THE KING IS DEAD, LONG LIVE THE KING

On 1 November 2016 the King IV Report on Corporate Governance for South Africa, 2016 was launched. The JSE soon thereafter published proposed amendments to its listings requirements as an update with a view to incorporating certain of the provisions of King IV.
From a structural and format perspective, King IV is significantly different to King III. The substantive principles, however, are broadly in line with its predecessor. Much has been made of King IV’s switch to an “apply and explain” philosophy as opposed to King III’s “apply or explain”. However, in substance essentially the same position is arrived at, given that King IV has reduced the 75 governance principles in King III, to 17 principles (one of which is applicable only to institutional investors). The newly stated principles are general and high-level in nature, the idea being that they are capable of application by any entity regardless of its nature and size. It is the granular practices which are implemented in applying the principles which will naturally differ depending on the entity.

As with King III, King IV applies to all entities, and accordingly employs the generic term “governing body” when referring to the primary governance structure within an entity (in the case of a company, its board).

The sector-specific supplements, as foreshadowed in the draft of King IV which was released earlier in the year for public comment, are included for the first time, and these will take some time to fully analyse and comment on.

What follows is a table containing a brief comparison of some of the material and practical aspects of King III and King IV.

<table>
<thead>
<tr>
<th>Composition of governing body</th>
<th>King III</th>
<th>King IV</th>
</tr>
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<tbody>
<tr>
<td>Should comprise a majority of non-executives, and the majority of non-executives should be independent.</td>
<td>Unchanged. Diversity of membership is further emphasised by the addition that the governing body should set targets for race and gender representation in its membership.</td>
<td></td>
</tr>
<tr>
<td>Diversity of membership must be considered.</td>
<td>Periodic, staggered rotation to be determined by the governing body; no specific rotation recommended.</td>
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<tr>
<td>Should be a minimum of two executive members, namely the CEO and CFO.</td>
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<tr>
<td>Rotation of members is recommended on the basis that one-third of non-executives retire at every AGM.</td>
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<thead>
<tr>
<th></th>
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<tr>
<td><strong>Independence of directors</strong></td>
<td>A list of criteria (eg financial interests in the entity, and present or past relationships with the entity) are set out which criteria deem directors to be independent or non-independent.</td>
<td>Similar criteria are utilised, however these are now framed as non-exhaustive factors to be taken into consideration, and are therefore not necessarily determinative, of a director’s status as independent or otherwise.</td>
</tr>
<tr>
<td><strong>Chairman of governing body</strong></td>
<td>Should be an independent, non-executive.</td>
<td>Unchanged.</td>
</tr>
<tr>
<td><strong>Lead independent director</strong></td>
<td>Required to be appointed only if chairman is not independent, and fulfils chairman’s role when the latter is conflicted.</td>
<td>Required to be appointed irrespective of the chairman’s position, and has an enhanced role under King IV.</td>
</tr>
<tr>
<td><strong>Chairman’s involvement in committees</strong></td>
<td>Should not be a member of the audit committee. Should not chair the remuneration committee, but may be a member of it. Should be a member of the nomination committee and may also be its chairman. Should not chair the risk committee but may be a member of it.</td>
<td>Position unchanged insofar as audit, nomination and remuneration committee are concerned. May chair the risk committee. May be a member of the social and ethics committee but should not chair it.</td>
</tr>
<tr>
<td><strong>Delegation</strong></td>
<td>General principles of delegation are set out.</td>
<td>Adds that delegation to a member of the governing body must be formal and reduced to writing, setting out the scope and duration of the delegation.</td>
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</table>
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<tr>
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<tr>
<td><strong>Committees of governing body – general</strong></td>
<td>Should comprise a minimum of three members, and must have formal terms of reference.</td>
</tr>
<tr>
<td><strong>Audit committee membership</strong></td>
<td>Should comprise at least three members, all of whom must be independent, non-executive.</td>
</tr>
<tr>
<td><strong>Nominations committee membership</strong></td>
<td>Composition not specifically prescribed. Practice note (Sept 2009) recommends all members to be non-executive; majority to be independent.</td>
</tr>
<tr>
<td><strong>Risk governance committee membership</strong></td>
<td>Should comprise of both executives and non-executives.</td>
</tr>
<tr>
<td><strong>Social and ethics committee membership</strong></td>
<td>Not addressed; regulated entirely by Companies Regulations.</td>
</tr>
<tr>
<td><strong>CEO - disclosures</strong></td>
<td>General disclosures relating to remuneration of directors and prescribed officers apply to the CEO.</td>
</tr>
</tbody>
</table>
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### Yaniv Kleitman

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<td><strong>Company secretary</strong></td>
<td>Should have an arm’s-length relationship with the governing body, and thus should not be a member of the governing body.</td>
<td>Unchanged.</td>
</tr>
<tr>
<td><strong>Remuneration – vote by shareholders of a company</strong></td>
<td>Recommends the remuneration policy be submitted for a non-binding advisory vote by shareholders at every AGM (ordinary resolution).</td>
<td>Unchanged, but adds that the remuneration policy must contain the measures that the board will take if 25% or more of votes exercised are cast against the policy. The measures taken must be disclosed in the next integrated report.</td>
</tr>
<tr>
<td><strong>Company groups</strong></td>
<td>Recommends a governance framework to be in place between holding companies and their subsidiaries.</td>
<td>Unchanged. More detail is provided on the suggested content of the governance framework.</td>
</tr>
<tr>
<td><strong>Institutional investors</strong></td>
<td>Not addressed in King III; dealt with in the separate Code for Responsible Investing in South Africa (CRISA).</td>
<td>Specific principles are set out concerning the overarching obligation of the governing body of an institutional investor to ensure that responsible investment is practised by the organisation to promote good governance and the creation of value by the companies in which it invests.</td>
</tr>
<tr>
<td><strong>Sector supplements</strong></td>
<td>Not addressed.</td>
<td>Contains sector-specific supplements which address the nuanced and specialised applicability of King IV in respect of municipalities, non-profit entities, retirement funds, SMEs and state-owned entities.</td>
</tr>
</tbody>
</table>
OUR TEAM

For more information about our Corporate and Commercial practice and services, please contact:

Willem Jacobs
National Practice Head
Director
Corporate and Commercial
T +27 (0)11 562 1555
M +27 (0)82 544 4988
E wj@cdhlegal.com

David Thompson
Regional Practice Head
Director
Corporate and Commercial
T +27 (0)21 481 6335
M +27 (0)82 882 5655
E david.thompson@cdhlegal.com

Chris Baird
Director
T +27 (0)11 562 1556
M +27 (0)82 544 4988
E chris.baird@cdhlegal.com

Roeof Bonnet
Director
T +27 (0)11 562 1226
M +27 (0)83 325 2185
E roeof.bonnet@cdhlegal.com

Tessa Brewis
Director
T +27 (0)21 481 6324
M +27 (0)83 717 9360
E tessa.brewis@cdhlegal.com

Michael Bromley
Director
T +27 (0)21 405 6021
M +27 (0)82 826 5493
E michael.bromley@cdhlegal.com

Ian Burger
Director
T +27 (0)11 562 1177
M +27 (0)83 826 5493
E ian.burger@cdhlegal.com

Etta Chang
Director
T +27 (0)11 562 1432
M +27 (0)72 879 1281
E etta.chang@cdhlegal.com

Clem Daniel
Director
T +27 (0)11 562 1073
M +27 (0)82 418 5924
E clem.daniel@cdhlegal.com

Jenni Darling
Director
T +27 (0)11 562 1878
M +27 (0)82 826 9055
E jenni.darling@cdhlegal.com

André de Lange
Director
T +27 (0)21 405 6165
M +27 (0)82 781 5858
E andre.delange@cdhlegal.com

Lilia Franca
Director
T +27 (0)11 562 1148
M +27 (0)82 564 1407
E lilia.franca@cdhlegal.com

John Gillimer
Director
T +27 (0)21 405 6004
M +27 (0)82 330 4902
E john.gillimer@cdhlegal.com

Johann Green
Director
T +27 (0)21 405 6200
M +27 (0)72 354 6663
E johann.green@cdhlegal.com

Allan Hannie
Director
T +27 (0)21 405 6010
M +27 (0)82 883 3131
E allan.hannie@cdhlegal.com

Peter Hesseling
Director
T +27 (0)21 405 6009
M +27 (0)82 883 3131
E peter.hesseling@cdhlegal.com

Quintin Honey
Director
T +27 (0)21 405 6166
M +27 (0)83 652 0151
E quintin.honey@cdhlegal.com

Roelf Horn
Director
T +27 (0)21 405 6036
M +27 (0)82 458 3293
E roelf.horn@cdhlegal.com

Yaniv Kleitman
Director
T +27 (0)11 562 1219
M +27 (0)72 279 1260
E yaniv.kleitman@cdhlegal.com

Johann Latisky
Director
T +27 (0)11 562 1149
M +27 (0)82 554 1003
E johann.latisky@cdhlegal.com

Badian Maasdorp
Director
T +27 (0)11 562 1777
M +27 (0)82 924 8429
E badian.maasdorp@cdhlegal.com

Banzji Malinga
Director
T +27 (0)11 562 1100
M +27 (0)82 469 5358
E banzji.malinga@cdhlegal.com

Giada Masina
Director
T +27 (0)11 562 1221
M +27 (0)72 573 1909
E giada.masina@cdhlegal.com

Nomhla Mchunu
Director
T +27 (0)11 562 1228
M +27 (0)82 334 4297
E nomhla.mchunu@cdhlegal.com

William Midgley
Director
T +27 (0)11 562 1390
M +27 (0)82 904 1772
E william.midgley@cdhlegal.com

Anita Moolman
Director
T +27 (0)21 405 6122
M +27 (0)82 752 2079
E anita.moolman@cdhlegal.com

Jo Nesper
Director
T +27 (0)21 481 6329
M +27 (0)82 577 3199
E jo.nesper@cdhlegal.com

Francis Newham
Director
T +27 (0)21 481 6326
M +27 (0)82 458 7728
E francis.newham@cdhlegal.com

Gasant Orrie
Cape Managing Partner
Director
T +27 (0)21 405 6044
E grosant.ormie@cdhlegal.com

Verushca Pillay
Director
T +27 (0)11 562 1800
M +27 (0)82 579 5678
E verushca.pillay@cdhlegal.com

David Pinnock
Director
T +27 (0)11 562 1400
M +27 (0)83 675 2110
E david.pinnock@cdhlegal.com

Allan Reid
Director
T +27 (0)11 562 1222
M +27 (0)82 854 9687
E allan.reid@cdhlegal.com

Luntu Sebastian
Director
T +27 (0)11 562 1087
M +27 (0)72 651 7001
E luntu.sebastian@cdhlegal.com

Ludwig Smith
Director
T +27 (0)11 562 1500
M +27 (0)79 877 2891
E ludwig.smith@cdhlegal.com

Sibongile Solomnabela
Director
T +27 (0)11 562 1534
M +27 (0)71 360 3196
E sibongile.solomnabela@cdhlegal.com

Ben Strauss
Director
T +27 (0)21 405 6063
M +27 (0)72 190 9071
E ben.strauss@cdhlegal.com

Deepa Vallabh
Head: Cross Border M&A, Africa and Asia
Director
Corporate and Commercial
T +27 (0)11 562 1188
M +27 (0)82 571 0707
E deepa.vallabh@cdhlegal.com

Roux van der Merwe
Director
T +27 (0)11 562 1399
M +27 (0)82 559 6406
E roux.vandermerwe@cdhlegal.com

Chari Williams
Director
T +27 (0)21 405 6037
M +27 (0)82 829 4175
E charli.williams@cdhlegal.com

Lauren Wilson
Director
T +27 (0)11 562 1223
M +27 (0)82 414 8549
E lauren.wilson@cdhlegal.com

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JOHANNESBURG
1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa. Dx 154 Randburg and Dx 42 Johannesburg.
T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jh@cdhlegal.com

CAPE TOWN
11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.
T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

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