

King 3 code takes effect next month

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COMPANIES should start thinking about what principles of the King 3 report on corporate governance they should be applying, as the code becomes effective next month, say analysts.

“Companies need to think about how the code will add value to the organisation. It is not a set of rules which can be applied overnight,” Jayne Mammatt, an associate director in governance and sustainability at Ernst & Young, said yesterday.

“It is a set of principles to which thought must be given. Companies need to decide what principles they should apply. It is something which should be done over time by organisations according to their needs,” she said.

The final King 3 report — which was released in September by the Institute of Directors — will be effective on March 1.

Mammatt said King 3 set the worldwide bar on governance.

“It moves away from a mere focus on the board and into the burning issues of leadership, ethics, sustainable development, integrated reporting and the principle of keeping communication honest and open.

“Globally, executive bonuses were a bone of contention in the light of the financial crisis, with

big payouts to the executives of banks, some of which had received bail-outs from governments,” she said.

Jurisdictions such as the US and UK had introduced special taxes in the financial services sector because of the huge bonuses paid to bankers. But SA was unlikely to see any form of a special tax on the financial services industry as banks had not experienced financial distress, and had not received bail-outs.

Mammatt said King 3 would require more disclosure from companies on executive remuneration schemes, and companies would have to submit their remuneration schemes to shareholder scrutiny and approval.

Mammatt was not convinced individuals would be reluctant to become nonexecutive directors, as predicted by some analysts.

“The responsibilities of nonexecutive directors are increasing, but there is more clarity on the defences to avoid corporate failures and the liability of directors (contained in the new Companies Act),” she said.

King 3 also recommends integrated reporting to enable stakeholders to better assess the value of the company. Companies may produce two reports — one on financial matters and the other on sustainability issues.

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