

Amended Financial Sector Code



SCOPE OF APPLICATION



Banks

Long-term insurance

Short-term insurance

Re-insurance

Retirement fund administration

Management of Collective Investment Schemes

Financial services intermediation and brokerage

Public entities in financial sector (DBSA, Land Bank)

Asset Management, consulting and administration

Private equity, venture capitalist and impact investors

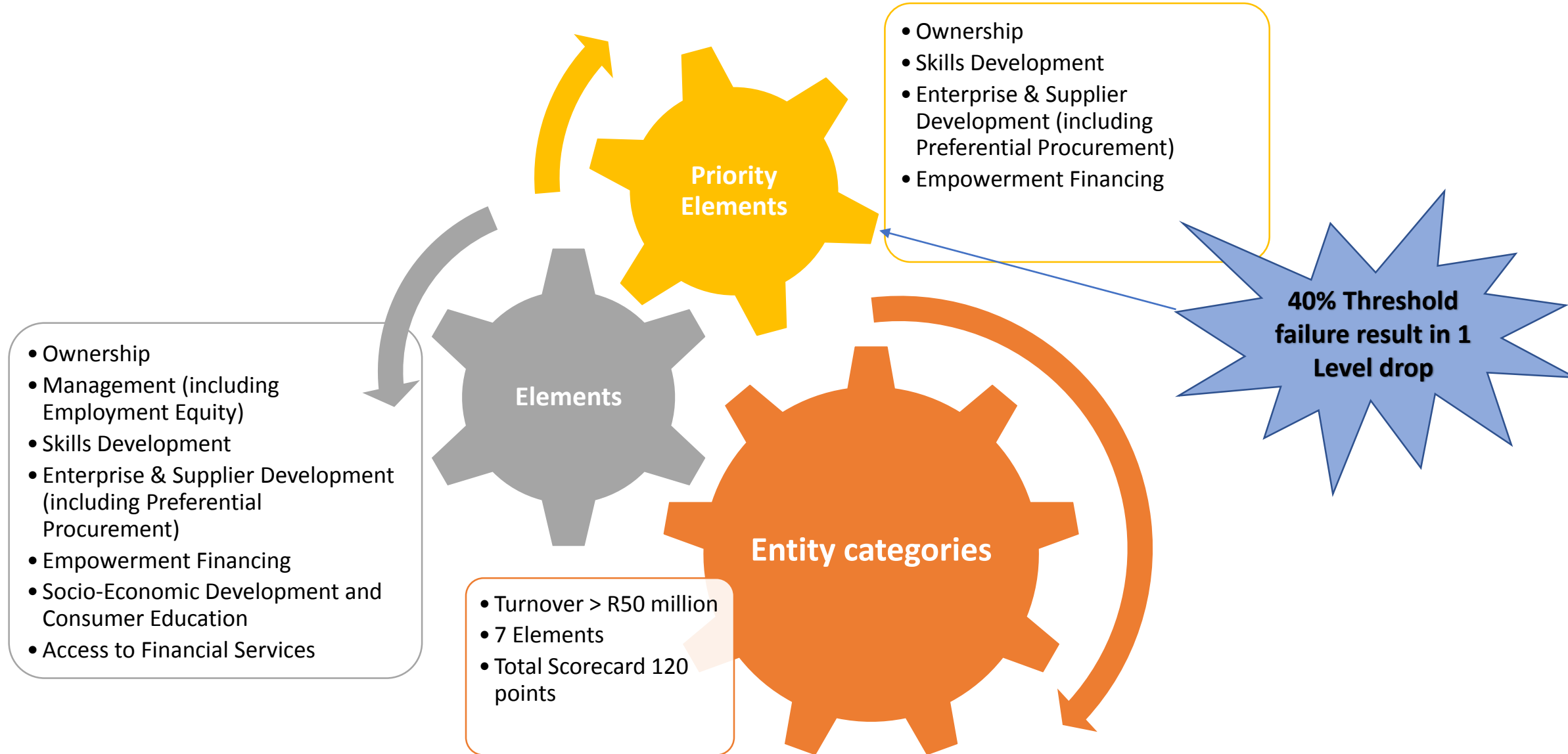
Investment managers (Management of investments on behalf of the public, including, but not limited to, private equity, members of any exchange licensed to trade equities or financial instruments in South Africa and entities listed as part of the financial index of a licensed exchange)

Underwriting management agents

Industry Trade Associations

Retirement Funds (voluntary)

THE NEW BEE LANDSCAPE



NEW KEY PRINCIPLES TO THE FSC

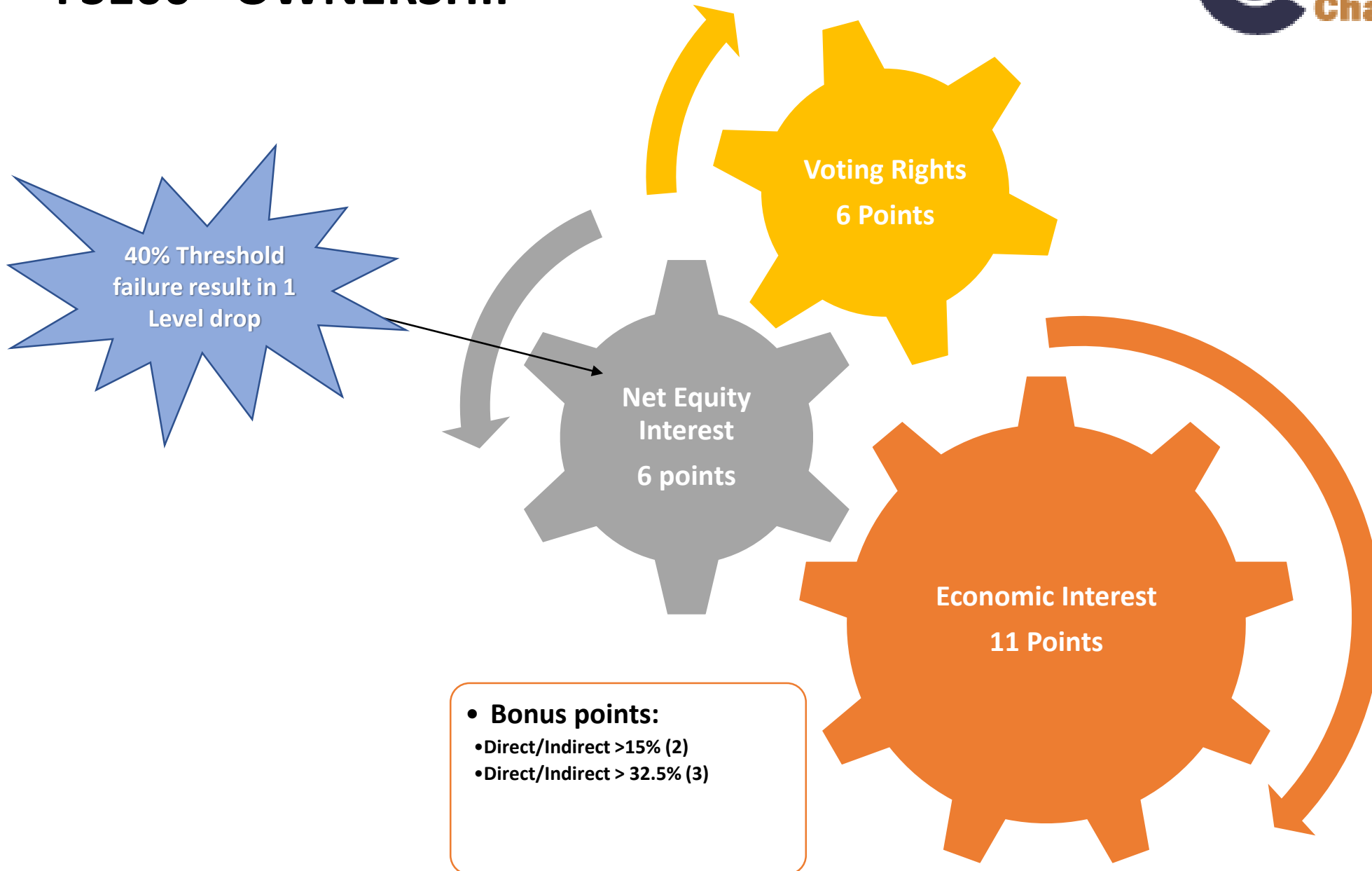
- In general, a financial institution that is a local subsidiary of a multinational or external company (as defined in Section 1 of the Companies Act), or a branch of a multinational or external company that is precluded in terms of a global policy from accommodating domestic ownership participation, will be exempt from the ownership provisions of Code FS100 and required to apply Equity Equivalence granted by Minister of DTI.
- **Each financial institution, irrespective of the fact that it is a member of a group, must be measured and reported on its own**
 - ✓ A financial institution that is a member of a group may be measured and reported on as part of the South African group provided that such group reporting is approved in advance by the Financial Sector Charter Council
- **Each financial institution to report annually to the Council**
 - ✓ Failing to do so will result in a level discount in the next rating (the Council “reserves the right” to name institutions as well...)
- Verification agencies required to submit full certificate and report within 30 days of the issue date.

AMENDED FSC vs CURRENT FSC



ELEMENT	OLD FSC			CURRENT FSC			
	Banks and Long-term	Short-term	Asset manager	Banks and Long-term	Short-term	Stock exchanges and members	Asset manager
OWNERSHIP	14	14	14	23+5*	23+5*	23+5*	25*
MANAGEMENT CONTROL	8	8	8	20	20	20	20
EMPLOYMENT EQUITY	15	15	15				
SKILLS DEVELOPMENT	10	10	10	20+3*	20+3*	20+3*	20+3*
PREFERENTIAL PROCUREMENT	16	16	16	15+4	20+4*	20+4*	20+4*
ENTERPRISE - & SUPPLIER DEVELOPMENT	5	15	15	10+4*	15+4*	15+4*	15+4*
EMPOWERMENT FINANCING	15	0	0	15*	N/A	N/A	N/A
ACCESS TO FINANCIAL SERVICES	14	14	2	12	12	N/A	N/A
SOCIO ECONOMIC DEVELOPMENT	3	3	3	5+3	5+3	5+3	5+3
TOTAL	100	95	83	120+19	115+19	103+19	105+14

FS100 - OWNERSHIP



No dilution unless due to “bad business”

Regulatory dilution

**Continued
Recognition after
dilution of BO**

Other loss BO shares
Carry forward the **Net Value** percentage if:

- Black participant held shares for minimum of 3 years;
- Net value must have been created;
- Transformation has taken place in the measured entity

Matured deal
Carry forward the **Net Value** percentage if:

- Black participant held shares for minimum of 3 years;
- Net value must have been created;
- Transformation has taken place in the measured entity

Top it up!

Life offices and Banks: Black Business Growth Funding
Others: Sale of share through ED, or support black students

Limitations and requirements:

- 40% of the BEE Ownership score
- Recognition only for the investment period
- Written agreement ME/black investor and financier

FS100 - OWNERSHIP

BBGF

The financing must support businesses that meet the following criteria:

- Black people (as defined in the B-BBEE Amendment Act of 2013) must be **directly involved** in the origination and creation of the business and/or must through the transaction become **intimately involved** in the management and operation of the business going forward.
- The enterprise should be or become a financially sustainable business or cooperative that results in the creation or preservation of jobs in the local economy.

Conditions to be met prior to the eligibility of Banks and Life Offices for the Ownership elements of Black Business Growth Funding after the sale or loss of shares by black participants:

- Measured Entities (other than multinationals that are subject to global policy restrictions on the accommodation of local ownership in South African subsidiaries or branches) should have done a direct ownership transaction that created net value and met the minimum ownership criteria as negotiated in the FSC, i.e.,
- Multinationals that are subject to global policy restrictions on the accommodation of local ownership in South African subsidiaries or branches, are entitled to apply equity equivalents in terms of this guidance note, based on 25% of the value of their South African operations as defined in statement 103, provided approval has been obtained from the DTI, to apply

BBGF

Further conditions:

- Each tranche of committed capital must be fully deployed within 5 years of the commitment date.
- For commitments within the first 3 years post the FSC gazetting, the internal business unit or external party responsible for managing all the key activities related to fund management must be 51% black owned and managed or 30% black female owned and managed.
- Post 3 years after the FSC gazette, the internal business unit or external party must be 75% black owned and black managed or 51% black female owned and managed.

Financing Rules

- Year 1: 25% of the funding to 75% BO and 10% 51% BWO
- Year 2: 40% of the funding to 75% BO and 20% 51% BWO
- Year 3: 60% of the funding to 75% BO and 30% 51% BWO
- Year 4: 70% of the funding to 75% BO and 35% 51% BWO
- Year 5: 80% of the funding to 75% BO and 40% 51% BWO

BBGF

The BBGF Benefit Factor Matrix below should be applied:

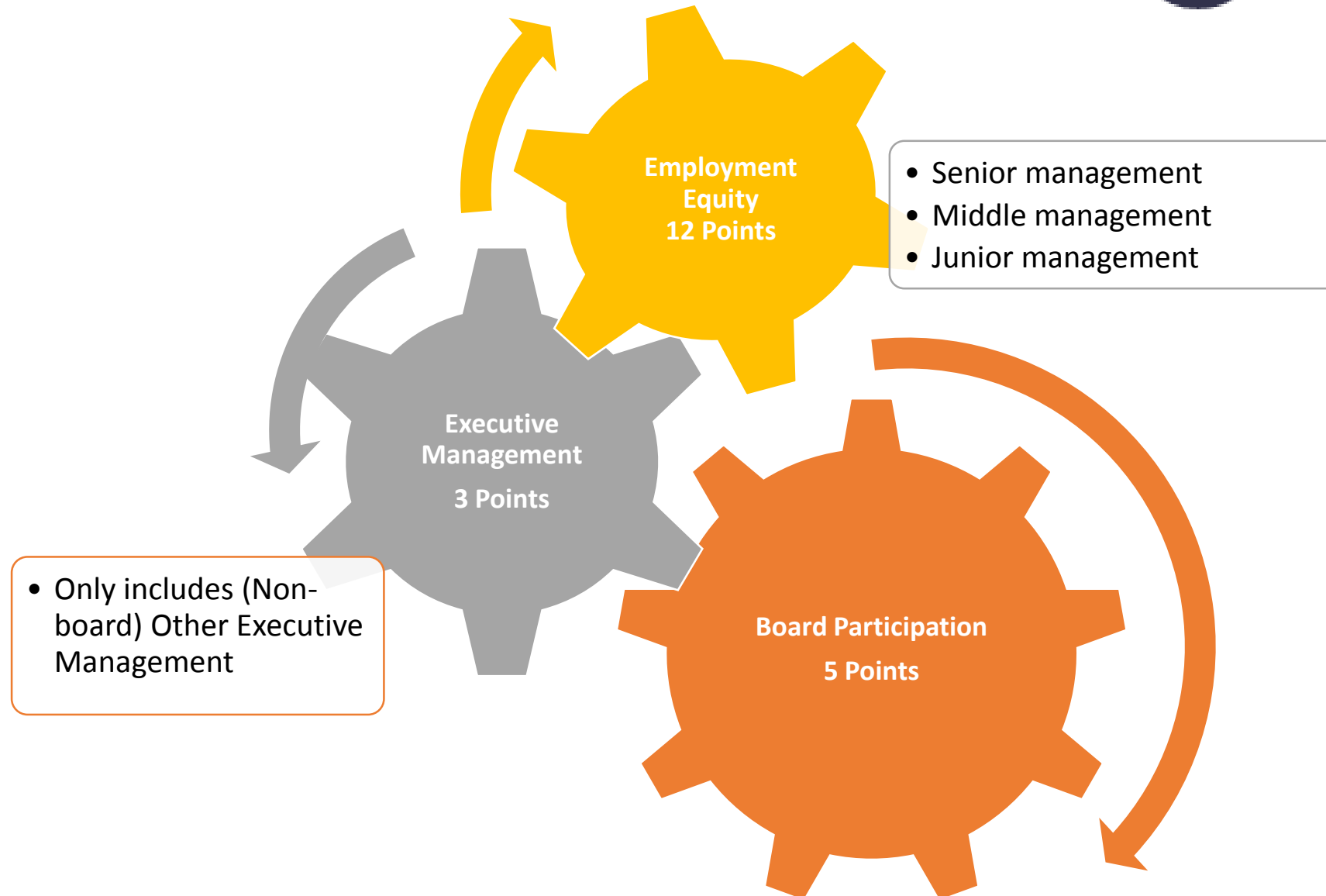
DEBT

		Risk					
		EME	QSE	Small Generic	Large Generic	Higher Education	
Risk ↑	Stage/Size>>		<10m	<50m	<200m	>200m	N/A
	Security	Effective Rate^					
	<80%	Prime or less	200%	175%	125%	75%	200%
	<80%	Less than Prime + 5% (more than Prime - 5%)	175%	150%	100%	50%	175%
	<80%	More than Prime + 5%	100%	75%	50%	0%	100%
	>80%	Prime or less	175%	133%	100%	50%	175%
	>80%	Less than Prime + 5% (more than Prime - 5%)	150%	100%	50%	25%	150%
	>80%	More than Prime + 5%	50%	25%	0%	0%	50%

OTHER

Stage/Size>>	EME	QSE	Small Generic	Large Generic	Higher Education
	<10m	<50m	<200m	>200m	N/A
Equity	200%	175%	100%	50%	200%
Grants	200%	175%	125%	50%	200%
Support Services	175%	150%	100%	50%	175%

FS200 – MANAGEMENT CONTROL

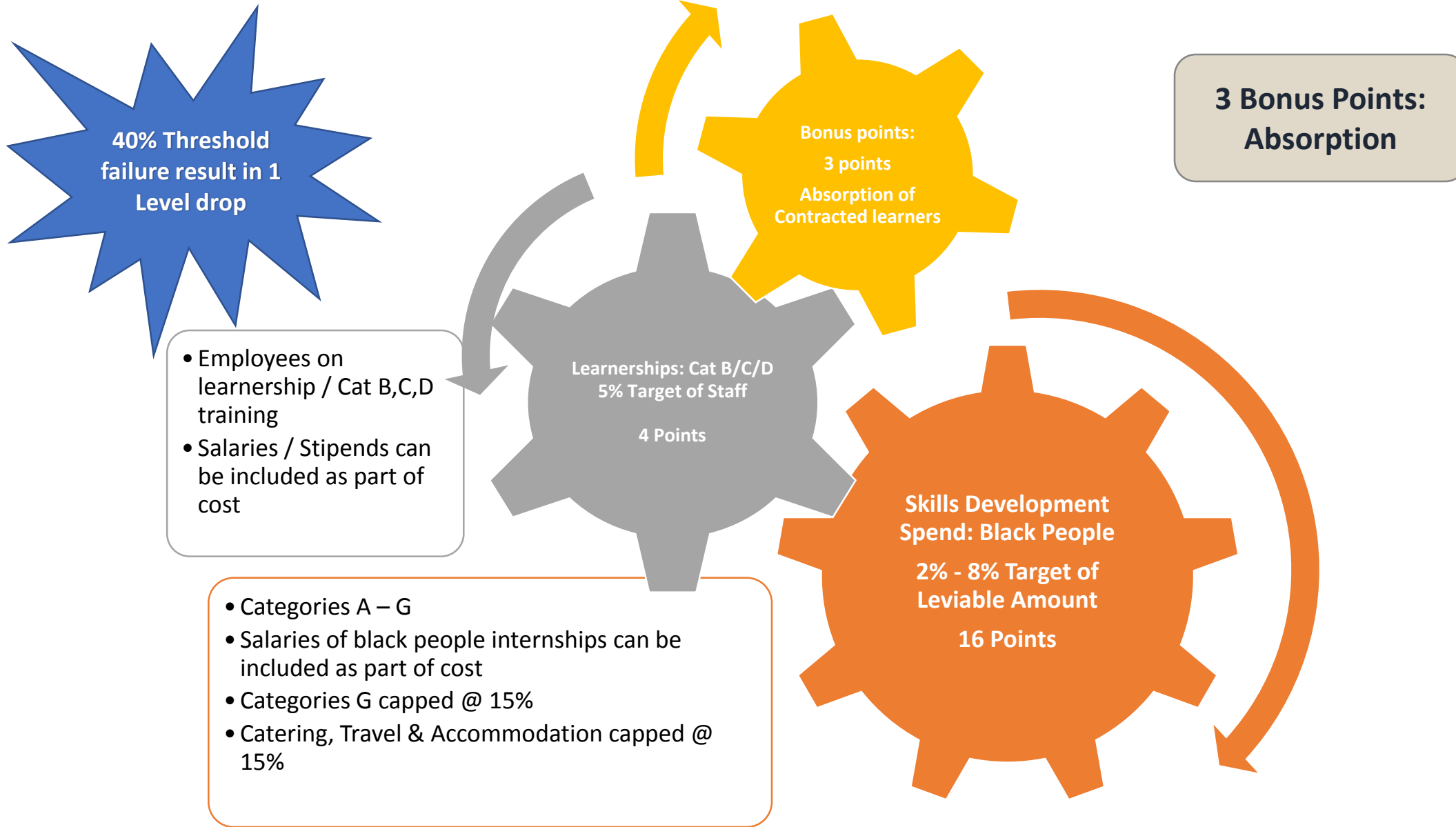


Main differences

Weighting points out of 20 points (Generic: 19 points)

Each management level has additional recognition to achieve the EAP target for African people

FS300 – SKILLS DEVELOPMENT



Main differences

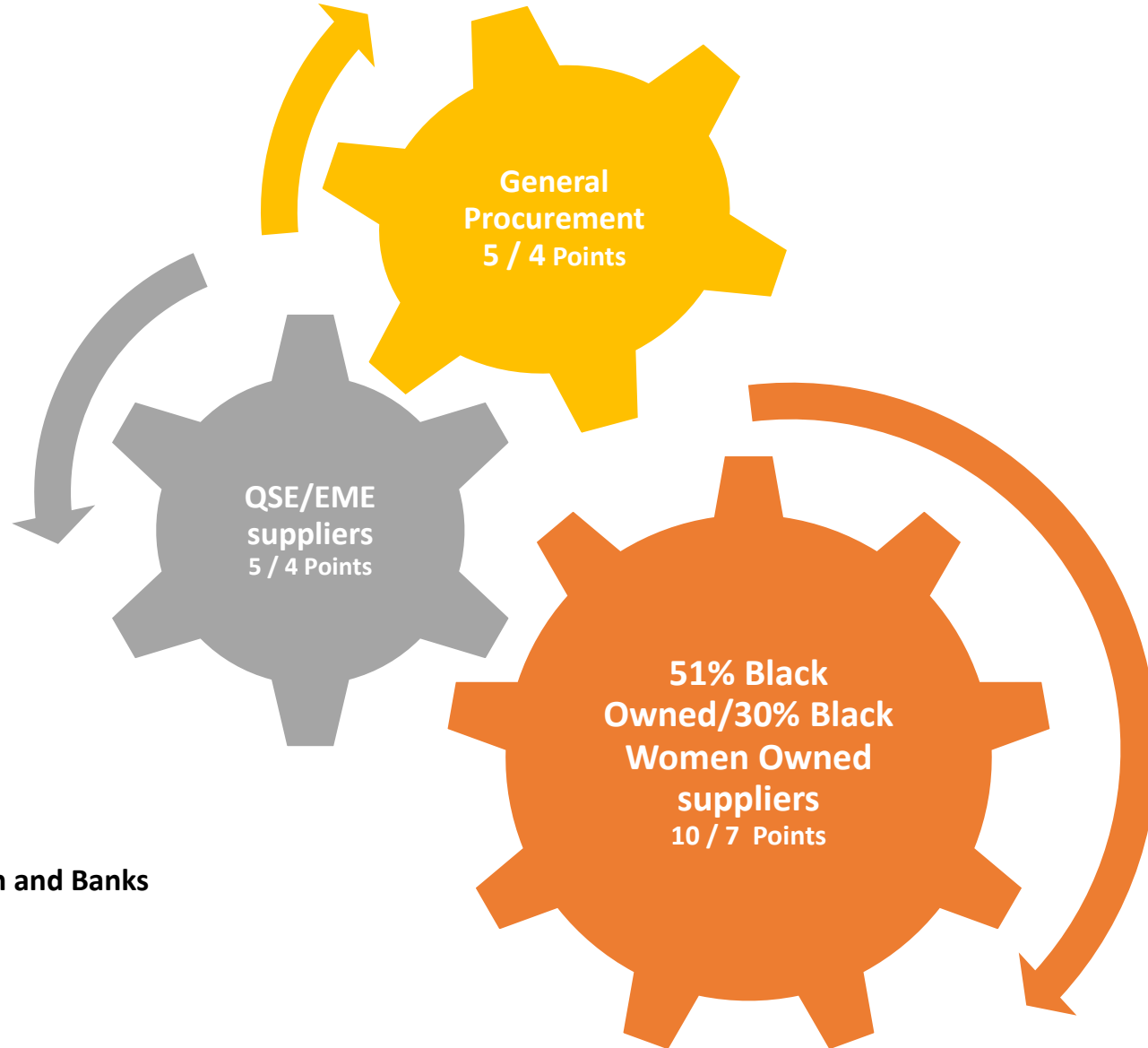
<p>Weighting points out of 20+3 points (Generic: 20+5 points)</p>	<p>EAP targets for African people</p>	<p>Skills spend target per Management Level</p>	<p>Separate target for Black Unemployed People</p>	<p>Only one target for Employed and Unemployed Learnerships</p>	<p>No exclusion on overseas training & mandatory training / Only Cat G training capped (Generic: Cat F & G)</p>
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FS300 – SKILLS DEVELOPMENT

1. Calculation of the EAP target clarified in the Management Control GN .
2. Oversight to change the references in par 3.2 of the Amended FSC to par 2.5 instead of par 2.4.1 and 2.4.2.
3. Par 2.5 refers to unemployed black people and students
4. The dti Codes has a target of 6% of payroll spending on Skill Development for all employment equity segments combined. The FS Code has tiered targets ranging from a lower target of 2% for higher levels of Management to 8% for non-management staff.
5. In the FS Code, Mandatory sectoral training qualifies for skills development as a Category F Learning Programme. It is however, still limited to 15% of the total spend.

FS400 - PREFERENTIAL PROCUREMENT

40% Threshold failure result in 1 Level drop*



**2 Bonus points:
Designated Group
Suppliers**

**2 Bonus points:
Black Stockbrokers
/ Fund Managers
Or
Spend to
Intermediated Black
Professional Service
Providers**

*Not a priority element for Long-term and Banks

Main differences

Weighting points out of 15/20+4 points (Generic: 25+2 points)

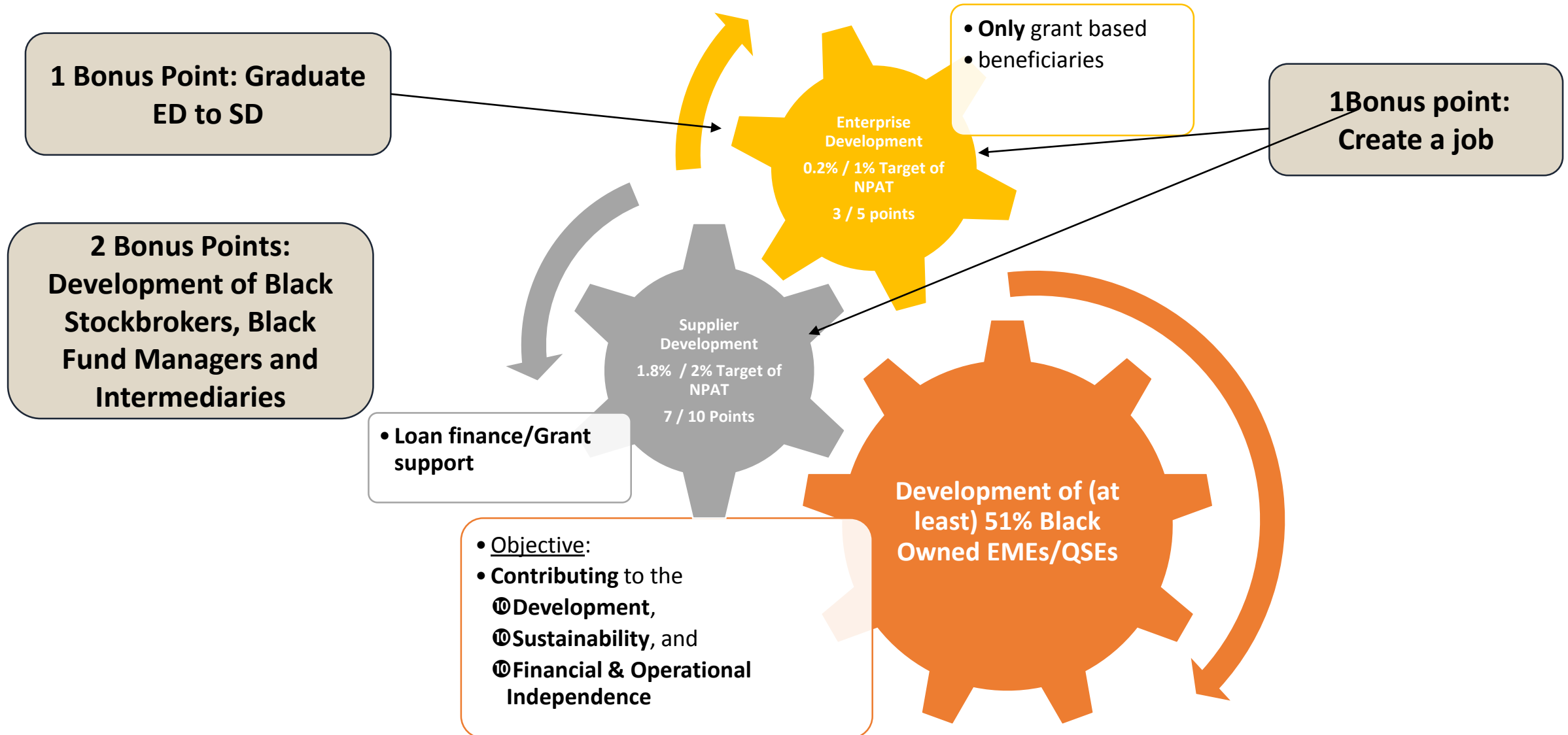
Targets phased in over 3 years

Priority element except for Banks/Life offices

Additional bonus points for procurement from Black Stockbrokers / Fund managers OR Black Professionals

Targets for procurement from BO and BWO suppliers

FS400 - ENTERPRISE- AND SUPPLIER DEVELOPMENT



Main differences

Different targets and weightings for Others & Banks and Life offices

Weighting points out of 15+4 (Others) and 10+4 (Banks/Life) points

Priority element for both "Others" and Banks/Life offices

Target based on **previous year** NPAT

FS400 - SUPPLIER DEVELOPMENT - DEFINITION

What

(Type of contributions)

- monetary contributions; or
- non-monetary contributions
- Investment/loan/grant-based

Who

(Qualifying beneficiary)

- carried out for the benefit of **Empowering Suppliers who are Suppliers of the Measured Entity**
- Qualifying entity: EME/QSE which are at least 51% Black Owned or at least 51% Black Woman Owned
- Supplier: means 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

Why

(Intention)

- the objective:
 - contributing to the
 - ⑩ development,
 - ⑩ sustainability and
 - ⑩ financial and operational independence of those Empowering Suppliers

FS400 - ENTERPRISE DEVELOPMENT - DEFINITION

What

(Type of contributions)

- monetary contributions; or
- non-monetary contributions
- grant-based only

Who

(Qualifying beneficiary)

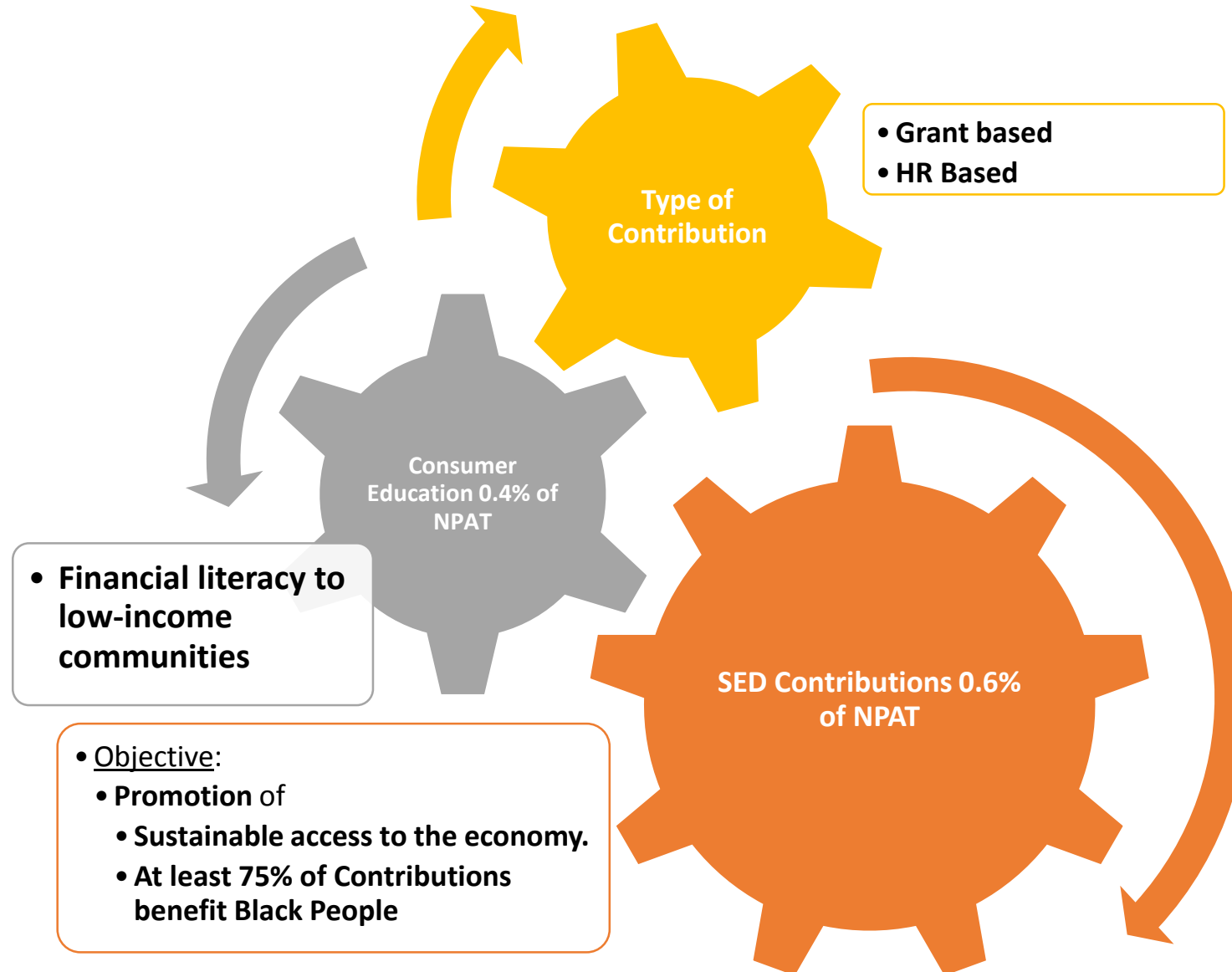
- carried out for the benefit of any Entity:
 - ⑩ Entity: means a legal entity or a natural or a juristic person conducting a business, trade or profession in the Republic of South Africa
- Qualifying entity: EME/QSE which are at least 51% Black Owned or at least 51% Black Woman Owned.

Why

(Intention)

- the objective:
 - contributing to the
 - ⑩ development,
 - ⑩ sustainability and
 - ⑩ financial and operational independence of that Entity

FS500 - SOCIO-ECONOMIC DEVELOPMENT & CONSUMER EDUCATION



Main differences

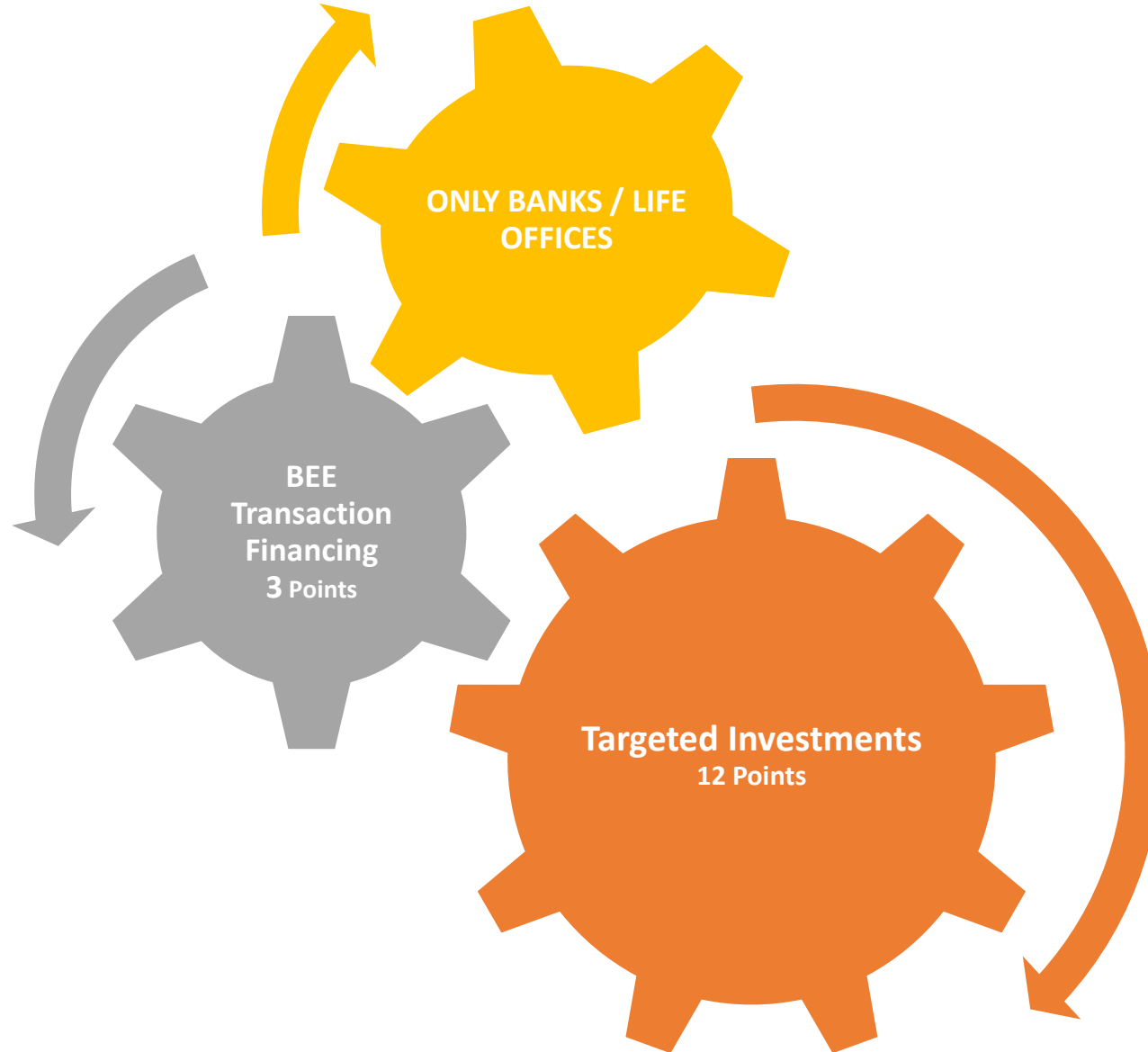
Weighting points out of 5+4 points

No changes other than bonus points and NPAT

Target based on **previous year** NPAT

FS600 - EMPOWERMENT FINANCING

40% Threshold
failure result in
1 Level drop



FS600 - EMPOWERMENT FINANCING



- 1) This element is unique to the financial sector
- 2) Transformation infrastructure is specifically aimed at providing funding to previously disadvantaged areas and is critical element of ensuring NDP commitments are met
- 3) BBGF, black agriculture, and E&SD funding cumulatively imply significantly larger funding targets in the FSC to support black business than under the GC. This is logical given the nature of what banks and insurers do
- 4) Sub-minimum on SME funding element of BBGF to ensure small business focus (2.4% of TI target)
- 5) Low cost housing is also a focus area
- 6) Banks and L-T insurers now have a number of new incentives to go above and beyond core business in ESD:
 - specific supplier development targets in addition to BBGF
 - grant requirement for ED to incentivize development over and above funding
 - cap on the amount bad debt write-offs that can count to ED
 - inability to count standard loans against ESD
- 7) Increased incentives to invest in high-job creation / preservation sectors (e.g. manufacturing) in BBGF
- 8) Targets to be revised from time to time.

BLACK BUSINESS GROWTH FUNDING (BBGF)

Key issues

Intention: Unlock funding for Black Entrepreneurs in key sectors of economy.

Aim to support Radical Economic Transformation by financial & non-financial support to BO and BWO enterprises

Overall objective: support new and existing Black Owned conglomerates that will result in creation of jobs

Alternative to BEE Transaction Financing & **additional category** to Targeted Investments

BBGF

Transformation Credentials - internal unit or external party deploying the capital

- Within the first 3 years greater than 50% of all new funding commitments need to be deployed by a Black Private Equity Fund, as defined in the FSC, or an internal business unit that reflects the same transformation credentials as set out in the FSC.
- Post 3 years 100% of all new funding commitments need to be deployed by a Black Private Equity Fund, as defined in the FSC, or an internal business unit that reflects the same transformation credentials as set out in the FSC.
- The internal business unit or external party must be appropriately licensed according to the nature of the financing activities undertaken

BBGF

Further conditions:

- A minimum of 4% of the total Empowerment funding target envisaged must have been provided to businesses or cooperatives with a turnover of less than R200m that have at least 51% direct black shareholding. This requirement will make up 20% of the available points under the Targeted Investments section of the Empowerment Financing element of the Codes.
- A maximum of 20% of all funds committed, can also be provided to support funding of higher education for schemes and individuals that meet the affordability thresholds defined by the higher education ministerial task team, formed in 2016, in response to the National Student Funding crisis

Financing Rules

- Year 1: 10% of the funding to 51% BO and 30% BWO
- Year 2: 20% of the funding to 51% BO and 30% BWO
- Year 4: 30% of the funding to 51% BO and 30% BWO
- Year 6: 40% of the funding to 51% BO and 30% BWO
- Year 8: 50% of the funding to 51% BO and 30% BWO
- Beyond Year 9: Greater than 60% of the funding to 51% BO and 30% BWO

Main differences

<p>Access to Financial Services score out of 12 points</p>	<p>Target for Market Penetration (number in force policies) increases over time:</p> <ul style="list-style-type: none">85% - 201490% - 201595% - 2016100% - 2017	<p>Integrated products: New standards created for GAP market products; Integrated approach by banking, short term insurance, long term insurance and CIS to be investigated</p>	<p>Targets to be reviewed for 2018 onwards & Product and measurement standards including maximum cover limits to be updated</p>
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FS800 - QSFI SCORECARD

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 and Consumer Education	5 points	FS805

FS900 - THE SPECIALISED ENTERPRISE SCORECARD

Element	Weighting	Code FS900	Series
Management control	20 points	FS901	
Skills Development	25 points	FS902	
Enterprise and Supplier Development	50 points	FS903	
Socio-Economic Development and Consumer Education	5 points	FS904	
Total	100 points		

SCHEDULE 1 - RETIREMENT FUND B-BBEE SCORECARD



ELEMENT	SCORECARD	PUBLIC DISCLOSURE	CODE SERIES
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 and Consumer Education			
TOTAL	100		

Thank You

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