AMENDED FSC SERIES FS600: 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 Statement FS600

1 OBJECTIVES OF THIS STATEMENT

The objectives of this statement are to specify:

1.1 Empowerment Financing Scorecards

1.2 Enterprise Development (ED) and Supplier Development (SD) scorecard;

1.3 Key measurement principles for calculating qualifying Empowerment Financing and for calculating qualifying Enterprise and Supplier Development contributions; and

1.4 Formulae for calculating the individual criteria specified in the scorecards.

2 EMPOWERMENT FINANCING SCORECARD

	Measurement Criteria	Weighting Points	Banks Target	Weighting Points	Long-term Assurers Target
2.1	**Targeted Investments** Transformational Infrastructure Black Agricultural Financing Affordable Housing Black Business Growth and SME Funding	12	R48bn	12	R27bn
2.2	B-BBEE transaction financing and Black Business Growth / SME Funding	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 (non-recoverable)	3	0.2% of NPAT (non-recoverable)
	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 black stockbrokers, black fund managers and intermediaries	2	TBD	2	0.5% NPAT
	Total Bonus Points	**4**		**4**	

3 **KEY MEASUREMENT PRINCIPLES**

3.1 The Empowerment Financing 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. New targets will be set from 01st January 2018.

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 the International Bankers' Association (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) x D

Where:

A is the points recognised

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

C is the target and

D is the total points available

A = [(R30bn + R3bn) / R70bn] x 12

A = 5.66 points

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) x D

Where:

A is the points recognised

B is the actual balance sheet exposure at measurement date

C is the target and

D is the total points available

A = R52m/R60bn x 12

A = 10.4 points

3.4 With respect to the long-term assurer's sector, the Empowerment Financing 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. New targets will be set from 01st January 2018.

3.5 Illustrative Example for Long-Term Assurers:

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 x 12

A = 4.8 points

3.6 Unless specified otherwise, the measurement principles in Paragraph 3 and 4 of FS 400 apply to Enterprise and Supplier Development Contributions made by Banks and Life Officers and measured under FS 600.

3.6.1 Supplier development for Life Officers and Banks can be extended beyond the traditional definition of Supplier Development as follows:

a. The Measured Entity must spend at least 60% of the Supplier Development contributions on their own Supplier Development beneficiaries (Tier 1 suppliers).
b. Supplier Development beneficiaries can be extended to include Supplier Development beneficiaries of the Measured Entities suppliers or Tier 2 suppliers who may qualify to become Supplier Development beneficiaries.. Only the value of contribution by the financial institutions is recognizable.
c. With reference to Tier 2 supplier development contributions they must include an appropriate agreement between the Measured Entity, the Measured Entities supplier and the Supplier Development Beneficiary.

3.6.2 Supplier Development Targets: The targets for Supplier Development will be phased in over 3 years as follows (where the year is determined by anniversary of the gazetting of the FSC):

Year	**Supplier Development Target**
1	0.90%
2	1.35%
3	1.80%

3.7 Sub-minimum and Discounting Principle:

3.7.1 A measured entity, must achieve a minimum of 40% of each of the total weighting points (excluding bonus points) of each of the three categories, within the Empowerment Financing element, namely Targeted Investments and BEE transaction financing, Enterprise Development, and Supplier Development. This means that the measured entities must achieve at least:
a. 6 points in the Targeted Investments & BEE transaction financing category;
b. 2.8 points in the Supplier Development category;
c. 1.2 point in the Enterprise Development category;

3.7.2 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.

4 EMPOWERMENT FINANCING DEFINITIONS, STANDARDS AND TARGET

Empowerment Financing comprises Targeted Investments and Black Business Growth Funding

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; and

4.1.2.4 Black Business Growth Funding.

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.

4.1.4 Targets: The target for Banks in targeted investments will be R48 billion in new balances and for Long-Term Assurers, the target will be R27 billion.

4.1.5 Black Business Growth Funding 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 Business Growth Funding element of Empowerment Financing.

4.1.6 Where a measured entity has scored Black Business Growth Funding 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 ("TI") 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; and
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; and

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 is 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 under taken 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 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 – Incorporated into B-BBEE Business Growth Funding

4.5 B-BBEE agriculture financing

4.5.1 Definition

4.5.1.1 *B-BBEE agriculture financing is the financing of agricultural development involving integrated support, through enabling access to and sustainable use of resources for any agricultural enterprise* **which is black owned and agricultural enterprise which is more than 25% Black owned or at least a Level 4 B-BBEE contributor**, which derives the majority of its turnover from:

a) The primary production of agricultural products;

b) The provision of inputs and services to Enterprises engaged in the production of agricultural products;

c) The beneficiation of agricultural products whether of a primary or semi-beneficiated form; and,

d) The storage, distribution and/or trading and allied activities related to non-beneficiated agricultural products.

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 black owned or have at least 25% black ownership.
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 include, 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; and
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 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 B-BBEE Business Growth Funding

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. Debt financing or any other form of financing, including the formation of joint ventures, in order to provide funding for equity investments in B-BBEE companies (other than SMME's) 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 black business growth.

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 Council following the publication of the Amended FSC in the Government Gazette.

5 ENTERPRISE AND SUPPLIER DEVELOPMENT CONTRIBUTIONS

5.1 Qualifying Supplier Development contributions are specified in Paragraph 9 of FS400. Only the non-recoverable examples cited in Paragraph 9 of FS400 qualify as Enterprise Development contributions for Banks and Life Officers.

6 MEASUREMENT OF ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT CONTRIBUTIONS

6.1 Banks and Life Officers receive a score for Enterprise Development and Supplier Development in proportion to the extent that they meet the compliance targets as specified in Paragraphs 2 and 3 of FS600.

6.2 Qualifying contributions are measurable using the formula "A" in Annexe FS400 (B) and the Benefit Factor Matrix in Annexe FS400 (B).