

## **KING IV REPORT: "At a Glance"**

King I, II and III have served as a benchmark for corporate governance in South Africa for the past twenty-two years and continues to proudly do so with the introduction of the Draft King IV Report on Corporate Governance for South Africa which was released for public comment on 15 March 2016 by the Institute of Directors in Southern Africa (IoDSA) and the King Committee.

It has been eleven years since the release of a King Report, King Report III. This brought about the decision to update King III, taking into account the significant corporate governance and regulatory developments both locally and internationally.

### **What to expect in King IV?**

King IV defines corporate governance as the exercise of ethical and effective leadership by the governing body and comprises of three elements: practices, principles and governance outcomes.



Each of which are interrelated and cannot and will not successfully exist without the existence of the other.

Practices are measures recommended to be implemented by an organisation or sector. The implementation of a practice achieves the principle. The principle thus serves as a guide to direct organisations on what they should set out to achieve by implementing a practice. Governance outcomes is the positive effect and benefits that an organisation can reap if the principles are properly applied and fully achieved. These benefits include ethical culture, performance and value creation, adequate and effective control and trust, good reputation and legitimacy.

The principles contained in King IV are drafted and formulated in a manner whereby which each principle reinforces and enhances one another. King IV is principle-and-outcome based and moves away from King I, II and III's tick-box and rule-based approach.

King IV in its totality contains 16 principles. There has been a consolidation of King III's 75 principles to the 16 principles of King IV. The principles pertain to good corporate citizenship and the 'RAFT' governance ideals that have always been the core of the King Reports namely responsibility, accountability, fairness and transparency.

The 16 core principles of King IV are divided into five chapters, each chapter producing a governance outcome.

Below is a schedule of the chapters, principles and governance outcomes of King IV.

Chapters and Principles	Governance outcome
<p><b>CHAPTER 1: LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP</b></p> <p><u>Ethical leadership:</u></p> <p><b>Principle 1.1:</b> the governing body should set the tone and lead ethically and effectively.</p> <p><u>Organization values, ethics and culture</u></p> <p><b>Principle 1.2:</b> the governing body should ensure that the organisation’s ethics is managed effectively.</p> <p><u>Responsible corporate citizenship</u></p> <p><b>Principle 1.3:</b> the governing body should ensure that the organization is a responsible corporate citizen.</p>	<p><b>Ethical Culture</b></p>
<p><b>CHAPTER 2: PERFORMANCE AND REPORTING</b></p> <p><u>Strategy, Implementation, performance</u></p> <p><b>Principle 2.1:</b> the governing body should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.</p> <p><u>Reports and disclosure</u></p> <p><b>Principle 2.2:</b> the governing body should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organization and its ability to create value in a sustainable manner.</p>	<p><b>Performance and value creation</b></p>
<p><b>CHAPTER 3: GOVERNING STRUCTURES AND DELEGATION</b></p> <p><u>Role of the governing body</u></p> <p><b>Principle 3.1:</b> the governing body should serve as the focal point and custodian of corporate governance in the organization.</p> <p><u>Composition of the governing body</u></p> <p><b>Principle 3.2:</b> the governing body should ensure that in its composition it comprises a balance of the skills, experience,</p>	<p><b>Adequate and effective control</b></p>

diversity, independence and knowledge needed to discharge its role and responsibilities.

Committees of the governing body

**Principle 3.3:** the governing body should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.

Delegation to management

**Principle 3.4:** the governing body should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised.

Performance evaluations

**Principle 3.5:** the governing body should ensure that the performance evaluations of the governing body, its structures, its chairs and members, the CEO and the company secretary or corporate governance professional result in continuous improved performance and effectiveness.

**CHAPTER 4: GOVERNANCE FUNCTIONAL AREAS**

Risk and opportunity governance

**Principle 4.1:** the governing body should govern risk and opportunity in a way that supports the organization in defining core purpose and to set and achieve strategic objectives.

Technology and information governance

**Principle 4.2:** the governing body should govern technology and information in a way that supports the organization in defining core purpose and to set and achieve strategic objectives.

Compliance governance:

**Principle 4.3:** the governing body should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards.

Remuneration governance:

**Adequate and effective control**

<p><b>Principle 4.4:</b> the governing body should ensure that the organization remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.</p> <p><u>Assurance:</u></p> <p><b>Principle 4.5:</b> the governing body should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.</p>	
<p style="text-align: center;"><b>CHAPTER 5: STAKEHOLDER RELATIONSHIPS</b></p> <p><u>Stakeholders</u></p> <p><b>Principle 5.1:</b> as part of its decision –making in the best interests of the organization, the governing body should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.</p> <p><u>Responsibilities of shareholders</u></p> <p><b>Principle 5.2:</b> the governing body of an institutional investor should ensure that the organization responsibly exercises its rights, obligations, legitimate and reasonable needs, interests and expectations, as holder of beneficial interest in the securities of a company.</p>	<p><b>Trust, reputation and legitimacy.</b></p> <p><b>good and</b></p>

A key feature of the King IV is that the principles make reference to the “governing body”. The governing body is the structure that has the accountability for the governance, leadership and performance of the organisation.

King IV thrives on the notion that good corporate governance and leadership are co-dependent on each other and recognises that the overarching, high level leadership responsibility of the governing body produces a golden thread throughout.

Previously, not all organisations benefitted from King Reports. The first three King Reports were aimed at JSE-listed companies.

With some non-profit organisations, the principles of King III were unachievable due to lack of resources. The principles were aimed more towards large and complicated structures. Further, small and medium companies were of the opinion that corporate governance does not apply to them.

One of the objectives of the King IV is to “broaden the acceptance of good corporate governance by making it accessible and fit for application by organisations of a variety of sizes, resources and

complexity of strategic objectives and operations". King IV does this by making its principles more accessible to all types of organisations regardless of size, scale of operations and sector.

This brings about the next key feature of King IV in that King IV adopts the approach that good governance should be institutionalized across all organisations and sectors.

King IV now includes sector supplements that provide specific guidance to the following categories of organisations and sectors:

- Small and medium enterprises;
- Non-profit enterprises;
- Public sector organisations and entities;
- Municipalities; and
- Pension funds.

The introduction of these sector supplements enables King IV to be more accessible to all types of entities across sectors. The application of the 16 principles in each sector and organisation is supported by recommended practices contained in each respective sector supplement.

### **Where is King Code IV now?**

The release of the Draft King IV for public comment occurs over two phases. The main King IV draft was first opened for public comment from 15 March 2016 to 15 May 2016. Currently, the sector supplements are open for public comment from 11 May to 11 July 2016. The first phase of public comment received feedback from institutional members of the King IV Committee, corporate governance specialists, directors, and academics.

The final King IV will replace King III and is expected to come into effect November 2017.

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