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The King III Code of Governance

The King Code of Governance 2009, a 61 page document, contains nine governance elements with a schedule of governance principles and recommended practices in respect of each one. In this article, we highlight the governance elements and their most important implications for retirement funds.

1. Ethical Leadership and Corporate Citizenship

The fund must be and must be seen to be, a responsible corporate citizen which protects, enhances and invests in the well-being of the economy, society and the environment. The fund must not only consider its financial performance, but also its impact on society and the environment – the so-called triple bottom line reporting approach.

2. Boards and Directors (Trustees)

The board should comprise a balance of power. The code requires a majority of non-executive directors, of which the majority should be independent of the entity. These requirements do not constitute a comfortable fit for retirement funds with representative boards of trustees (who are all effectively non-executive trustees) and many funds may wait to take guidance from the revised PF 130.

The establishment of independent committees with formal “terms of reference” is encouraged where practicable, but the board may not abdicate its responsibility. The board, the committees and individual trustees should be subject to a performance evaluation every year. The results should be incorporated into an integrated report and will also highlight the training needs of trustees and determine whether any trustee should be available for re-election.

A minimum of $\frac{1}{3}$ of the non-executive directors/trustees should retire by rotation each year. The retiring board members may be re-elected provided that they are still eligible. After nine years, a special investigation must be made to confirm the continued independence of any independent trustee. If the board appoints a chairman who is not an independent non-executive director/trustee, a lead independent director/trustee (LID/T) should be appointed. The LID/T will be required to provide leadership if the chairman has a conflict of interest.

3. Audit Committee

An independent audit committee, which is responsible for the verification of data and processes, especially the integrity of the information in the integrated annual trustee report, should be appointed. The chairman of this committee must be present at the AGM.

4. Internal Audit

The board should ensure that there is an effective risk-based internal audit system in place, which is to be overseen by the audit committee. It should perform an objective assessment of the effectiveness of risk management and the internal control framework, as well as analyse and evaluate business processes and associated controls.

5. Risk Management Plan

The board should develop and monitor a risk management plan and process. The board should determine the levels of risk tolerance, may set limits for the risk appetite and should monitor that risks taken are within these tolerance and appetite levels. Risks should be prioritised and ranked to focus responses and interventions, and be quantified where possible.

6. Compliance with Laws, Rules, Codes and Standards

The board should ensure compliance with all applicable laws and consider adherence to non-binding rules, codes and standards. Its understanding of the applicable laws should also extend to the rights and protection that they afford to members. The board needs to ensure the proper induction of new trustees and the ongoing training of all other trustees. It must also implement an effective governance and compliance framework and process.

7. Information Technology

The board should implement an IT governance framework and strategy as well as ensure information security, information privacy and disaster recovery.

8. Stakeholder Relationships

The board should proactively manage stakeholder relationships in the best interests of the fund, and adopt a dispute resolution process with the inclusion of alternative dispute resolution procedures.

9. Integrated Reporting and Disclosure

The difference between stakeholder perceptions and the performance of the fund should be managed and measured in order to enhance and/or protect the fund’s reputation. The board should adopt communication guidelines that support a responsible communication programme. Complete, timely, relevant, accurate, honest and accessible information should be provided in clear and understandable language. An integrated annual trustee report is envisaged containing much more sensitive information than currently required.

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