



Draft King IV released for public comment

The draft King IV Report on Corporate Governance for South Africa 2016 (Draft King IV) issued by the Institute of Directors in Southern Africa (IODSA) was released for public comment on 15 March 2016. KPMG supports good governance in South Africa and has contributed to the inclusive and consultative drafting process of King IV. In addition, KPMG will be providing its formal input into the public comment process. This communique summarises some notable features of Draft King IV. Readers are however advised to consult the full King IV draft available on the IODSA website.

Why the need for King IV?

The Draft King IV builds on King III. It has been revised to bring it up to date with international corporate governance codes; to align it to the shifts in the approach to capitalism (towards inclusive, sustainable capitalism with integrated reporting) and to take account of specific corporate governance developments in relation to inter alia effective boards, increased compliance requirements, new governance structures (e.g. Social and Ethics Committee), emerging risks and opportunities from new technologies eg cyber-crime and social media, and new reporting and disclosure requirements.

What is the applicability of King IV?

Draft King IV is structured as a Report that includes a Code, with additional, separate supplements for various sectors and categories of organisations i.e. SME's, NPO's, Public sector organisations and entities, Municipalities and Pension funds. These sector supplements will be released at later dates. The Code contains both principles and recommended practices. It is envisaged that the Code principles and intended outcomes will be applicable to all organisations irrespective of their form of incorporation, with the practices to be applied on a 'proportionality' basis depending on the nature and size of the organisation.

When is the effective date?

The final King IV Report is anticipated for release on 1 November 2016.

How does the Draft King IV differ from King III?

King IV is outcomes orientated. It places accountability on the governing body (e.g. the board in companies) to attain organisational outcomes of an ethical culture, sustainable performance that creates value, adequate and effective control and sound stakeholder relationships, through the discharge of its responsibilities relating to strategic direction, approval of policy, effective oversight and disclosure. It aims to reduce the 'tick box' or compliance approach to governance.

As a consequence of this approach, King IV has only 16 principles (compared to King III which has 75 principles). These are that “the governing body should:

- Set the tone and lead ethically and effectively
- Ensure that the organisation’s ethics are managed effectively
- Ensure that the organisation is a responsible corporate citizen
- Lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements
- Ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner
- Serve as the focal point and custodian of corporate governance in the organisation
- Ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities
- Consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability
- Ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised
- Ensure that the performance evaluation of the governing body, its structures, its chair and members, the CEO and the company secretary or corporate governance professional result in continued improved performance and effectiveness
- Govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives
- Govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives
- Govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards
- Ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner
- Ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making
- Ensure as part of its decision-making in the best interests of the organisation, that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate needs, interests and expectations
- If it is the governing body of an institutional investor, ensure that the organisation responsibly exercises its rights, obligations, legitimate and reasonable needs, interests and expectations, as holder of beneficial interest in the securities of a company.”

For all of the above principles, Draft King IV provides recommended practices.

Draft King IV requires an ‘Apply AND Explain’ approach, as opposed to King III which is ‘Apply OR Explain’. This means that application of the principles is assumed, and that an explanation is disclosed on the practices that have been implemented and the progress made towards governance outcomes. Draft King IV provides an example of a King IV Application Register which organisations should use as guidance for required King IV disclosures. The King IV Application Register should be posted on the organisation’s website.

Why should we apply and explain King IV?

Good governance is beneficial for stakeholders. A well governed organisation inspires the confidence of its stakeholders and lowers the cost of its capitals. Inclusive and integrated governance that is sustainable is good for society, the economy and South Africa. Whilst Draft King IV is not law, the governance outcomes achieved and the practices adopted and implemented, will likely become the criteria by which the required standard of care and appropriate standards of conduct of the governing body and its members are measured.

Who can we speak to at KPMG about Draft King IV?

Please contact the partner or director with whom you interact. Alternatively you can send an email to KingIV@kpmg.co.za whereafter we will endeavour to reply.