

GUIDANCE NOTE GN600**ON CODE SERIES FS600,****STATEMENT 600 THE MEASUREMENT OF EMPOWERMENT FINANCING BANKS****1. Introduction**

One of the two unique elements in the Financial Sector Code (FSC) is Empowerment Financing, which is there to serve as a catalyst for empowerment within the economy. The aim is to ensure support for black owned entities, black agriculture funding, transformational infrastructure financing to South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed and low-cost housing funding.

2. Objectives

The objective of this guidance note is to provide clarification on the allocation of empowerment financing targets and the recognition of an empowerment financing transaction undertaken by a measured entity within the Banking Sector whether the transaction is booked in another vehicle within the same group, within South Africa. Any Empowerment Financing transaction undertaken by a measured entity and booked in another vehicle or entity within the same group, within or outside South Africa, will be recognised for purposes of Financial Sector Code Series FS 600.

3. Targets

- 3.1 Following the expiry of Empowerment Financing targets for the period 1 January 2018 to 31 December 2022, new targets were supposed to be in place and effective from January 2023 to December 2027. However, due to unforeseen delays, new targets were only agreed upon by the Financial Sector Transformation Council (FSTC) towards the end of 2023. Therefore, the new consolidated target for the Banking Sector is R150 billion over the next 5 years starting 1 January 2024 to 31 December 2028.
- 3.2 This target shall be split amongst the Banking Association of South Africa (BASA) members using the BA900 as at 31 December 2023. Newly established banks will be provided with provisional pro-rata targets calculated to their quarterly BA900 submissions.
- 3.3 Each bank will have its own target, calculated and communicated by BASA. Such targets will be recognised cumulatively per annum over the next five years as demonstrated in table 1.1 below.

- 3.9 In line with paragraph 3.7 of statement FS600, Empowerment Financing is a priority element where a measured entity must achieve a minimum of 40% of the total weighting points (i.e. 6 points (15 x 40%)). Non-compliance with the subminimum will result in the overall achieved B-BBEE status level being discounted in accordance with Paragraph 3.3.3 of statement 000.

4. Measurement Principles

- 4.1 Only financing deals provided on or after 1 January 2024, that are still in place in the year of measurement will contribute to the targets in paragraph 2.1 and 2.2 of statement FS 600. However:
- 4.1.1 Any additional financing provided after 1 January 2024 to a deal that existed before 1 January 2024, can continue to be recognised only from the date when the additional finance has been paid out. For example: Client A (a 52% black owned SME) had an existing loan with Bank A since February 2022, in March 2024 the loan was increased by R1.5 million to R4.5million. In terms of the above, the average outstanding balance can only be recognised from March 2024 on the full loan i.e., R4.5 million.
 - 4.1.2 The Measurement and calculation of TI projects will be weighted using the transformational infrastructure index. The FS Code requires that the transformational infrastructure index be periodically reviewed and adjusted accordingly. (This transformational infrastructure index will be communicated by the FSTC).
 - 4.1.3 Financing deals provided on or after 1 January 2024 in paragraph 2.1 Black Business Growth and SME Funding and paragraph 2.2 B-BBEE Transaction Financing and Black Business Growth/SME Funding are measured based on the benefit factor matrix provided in Guidance Note GN600(f) for the measurement period.
 - 4.1.4 B-BBEE transaction financing concluded before 1 December 2017 and still in place at the date of measurement, will contribute to the targets in paragraph 2.2 of statement FS600.
 - 4.1.5 Financing provided for Black Business Growth and SME Funding under paragraph 2.1 and paragraph 2.2 of statement FS600 can be counted for scorecard purposes on irrevocable commitment either via a formalised capital allocation to an internal business unit structured in accordance with the principles in Guidance Note GN600(f); or via a commitment letter to an external party that complies with the Financing Rules stipulated in Guidance Note GN600(f). Such funding that was committed before 1 January 2024 and is still being deployed in line with the Financing Rules stipulated in Guidance Note GN600(f) can be recognised on the scorecard. For example: If Bank A has committed R200 million in February 2022, in 2024 Bank A is in year 2 of its commitment and is thus required to deploy 20%, the R200 million can be recognised on the scorecard taking into account the benefit factor matrix provided in Guidance Note GN600(f).

4.1.6 Following paragraph 4.1.5, Funding that was committed before 1 January 2024 and has been fully deployed ahead of the Financing Rules stipulated in Guidance Note GN600(f) can be recognised on the scorecard. For Example: If Bank A has committed R200 million in February 2022, in 2024 Bank A is in year 2 of its commitment and is thus required to deploy 20%, if Bank A has already deployed R200 million in 2023, the R200 million can be recognised on the scorecard taking into account the benefit factor matrix provided in Guidance Note GN600(f) for all the years until the end of the financing rules i.e. year 9, thereafter the outstanding balances can be recognised on the scorecard.

4.2 Institutions will be scored according to their contribution towards the individual target.

5. Scoring Guidance

5.1 The 2024 – 2028 individual targets will be annualized over a 5-year period and these annual targets will be cumulatively recognised every year towards the full target as depicted in the table 1.1 above.

5.2 If Bank A has contributed a cumulative average of R210 million towards Black Business Growth and SME Funding in 2025, the score will be 2.1 points (i.e. $(210/240) \times 2.40$ points). R210m being the contribution (i.e. Average balance for all qualifying transaction during the measurement period) and R240 million being the cumulative target in 2025.