

King's Counsel*

Remuneration of directors and senior executives



Overview

The third *King Report on Governance for South Africa 2009* (King III) was released on 1 September 2009. King III broadens the scope of corporate governance in South Africa and lifts the bar in terms of what can be regarded as an appropriate standard of conduct. Its core philosophy revolves around leadership, sustainability and corporate citizenship.

Executive remuneration, and the role it has played in precipitating the financial crisis, has dominated the headlines in recent months. Not surprisingly, it is also an area which is addressed by King III. Within the context of King III's principles-based 'apply or explain' governance framework, companies will need to apply the code of practice and principles relating to executive compensation or explain why these have not been applied.

What King III says about executive remuneration

King III lays down three general principles in respect of the remuneration of directors and senior executives:

- Companies should remunerate directors and executives fairly and responsibly;
- Companies should disclose the remuneration of each individual director and certain senior executives; and
- Shareholders should approve the company's remuneration policy.

Detailed principles and recommendations on these three points have been laid down in King III. They range from the matters to be addressed in a remuneration policy and the factors to be considered by the remuneration committee in setting that policy, to the structure of long-term incentive plans and the necessity for performance conditions. In addition, those matters which need to be disclosed in a remuneration report have been expanded and are set out in detail. Further, and on an annual basis, the company's remuneration policy should be tabled to shareholders for a non-binding advisory vote at the annual general meeting.

Applicability

King III applies to all companies regardless of their nature, size or form of incorporation. It operates within an 'apply or explain' governance framework, rather than from a legislative foundation.

Entities are encouraged to tailor the principles of King III as appropriate to the size, nature and complexity of their organisation. This is good news for companies in South Africa as it avoids some of the pitfalls seen in the United States where a 'one size fits all' approach was initially adopted.

Directors should report in the annual report that King III has been applied. Where the principles and recommendations have not been applied, an explanation is to be given.

King III is effective from March 2010.

What companies should be doing

From an executive remuneration perspective, companies should review their remuneration policy to assess the extent to which it complies with King III and current international best practice. This should include all aspects of remuneration – salary, bonuses, long-term incentives and the role of risk-based adjustments – and, where applicable, the policy should be revised.

In addition, companies need to ensure that they fully disclose the remuneration paid to their executive directors, non-executive directors and certain senior employees in their annual remuneration report.

How PwC can help

Intense scrutiny of corporate governance, increased shareholder activism and the recent financial crisis have led to the restructuring and re-evaluation of traditional remuneration structures. In addition, the role of the remuneration committee has widened. There is a need for committees to be more challenging and to exercise more discretion in managing the board to avoid divisiveness over pay.

Our executive reward specialists offer a wealth of experience in this area and work closely with clients to offer practical, multidisciplinary approaches to the complex challenges faced by businesses today.

Some of the ways in which we can assist companies to deal with the executive remuneration aspects of King III are:

- To assess the remuneration policy against the King III principles and recommendations and assist with the redevelopment of the policy;
- To assist with the preparation of an annual remuneration report;
- To advise on executive remuneration – base pay, benefits, annual bonuses and long-term incentives;
- To advise on non-executive directors' fees;
- To devise performance targets and measures for annual bonuses;
- To design and implement short-term and long-term incentive arrangements (including drafting the relevant documentation, providing tax and accounting opinions and assistance with investor relations);
- To advise on benchmarking and best practices; and
- To provide training to remuneration committee members and advise them on trends and risks in the remuneration field.

Contact us

To find out more, please contact:

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