension Funds Act to consider environmental, social and governance (ESG) criteria and B-BBEE as part of their supplier selection processes.

3. Suggested Scorecards

In order to accommodate the transformation and empowerment imperatives outlined above, it is suggested that retirement funds measure themselves annually against certain aspects of the broad-based empowerment scorecard contained in the Draft Amended FSC

In essence, it is proposed that large retirement funds compile and publish annual scorecards for the preferential procurement and management control elements of the Draft Amended FSC, using the measurement metrics contained in the Code adapted specifically as illustrated below.

4. Other proposed annual disclosures

Retirement funds are classified as mandated investors in B-BBEE legislation. Trustees however have little or no influence on membership demographics. For this reason, it is suggested that large funds should not be scored on the ownership aspect of B-BBEE, but should report annually on the proportion of fund liabilities attributable to black male members and black female members, based on the principals enshrined in FS Code 100.

Retirement funds traditionally do not employ large numbers of employees. However given the critical role that trustees, office bearers and principal officers play in the economy, it is suggested that funds annually disclose details related to accredited SAQA approved training spent on trustees and executive managers such as principal officers and other staff. This should include the quantum, average spend per staff member, number of staff members trained, together with some examples of key training interventions.

Member education initiatives, where applicable, should also be disclosed both in terms of number of members trained and amount spent relative to size of membership.

The B-BBEE annual reporting by retirement funds should include a narrative on the B-BBEE score achieved and future plans for improving the score. The Council will measure transformation on an annual basis; this may include relying on surveys that are available in the public domain. If sufficient disclosure by pension funds does not materialise, then consideration will be given to revising this dispensation.

5. RETIREMENT FUND B-BBEE SCORECARD

| ELEMENT | SCORECARD | PUBLIC DISCLOSURE | CODE SERIES REFERENCE |
|--|------------|-------------------|-----------------------|
| Ownership | N/A | Recommended | FS100 |
| Management control | 20 | Recommended | FS200 |
| Skills development/ Trustee education | N/A | Recommended | FS300/500 |
| Preferential procurement | 80 | Recommended | FS400 |
| Empowerment financing, enterprise and supplier development | N/A | | |
| Access to financial services | | | |
| Socio-economic development | | | |
| TOTAL | 100 | | |

6. RETIREMENT FUND DETAILED SCORECARDS

| Management Control Scorecard | | | |
|--|---------------|--------------------|--------------------|
| Description | Points | Target | |
| Board and executive management participation | 20 | | |
| Exercisable voting rights of black board members as a percentage of all board members | 8 | 50% | |
| Exercisable voting rights of black female board members as a percentage of all board members | 4 | 25% | |
| Principal Officer, executive and senior management if applicable | 8 | 50% | |
| PREFERENTIAL PROCUREMENT SCORECARD | Points | Target y1-3 | Target y 3+ |
| B-BBEE procurement spend from all empowering suppliers based on the B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 35 | 75% | 80% |
| B-BBEE procurement spend from empowering suppliers who are QSEs or EMEs based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 10 | 15% | 25% |
| B-BBEE procurement spend from empowering suppliers that are at least 51% black owned based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 25 | 15% | 25% |
| B-BBEE procurement spend from empowering suppliers that are at least 30% black women owned based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend | 10 | 7.5% | 12.5% |

BROAD BASED BLACK ECONOMIC EMPOWERMENT ACT SECTION 9 (1) CODES OF GOOD PRACTICE AS AMENDED**SCHEDULE 2****INTERPRETATION AND DEFINITIONS****Part 1: Interpretation**

The Draft Amended FSC must be interpreted according to the following provisions unless the context requires a different meaning:

- 1 In interpreting the provisions of the Draft Amended any reasonable interpretation consistent with the objectives of the Act and the B-BBEE Strategy in Section 11 of the Act must take precedence.
- 2 Words importing persons shall where the context so requires or admits, include individuals, firms, partnerships, trusts, corporations, governmental bodies, authorities, agencies, unincorporated bodies of persons or associations and any organisation having legal capacity.
- 3 The schedules and annexes to the Draft Amended FSC are an integral part of the Draft Amended FSC and a reference to the Draft Amended FSC includes a reference to the schedules.

Part 2: Definitions

In this Draft Amended FSC unless the context otherwise requires:

| | |
|--|--|
| Absorb | a measure of the measured entity's ability to have successfully secured formal permanent or long-term contract employment for the learner or to assist the learner's proceed with post-school education and training. Where the learner was already employed by the measured entity when s/he commenced the learnership and merely continues with his/her existing Employment after the learnership, it will not qualify as Absorption; |
| Acquisition Debt | acquisition debt means the debts of: <ol style="list-style-type: none"> (a) black participants incurred in financing their purchase of their equity instruments in the measured entity; and (b) juristic persons or trusts found in the chain of ownership between the eventual black participants and the measured entity for the same purpose as those in (a). (c) Debt that substitutes or replaces the debt in (a) and (b) above is still acquisition debt notwithstanding the fact that it may be owed to a different financier. |
| Act | Broad-Based Black Economic Empowerment Act 53 of 2003. |
| | Skills Development Levies Act of 1999. |
| B-BBEE strategy | B-BBEE strategy as contemplated in section 11 of the Act. |
| BBBEE verification professional | a body appointed by the Minister for the regulator" accreditation of rating agencies or the authorisation of B-BBEE verification professionals. |
| benefit factor | means a factor specified in the benefit factor matrix applicable to fixing the monetary value of enterprise development and supplier development and socio-economic development contributions claimable in Statement 400 and 500. |
| benefit factor matrix | means the benefit factor matrix for enterprise development and supplier development and socio-economic development contributions claimable in Statement 400 and 500 |

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| black designated groups | unemployed black people not attending and not required by law to attend an educational institution and not awaiting admission to an educational institution; black people who are youth as defined in the National Youth Commission Act of 1996; black people who are persons with disabilities as defined in the Code of Good Practice on employment of people with disabilities in the Employment Equity Act; black people living in rural and underdeveloped areas; black military veterans as defined in the Military Veterans Act 18 of 2011; |
| black new entrants | means black participants who hold rights of ownership in a measured entity and who, before holding equity instruments in the measured entity, did not hold equity in other entities which have a total value of more than R50 million measured using a standard valuation method. |
| black people | means African, Coloured, and Indian people who: (a) are citizens of the Republic of South Africa by birth or decent; or (b) became citizens of the Republic of South Africa by naturalisation- (i) Before 27 April 1994; or (ii) On or after 27 April 1994 and who would have been entitled to acquire citizenship by naturalisation prior to the date. |
| black stockbrokers and black fund managers | means a juristic person (including a trust), having shareholding or similar members interest, in which black participants enjoy a right to exercisable voting rights that is at least 51% of the total such rights measured using the flow-through principle and has a turnover below R100 million. |
| Broad-Based Ownership Scheme | an ownership scheme that complies with the rules set out in Annexe 100B. |
| Codes | Codes of Good Practice including all statements as issued in section 9 of the Act. |
| Employment Equity Act | Employment Equity Act No. 55 of 1998. |
| Employment Equity Act Regulations | regulations in the Employment Equity Act. |
| Elements | measurable quantitative or qualitative elements of B-BBEE compliance in the generic scorecard and the Codes of Good Practice. |
| employed learner | a learner who was employed by the employer who is party to the learnership agreement concerned when the agreement was concluded, in terms of section 18(1) of the Skills Development Act. The learner's contract of employment is therefore not affected by the agreement. |
| employee with a disability | As defined in the Code of Good Practice on Key Aspects of Disability in the Workplace issued in section 54 of the Employment Equity Act; aligned with the Employment Equity Act. |
| Employee | as defined in the Employment Equity Act. |
| Employee Share Ownership Programme | a worker or employee scheme as per Annexe100(C). |
| Enterprise development Contributions | monetary or non-monetary contributions as per Statement 400, read together with Annexe 400(B), carried out for the benefit of any entity, with the objective of contributing to the development, sustainability and financial and operational independence of that entity. |
| Entity | a legal entity or a natural or a juristic person conducting a business, trade or profession in the Republic of South Africa. |
| Entrepreneur | a person who starts and/or operates a business which includes identifying opportunities in the market, taking risks with a view to being rewarded with profits. |

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| equity equivalent contribution | an equity equivalent contribution made by a multinational in an Equity Equivalent Investment Programme. |
| equity equivalent investment | a public programme or scheme of any programme national, provincial or local government department in the Republic of South Africa, or any other programme approved by the Minister as an equity equivalent investment programme. Equity equivalents are also programmes as defined in Codes FS100 and FS103. |
| equity instrument | the instrument by which a participant holds rights of ownership in an entity. |
| equivalency percentage | a percentage ownership performance for all the indicators in the associated Enterprise's ownership scorecard arising from a qualifying transaction included in the ownership scorecard of the beneficiary entity. |
| exclusion principle | a measurement principle used to calculate points for the various indicators of the ownership scorecard. It allows for the exclusion of a number of rights of ownership, namely voting rights and economic interest, from the total of such rights issued by the measured entity, before determining the rights of ownership held by black participants, as a percentage of all ownership rights. Code 100 and its statements allow for the exclusion of four categories of rights of ownership: a) those held by organs of state and public entities; b) those held as mandated investments; c) those held by non-profit companies or public benefit organisations; d) those that equate to the value of the foreign operations of a multinational business operating in South Africa or a South African multinational business (see paragraphs 6.1 and 6.2, Statement 103) The exclusions of ownership held through the entities in (a) to (c) above is to be effected before any exclusion in terms of (d) is to be applied. |
| executive directors | member of a board who is an executive director as defined in the King III Report |
| exempted micro enterprise | an entity with a total annual revenue of up to R10 million. |
| exercisable voting rights | a voting right of a participant that is not subject to any limit. |
| generic scorecard | The balanced B-BBEE scorecard as contained in Statement 000. |
| global policy | 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 |
| grant contribution | the monetary value of qualifying contributions made by the measured entity to a beneficiary in the form of grants, donations, discounts and other similar quantifiable benefits which are not recoverable by the measured entity. |
| group structure | an ownership arrangement whereby one or more measured entities that are juristic persons are subsidiaries or affiliates of another measured entity that would qualify as a holding company or an affiliate. |
| higher education institution | a higher education institution as defined in the Higher Education Act of 1997. |
| indicator percentage | the percentage compliance of the associated entity for all the indicators of the associated enterprises ownership Scorecard. The calculation of indicator percentages follows the rules in Statement 100 using the percentage compliance for each indicator and not the resulting scores. |
| industry specific initiatives | the qualifying contributions that are unique to the industry in which the enterprises operate. For the purposes of the Draft Amended FSC an industry may be grouped in major divisions in accordance with the standard industrial classification coding system used by Statistics South Africa. |

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| Internship | an opportunity to integrate career related experience into an undergraduate education by participating in planned, supervised work. |
| junior management | an employee of the measured entity who is a member of the occupational category of junior management as determined using the Employment Equity Act Regulations. |
| learnership | a work-based route to a qualification. It is a workplace education and training programme comprising both structured practical workplace (on-the-job) experience and structured theoretical training. |
| learning programme | any learning programme set out in the learning programme matrix. |
| learning programme | means the learning programme matrix in Annexe 300A in Statement 300. |
| Leviable amount | mean as defined in the Skills Development Levies Act as determined using the Fourth Schedule to the Income Tax Act. |
| management fees | means the total economic interest received by a Broad-Based Ownership Scheme or black participants in any year, less the amounts distributed or applied to beneficiaries and the amounts reserved for the future distribution or application. |
| mandated investment | means any investments made by or through any third party regulated by South African legislation on behalf of the owner of the funds, pursuant to a mandate given by the owner to a third party, which mandate is governed by that legislation. Some examples of domestic mandated investments, and the portions of those investments subject to the exclusion principle, are contained in Annexe 100A attached to Statement 100. |
| measured entity | means an entity as well as an organ of state or public entity subject to measurement in the Draft Amended FSC |
| measurement period | <p>means the financial period of the measured entity, subject to the following:</p> <ol style="list-style-type: none"> The financial period of a measured entity is a period of 12 consecutive calendar months; Where the measured entity amends its financial reporting period, the financial period may, for the year in question, be more or less than 12 consecutive months. In such exceptional cases the measured entity may at its discretion elect to be measured for the amended financial period or the 12 months ending on the last day of the amended financial period. For purposes of determining its classification as an EME, QSFI or generic enterprise, the measured entity must, do so with reference to the 12 months ending on the last day of the amended financial period; Measured entities for which verification is required may not be measured for a measurement period that has ended more than 12 months prior to the commencement of the verification thereof; For EMEs and QSFI that are allowed to submit only an affidavit, the measurement period must be the 12 consecutive calendar months that immediately precede the last day of the most recently completed financial period. <p>The measurement period is the period during which the 'Skills Development', 'Enterprise and Supplier Development' and 'Socio economic Development' elements must be measured.</p> |
| measurement date | <p>the last day of the measurement period or such later date agreed upon with the measured entity that is as close as practically possible to the commencement of the verification or to the date of the affidavit, whichever the case may be.</p> <p>The term 'date of measurement' has a corresponding meaning.</p> <p>The ownership and management control elements must be measured on the measurement date. These two elements may not be measured on different dates.</p> |
| 51% black owned | <p>an entity in which:</p> <ol style="list-style-type: none"> black people hold at least 51% of the exercisable voting rights as determined in indicator 2.1.1 of Code series 100; |

| | |
|---|--|
| | <p>b. Black people hold at least 51% of the economic interest as determined in indicator 2.1.1 of Code series 100; and</p> <p>c. (c) Has earned all the points for net value in statement 100.</p> |
| 100% black owned | <p>an entity in which:</p> <p>a. black people hold 100% of the exercisable Voting Rights as determined in indicator 2.1.1 of Code series 100;</p> <p>b. black people hold at least 100% of the economic interest as determined in indicator 2.1.1 of Code series 100; and</p> <p>c. has earned all the points for net value in statement 100.</p> |
| 51% black women owned | <p>means an entity in which:</p> <p>a. black women hold at least 51% of the exercisable voting rights as determined in Code series 100;</p> <p>b. black women hold at least 51% of the economic interest as determined in Code series 100; and</p> <p>c. has earned all the points for net value in Statement 100.</p> |
| 30% black women owned | <p>an entity in which:</p> <p>a. black women hold more than 30%, but less than 51%, of the exercisable voting rights determined in Code series 100;</p> <p>b. black women hold more than 30%, but less than 51% of the economic interest as determined in Code series 100; and</p> <p>c. has earned all the points for net value in Statement 100.</p> |
| middle management | an employee of the measured entity who is a member of the occupational category of middle management as determined using the Employment Equity Regulations. |
| multinational business | a measured entity with a business in the Republic of South African and elsewhere which maintains its international headquarters outside the Republic. The term 'South African multinational' has a similar meaning except that it has its international headquarters inside the Republic. |
| National Skills development Strategy | the National Skills Development Strategy referred to in section 5(1) (a) (ii) of the Skills Development Act. |
| Net Profit After Tax | the operating profit of a measured entity after tax. It incorporates both the equity/loss figures and abnormal items, but excluded extra ordinary items as determined by the International Financial Reporting Standard (<i>IFRIS</i>) as amended from time to time. For calculation purposes in this Code, it refers to the previous year's NPAT. |
| Net Profit Before Tax | the operating profit of a measured entity before tax. It incorporated both the equity/loss figures and abnormal items, but excluded extra ordinary items as determined the International Financial Reporting Standard (<i>IFRIS</i>) as amended from time to time. |
| net value | the points resulting from the application of paragraph 4 of Annexe 100 (E) of statement 100. |
| new enterprise | an early stage business which is similar to a start-up. However, an early stage business is typically three years old or less. |
| non-profit company | a non-profit company as defined by the Companies Act. The term also includes Section 21 companies and companies limited by guarantee as described in the previous Companies Act. |
| non-profit organisation | a non-profit organisation registered in the Non-Profit Organisation Act of 1997. |
| organ of state | as defined in the Preferential Procurement Policy Framework Act 5 of 2000. |
| outsourced labour expenditure | <p>means any expenditure incurred in:</p> <p>a. procuring the services of or from a labour broker; and</p> |

| | |
|---|---|
| | b. procuring the services of any person who received any remuneration or to whom any remuneration accrues because of services rendered by such person to or on behalf of a labour broker. |
| Participant | a natural person holding rights of ownership in a measure entity. |
| pivotal report | a report on 'Professional, Vocational, Technical and Academic Learning' programmes that meet the critical needs for economic growth and social development, generally combining course work at universities, universities of technology and colleges with structured learning at work. |
| priority skills | a. core, critical and scarce skills as well as any skills specifically identified in: b. a Sector Skills Plan issued by the Department of Higher Education and Training of the Republic of South Africa; c. the National Skills Development Strategy III; d. the New Growth Path; and e. the National Development Plan. |
| private equity fund | a third party fund through which investments are made on behalf of the actual owner of the funds pursuant to a mandate given by that person to the private equity fund. |
| public benefit organisation | an entity as defined in section 30 of the Income Tax Act of 1962. |
| public entity | has the meaning assigned to it in the Public Finance Management Act (Act 1 of 1999). |
| Public Finance Management Act | the Public Financial Management Act (PFMA) (Act 1 of 1999). |
| Qualifying Enterprise and Supplier Development Contributions | a collective term describing enterprise development and supplier development contributions targeting EMEs, QSEs and QSFIs which are at least 51% black owned or at least 51% black women owned. |
| Qualifying Small Financial Institution | an entity that qualifies for measurement in the Qualifying Small Financial Institution (QSFI) scorecard with total annual revenue of more than R10m but less than R50m. |
| QSFI Scorecard | means the QSFI scorecard referred to in statement 000. |
| qualifying socio-economic contributions | a collective term for Socio-economic Project Contributions and Socio-economic Development Contributions. |
| qualifying transaction | a sale of business, valuable business assets or shares that results in the creation of specialised skills or productive capacity to black people. |
| related enterprise | an entity controlled by a measured entity whether directly or indirect control over that measured entity or the immediate family of those natural persons |
| Reporting | has the meaning ascribed to it in the International Financial Reporting Standard (<i>IFRS</i> , <i>International Accounting Standard 18</i>) as amended from time to time. |
| Rights | a collective term for the right of economic interest and the right to exercisable voting rights. |
| Scarce skills | those skills identified as being scarce by any SETA. |
| sector specific | a code in series which is applicable to a particular sector. |
| Seller | the entity or the person concluding a qualifying transaction with the associated enterprise. |
| senior management | an employee of the measured entity who is a member of the occupational category of senior management as determined using the Employment Equity Regulations. |
| Skills Development Act | the Skills Development Act of 1998. |
| Skills Development Levies Act | the Skills Development Levies Act of 1999. |
| Skills development | comprises the legitimate training expenses that a measured entity incurs on skills development. It excludes the skills development levy payable by the measured entity in the Skills Development Levies Act. |

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| socio-economic development | <p>monetary or non-monetary contributions</p> <ol style="list-style-type: none"> a. implemented for communities, natural persons or groups of natural persons, where at least 75% of the beneficiaries are black people. b. The objective of socio-economic development contributions is the promotion of sustainable access by the beneficiaries to the economy. c. Socio-economic development contributions commonly take the following forms: <ol style="list-style-type: none"> i. Development programmes for women, youth, people with disabilities, people living in rural areas; ii. Support of healthcare and HIV/AIDS programmes; iii. Support for education programmes, resources and materials at primary, secondary and tertiary education level, as well as bursaries and scholarships; iv. Community training skills development for unemployed people and adult basic education and training; or v. Support of arts, cultural or sporting development programmes. |
| socio-economic project | <p>monetary or non-monetary contributions carried out for the benefit of any projects approved for this purpose by any organ of state or sectors including without limitation:</p> <ol style="list-style-type: none"> a. Projects focusing on environmental conservation, awareness, education and waste management; b. Projects targeting infrastructural development or reconstruction in underdeveloped areas; rural communities or geographical areas identified in the government's integrated sustainable rural development or urban renewal programmes; and c. New projects promoting beneficiation. |
| standard valuation method | a standard valuation method for an asset, an economic Interest, or any other instrument or right relevant to measurement in Code 100, using normal valuation methods that represent standard market practice. |
| start-up enterprise | a recently formed or incorporated entity that has been in operation for less than one year. An entity that was formed and incorporated some time ago but which has not been operating, will qualify as a Start-up Enterprise for the first year after it re-commences operations. A start-up enterprise does not include any newly constituted enterprise which is merely a continuation of a pre-existing enterprise. |
| Strategy | the document titled South Africa's Economic Transformation – A Strategy for Broad-Based Black Economic Empowerment published by the Department of Trade and Industry in March 2003 as amended or substituted in section 11 of the Act. |
| Subsidiary | has a meaning defined in section 1(3) of the Companies Act. |
| suitable evidence or documentation | <p>means, notwithstanding any provisions to the contrary in the Verification Manual (Government Gazette 31255, dated 18 July 2008) as amended from time to time, evidence or documentation that includes, without limiting the generality of the term:</p> <ol style="list-style-type: none"> a. representations by the measured entity regarding its B-BBEE status that can be substantiated in various ways. These include by audited or reviewed financial statements; an independent competent person's report; other third party confirmation; or where appropriate, having regard to available evidence and in the absence of third party confirmation, a representation by management of the measured entity attesting to the facts. <ol style="list-style-type: none"> i. a verification professional considering the aforementioned evidence or documentation in support of any representation, must apply professional judgement in evaluating the appropriateness thereof; and |

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| | <ul style="list-style-type: none"> ii. cannot absolve itself of the responsibility to conduct a thorough verification by relying only on this type of evidence or documentation if evidence required by the Verification Manual, is readily available. iii. In evaluating the appropriateness of evidence, it must be able to justify and substantiate to the Council any conclusion it reaches. <ul style="list-style-type: none"> b. In the case of a 51% or 100% black owned EME and a 51% or 100% black owned QSFI, an affidavit attesting to its B-BBEE status. This is the minimum level of evidence required for these entities. c. In the case of Broad-Based Ownership Schemes, ESOPs and trusts, verification professionals may rely on interviews with fiduciaries, preferably independent fiduciaries, of the schemes, instead of individual participants in these schemes, to achieve a reasonable level of comfort with regard to the rights of ownership that flow through them. |
| Supplier | any supplier or service provider to a measured entity if any portion of the supply or service provision falls within the definition of total measured procurement spend. |
| supplier development contributions | monetary or non-monetary contributions as per Statement 400 read together with Annexe 400(B) carried out for the benefit of Empowering Suppliers who are suppliers of the Measured entity, with the objective of contributing to the development, sustainability and financial and operational independence of those Empowering Suppliers. |
| Target | the targets for the various elements in the Generic and QSFI scorecard. |
| third party rights | third party legal or commercial rights that restrict withhold or defer any benefit associated with ownership of any equity instrument. Third party rights include only those rights: <ul style="list-style-type: none"> a. Created against a black participant to secure, for a lender, repayment of a loan advanced to that participant for financing their purchase of their equity instrument in the measured entity; b. Held against a juristic person or trust that is in the chain of ownership between the measured entity and that the eventual black participant serving the same purpose mentioned in (a) above. |
| total labour cost | the total amount of remuneration paid by an entity to its employees determined using section 3(4) of the Skills Development Levies Act and the Forth Scheduled of the Income Tax Act of 1962. |
| transformation charters | the sectoral transformation charters referred to in section 12 of the Act. |
| unemployed learner | a learner who was not in the employment of the employer party to the learnership, apprenticeship or internship concerned when the learnership, apprenticeship or internship commenced. The employer and learner must therefore enter into a contract of employment. The employer is not necessarily the measured entity (refer to the Skills Development Act). |
| unincorporated joint venture | a joint venture between two or more measured entities effected by agreement without incorporation. |
| voting right | a voting right attaching to an equity instrument owned by or held for a participant measured using the flow-through principle or the control principle. |
| Weighting | the weightings applied to various elements in the generic scorecard and QSFI scorecard. |