

*"Self-belief and hard work will always earn you success". - Virat Kohli*

**July 2018**

## **Draft B-BBEE Codes - Away with the Modified Flow-Through Principle!**

The Department of Trade and Industry published the new draft generic B-BBEE Codes for public comment.

The proposed amendments include the limitation of the modified-flow through principle when seeking enhanced recognition (i.e. automatic level 1 or 2 contributor for being 100% or 51% black owned) in respect Exempted Micro Enterprises (EME's with annual turnover of less than R10Million) and Qualifying Small Enterprises (QSE's with annual turnover of more than R10Million and less than R50Million).

The proposed amendments also include the extension of the enhanced recognition principle to Generic Enterprises (entities with an annual turnover of more than R50Million).

As such, the proposed amendments provide that:

1. Enhanced recognition in respect of EME's and QSE's may no longer be attained by applying the modified flow-through principle; and
2. Generic Enterprises may also benefit from the enhanced recognition principle. As such, a Generic Enterprise which is 100% black owned can attain a B-BBEE level 1 status and a Generic Enterprise being 51% black owned can attain a B-BBEE Level 2 status without complying with the other elements, by obtaining a Verification Certificate verifying only the element of Ownership. However, as with EME's and QSE's, enhanced recognition cannot be obtained through application of the modified flow-through principle and the flow-through principle should be applied when verifying the Ownership element.

**PHYSICAL ADDRESS:**  
Die Klubhuis, Corner of Pinaster  
Avenue and 18th Street, Hazelwood,  
Pretoria, South Africa, 0081

**POSTAL ADDRESS:**  
Postnet Suite 360  
Private Bag X06  
Waterkloof, 0145

**CONTACT DETAILS:**  
TEL: +27 12 349 2306  
FAX: 086 615 1183  
[www.vanhuysteens.co.za](http://www.vanhuysteens.co.za)

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