



GENERAL GUIDANCE NOTE

Summary of King IV™ Disclosure Requirements

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The following text have been directly extracted from the King IV Report on Corporate Governance™ for South Africa 2016, for the purposes of summarising the disclosure recommendations found within the King IV Code.

1. King IV application regime

The application regime for King IV is “apply and explain”:

Apply principles	Explain practices
All principles are phrased as aspirations and ideals that organisations should strive for in their journey towards good governance and realising the governance outcomes. The principles are basic and fundamental to good governance, and application thereof is therefore assumed.	Explanation should be provided in the form of a narrative account, with reference to practices that demonstrate application of the principle. The explanation should address which recommended or other practices have been implemented, and how these achieve or give effect to the principle.

2. What should be disclosed on the application of King IV?

Specific disclosure recommendations are included under each principle of the King IV Code. These recommendations are intended as guidance and a starting point for disclosure on the particular principle.

The detail of information to be provided in the narrative should be guided by materiality, and should enable stakeholders to make an informed assessment of the quality of the organisation’s governance.

There is no need to disclose whether each practice has been implemented or not, as this is quantitative and does not necessarily add to the quality of disclosure. There is also no need to disclose against the outcomes, as it can be left to the user to draw inferences from the narrative provided.

Set out below are the specific disclosure recommendations under each King IV principle:

Principle 1: The governing body should lead ethically and effectively.

The arrangements by which the members of the governing body are being held to account for **ethical and effective leadership** should be disclosed. These arrangements would include, but are not limited to, codes of conduct and performance evaluations of the governing body and its members.

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The following should be disclosed in relation to **organisational ethics**:

- a. An overview of the arrangements for governing and managing ethics.
- b. Key areas of focus during the reporting period.
- c. Measures taken to monitor organisational ethics and how the outcomes were addressed.
- d. Planned areas of future focus.

Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

The following should be disclosed in relation to **corporate citizenship**:

- a. An overview of the arrangements for governing and managing responsible corporate citizenship.
- b. Key areas of focus during the reporting period.
- c. Measures taken to monitor corporate citizenship and how the outcomes were addressed.
- d. Planned areas of future focus.

Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

In respect of disclosure on **strategy and performance**, refer to Reporting under Principle 5 below.

Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.

The governing body should oversee that the following information is published on the organisation's website, or on other platforms or through other media as is appropriate for **access by stakeholders**:

- a. Corporate governance disclosures required in terms of the Code (Set out in Part 3 and which has been collectively set out in this Guidance Note).
- b. Integrated reports.
- c. Annual financial statements and other external reports.

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The following should be disclosed in relation to the **primary role and responsibilities of the governing body**:

- a. The number of meetings held during the reporting period, and attendance at those meetings.
- b. Whether the governing body is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The following should be disclosed with regards to the **composition of the governing body**:

- a. Whether the governing body is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.
- b. The targets set for gender and race representation in the membership of the governing body, and progress made against these targets.
- c. The categorisation of each member as executive or non-executive.
- d. The categorisation of each non-executive member as independent or not and, when a non-executive member of the governing body has been serving for longer than nine years, a summary of the views of the governing body on the independence of the member.
- e. The qualifications and experience of members.
- f. Each member's period of service on the governing body.
- g. The age of each member.
- h. Other governing body and professional positions held by each member.
- i. The reasons why any members of the governing body have been removed, resigned or retired.

The following should be disclosed in relation to the **chair**:

- a. Whether the chair is considered to be independent.
- b. Whether or not an independent non-executive member of the governing body has been appointed as the lead independent, and the role and responsibilities assigned to the position.

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

The following should be disclosed in relation to **each committee of the governing body**:

- a. Its overall role and associated responsibilities and functions.
- b. Its composition, including each member's qualifications and experience.
- c. Any external advisers or invitees who regularly attend committee meetings.
- d. Key areas of focus during the reporting period.
- e. The number of meetings held during the reporting period and attendance at those meetings.
- f. Whether the committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

In addition to required statutory disclosure and the disclosures recommended above, "the following should also be disclosed in relation to the **audit committee**:

- a. A statement as to whether the audit committee is satisfied that the external auditor is independent of the organisation. The statement should specifically address:
 - i. the policy and controls that address the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year;
 - ii. the tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, including the tenure of the predecessor firm;
 - iii. the rotation of the designated external audit partner; and
 - iv. significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the attendant risk of familiarity between the external auditor and management.
- b. Significant matters that the audit committee has considered in relation to the annual financial statements, and how these were addressed by the committee.

- c. The audit committee's views on the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators.
- d. The audit committee's views on the effectiveness of the chief audit executive and the arrangements for internal audit.
- e. The audit committee's views on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or error.
- f. The audit committee's views on the effectiveness of the CFO and the finance function.
- g. The arrangements in place for combined assurance and the committee's views on its effectiveness.

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

The following should be disclosed in relation to the **evaluation of the performance of the governing body**:

- a. A description of the performance evaluations undertaken during the reporting period, including their scope, whether they were formal or informal, and whether they were externally facilitated or not.
- b. An overview of the evaluation results and remedial actions taken.
- c. Whether the governing body is satisfied that the evaluation process is improving its performance and effectiveness.

Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities

The following should be disclosed in relation to the **CEO**:

- a. The notice period stipulated in the CEO's employment contract and the contractual conditions related to termination.
- b. Other professional commitments of the CEO, including membership of governing bodies outside the organisation.
- c. Whether succession planning is in place for the CEO position.

A statement by the governing body on whether it is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities should be disclosed.

The arrangements in place for accessing professional corporate governance services and a statement on whether the governing body believes those arrangements are effective should be disclosed.

Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

The nature and extent of the risks and opportunities the organisation is willing to take should be disclosed without compromising sensitive information.

In addition, the following should be disclosed in relation to **risk**:

- a. An overview of the arrangements for governing and managing risk.
- b. Key areas of focus during the reporting period, including objectives, the key risks that the organisation faces, as well as undue, unexpected or unusual risks and risks taken outside of risk tolerance levels.

- c. Actions taken to monitor the effectiveness of risk management and how the outcomes were addressed.
- d. Planned areas of future focus.

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

The following should be disclosed in relation to **technology and information**:

- a. An overview of the arrangements for governing and managing technology and information.
- b. Key areas of focus during the reporting period, including objectives, significant changes in policy, significant acquisitions and remedial actions taken as a result of major incidents.
- c. Actions taken to monitor the effectiveness of technology and information management and how the outcomes were addressed.
- d. Planned areas of future focus.

Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

The following should be disclosed in relation to **compliance**:

- a. An overview of the arrangements for governing and managing compliance.
- b. Key areas of focus during the reporting period.
- c. Actions taken to monitor the effectiveness of compliance management and how the outcomes were addressed.
- d. Planned areas of future focus.

Material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations, whether imposed on the organisation or on members of the governing body or officers should be disclosed.

Details of monitoring and compliance inspections by environmental regulators, findings of non-compliance with environmental laws, or criminal sanctions and prosecutions for such non-compliance should be disclosed.

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

All elements of remuneration that are offered in the organisation and the mix of these should be set out in the **remuneration policy**, including:

- a. base salary, including financial and non-financial benefits;
- b. variable remuneration, including short and long-term incentives and deferrals;
- c. payments on termination of employment or office;
- d. sign-on, retention and restraint payments;
- e. the provisions, if any, for pre-vesting forfeiture (malus) and post-vesting forfeiture (claw-back) of remuneration;
- f. any commissions and allowances; and
- g. the fees of non-executive members of the governing body.

Remuneration report

The governing body should ensure that remuneration is disclosed by means of a remuneration report in three parts:

- a. A background statement.
- b. An overview of the main provisions of the remuneration policy.
- c. An implementation report which contains details of all remuneration awarded to individual members of the governing body and executive management during the reporting period.

Background statement

The background statement should briefly provide context for remuneration considerations and decisions, with reference to:

- a. internal and external factors that influenced remuneration;
- b. the most recent results of voting on the remuneration policy and the implementation report and the measures taken in response thereto;
- c. key areas of focus and key decisions taken by the remuneration committee during the reporting period,
- d. including any substantial changes to the remuneration policy;
- e. whether remuneration consultants have been used, and whether the remuneration committee is satisfied that they were independent and objective;
- f. the views of the remuneration committee on whether the remuneration policy achieved its stated objectives; and
- g. future areas of focus.

Overview of remuneration policy

The overview of the main provisions of the remuneration policy should address the objectives of the policy and the manner in which the policy seeks to accomplish these. The overview should include the following:

- a. The remuneration elements and design principles informing the remuneration arrangements for executive management and, at a high level, for other employees.
- b. Details of any obligations in executive employment contracts which could give rise to payments on termination of employment or office.
- c. A description of the framework and performance measures used to assess the achievement of strategic objectives and positive outcomes, including the relative weighting of each performance measure and the period of time over which it is measured.
- d. An illustration of the potential consequences on the total remuneration for executive management, on a single, total figure basis, of applying the remuneration policy under minimum, on-target and maximum performance outcomes.
- e. An explanation of how the policy addresses fair and responsible remuneration for executive management in the context of overall employee remuneration.
- f. The use and justification of remuneration benchmarks.
- g. The basis for the setting of fees for non-executive directors.
- h. A reference to an electronic link to the full remuneration policy for public access.

Implementation report

The implementation report, which includes the remuneration disclosure in terms of the Companies Act, should reflect the following:

- a. The remuneration of each member of executive management, which should include in separate tables:
 - i. a single, total figure of remuneration, received and receivable for the reporting period, and all the remuneration elements that it comprises, each disclosed at fair value;
 - ii. the details of all awards made under variable remuneration incentive schemes in the current and prior years that have not yet vested, including the number of awards; the values at date of grant; their award, vesting and expiry dates (where applicable); and the fair value at the end of the reporting period; and
 - iii. the cash value of all awards made under variable remuneration incentive schemes that were settled during the reporting period.

- b. An account of the performance measures used and the relative weighting of each, as a result of which awards under variable remuneration incentive schemes have been made, including: the targets set for the performance measures and the corresponding value of the award opportunity; and for each performance measure, how the organisation and executive managers, individually, performed against the set targets.
- c. Separate disclosure of, and reasons for, any payments made on termination of employment or office.
- d. A statement regarding compliance with, and any deviations from, the remuneration policy.

Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

Assurance of external reports

External reports should disclose information about the type of assurance process applied to each report, in addition to the independent, external audit opinions provided in terms of legal requirements. This information should include:

- a. a brief description of the nature, scope and extent of the assurance functions, services and processes
- b. underlying the preparation and presentation of the report; and
- c. a statement by the governing body on the integrity of the report and the basis for this statement, with
- d. reference to the assurance applied.

Refer to Part 5.3: Audit committee for recommended disclosures by the **audit committee** concerning the organisation's application of **combined assurance**.

Refer to Part 5.3: Audit committee for recommended disclosures by the **audit committee** concerning **internal audit arrangements and the internal control environment**.

Principle 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

Stakeholder relationships

The following should be disclosed in relation to stakeholder relationships:

- a. An overview of the arrangements for governing and managing stakeholder relationships.
- b. Key areas of focus during the reporting period.
- c. Actions taken to monitor the effectiveness of stakeholder management and how the outcomes were addressed.
- d. Future areas of focus.

The **minutes of the AGMs** of listed companies should be made publicly available.

Relationships within a group of companies (Applicable to companies within a group)

The holding company should disclose an overview of the group governance framework that is implemented across the group.

The subsidiary company should disclose what responsibilities it has delegated to board committees of the holding company and the extent to which it has adopted the policies and procedures of the holding company.

Principle 17: The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.

The responsible investment code adopted by the institutional investor and the application of its principles and practices should be disclosed.

3. Where should King IV disclosure be made?

The governing body has the discretion to determine where the King IV disclosures will be made; for example, in the integrated report, sustainability report, social and ethics committee report, or other online or printed information or reports.

The governing body may also choose to disclose its application of King IV in more than one of these reports. Duplication of King IV disclosures should be avoided by making use of cross-referencing. Group companies should also make use of cross-referencing to avoid duplicate disclosures.

King IV disclosure should be updated at least annually, formally approved by the governing body and be publicly accessible.

4. Roadmap to disclosure on the application of King IV

