King IV Report on Corporate Governance™ for South Africa

A guide to the application of King IV™:

Governance of remuneration

INTRODUCTION:

Remuneration governance
King IV - Principle 14

"The governing body should ensure that the organisation remunerates fairly, responsibly and transparently, so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term."

The intention of this guideline is to offer guidance on the interpretation and application of Principle 14 of King IV™ and its underlying recommended practices (copyright and trademark of which is owned by IoDSA), with the aim of achieving a high standard of remuneration practices in South Africa. It further serves as a broad educational document, defining common terms used and interpretations thereof. This guideline provides non-authoritative guidance, and supplements the recommended practices of King IV. As noted in King IV, the detail of information to be provided in the disclosure narrative should be guided by materiality, and should enable stakeholders to make an informed assessment of the quality of each organisation's reward governance. There is no need to disclose whether each recommended practice has been implemented, as this would not necessarily contribute to the quality of the disclosure. Outcomes should, however, be disclosed, which would infer the application of the recommended practice. Recommended practices are aspirational and set the highest tone of good governance for which organisations should strive. As such, practices may be applied proportionally, i.e. scaled down to suit the size, resources, impact, extent, and complexity of activities.

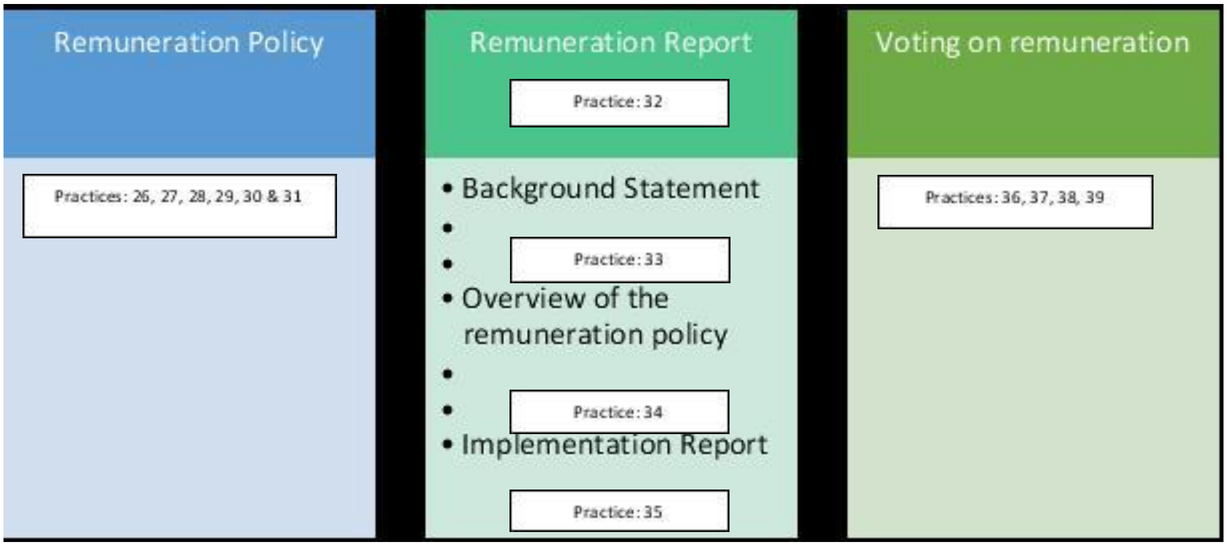
SOUTH AFRICAN REWARD ASSOCIATION

INSTITUTE OF DIRECTORS
SOUTHERN AFRICA

The intended primary audience are members of governing bodies, remuneration committees, executive directors, shareholders, reward professionals, institutional investors (as a proxy for shareholders), and, more generally, stakeholders of organisations who have an interest in those organisations' remuneration governance.

The recommended practices which underpin remuneration governance in Principle 14 are categorised into three sections: Remuneration Policy, Remuneration Report, and Voting on remuneration as per Figure 1.

Figure 1:



The term 'practices,' in all instances, refers to the recommended practices in King IV. Where reference is made to the chief executive officer (CEO), this would generally refer to the most senior executive employee in an organisation. Text placed in italics denotes extracts from King IV.

This document consists of four parts:

SOUTH AFRICAN REWARD ASSOCIATION

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PART 1:

AN INTRODUCTION TO FAIR AND RESPONSIBLE PAY

The term 'fair and responsible pay' was introduced in King III™, and gained further prominence in King IV. It requires special focus at the outset when a remuneration policy is developed.

Remuneration that is, or is seen to be, unfair, excessive, or irresponsible can result in a decline in stakeholder confidence, which could threaten the sustainability of the organisation. Where such perceptions are systemic, the sustainability of the organisation could be jeopardised.

Primary responsibility of the remuneration committee

Principle 14 of King IV states: "*The governing body should ensure that the organisation remunerates fairly, responsibly and transparently, so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term*."

Practice 14 under King IV Principle 3 (corporate citizenship) states: "*The governing body should oversee and monitor, on an ongoing basis … the management of an ethical workplace, including employment equity; fair remuneration;… etc.*"

In terms of King IV Principle 6, *"the governing body should therefore set the direction for how all of the principles, including this principle of fair and just remuneration, are to be achieved. The remuneration policy should specifically address arrangements towards ensuring that the remuneration of executive management is fair and responsible in the context of overall employee remuneration in the organisation. The remuneration committee should opine on this matter, and preferably also involve the members of the Social and Ethics Committee on a company philosophy regarding what fair pay would mean in their particular environments and circumstances."*

What is fair and responsible remuneration?

'Fairness' will be defined differently by different stakeholders. For instance, junior-level employees will have a different perception of fairness compared to an executive or a shareholder. It is unlikely that there will be agreement on what constitutes fair and responsible remuneration, and it will differ for each organisation. Fairness can refer to justice, including social, distributive, procedural, interactional, and environmental justice. Fairness in pay is an issue of social justice, where the equality and relativity in a society are reflected in financial terms. In this context, fair remuneration is a principle referring both to a fair value and to the expectation of a fair process within an organisation. Fair remuneration acknowledges that all workers should receive a minimum level of remuneration that enables them to participate in the economy.

King IV defines fairness as follows: "*Fairness refers to the equitable and reasonable treatment of all sources of value creation, including relationship capital as portrayed by the legitimate and reasonable needs, interests and expectations of material stakeholders of the organisation*." Human capital is a source of value creation, and is a cross-section of relationship capital. Therefore, this definition of fairness infers the equitable and reasonable treatment of employees.

Fair and responsible pay is characterised by following broad features as indicated in Figure 2:

Figure 2:

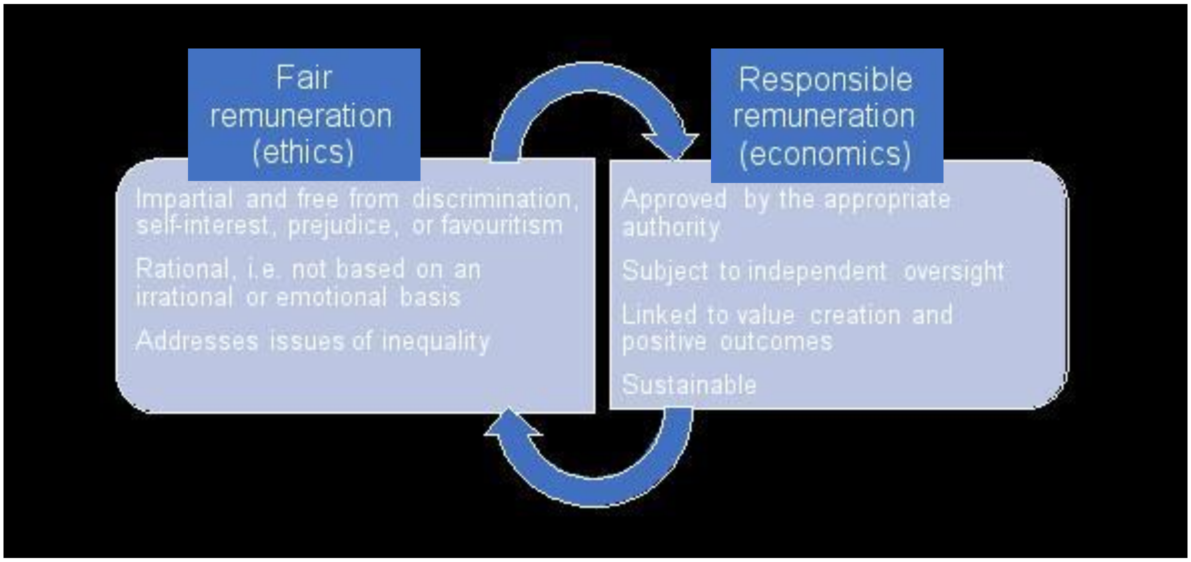

Figure 2 has been adapted from a similar diagram published by the IoDSA in Remuneration Committee Forum Position Paper 6, published on 31 March 2017.

In essence, fair and responsible remuneration is externally competitive and internally equitable, and supports a sustainable organisation. A well-governed reward process enhances the sense of fairness.

Practical considerations

Remuneration can be regarded as fair and responsible in the following circumstances:

- Individuals, regardless of race or gender, performing the same or similar job at the same or similar level of performance in the organisation receive the same or similar levels of remuneration, as determined in the Remuneration Policy.
- Variable remuneration is contingent on and correlates with performance and value creation (by and large) that are within the control of executives. Higher or lower performance levels or value creation or destruction should result in higher and lower levels of remuneration respectively.
- Variable remuneration plans should be designed to protect stakeholders' interests, particularly in the case of windfall gains.
- Performance and value are clearly defined and measured over the short, medium, and long term. Awards based on arbitrary performance metrics are therefore avoided.
- Variable remuneration payments arise from carefully designed and tested incentive schemes. The remuneration outcome can be regarded as earned, as opposed to arbitrary or windfall gains due to matters outside of the control of the recipient.
- Well-designed remuneration structures, including incentive schemes, avoid or prevent the following:
    - Pay for failure;
    - Backdating or re-pricing of share incentive grants, where grant prices are restated to a lower value due to a depressed share price. This is unfair to shareholders, who do not have the opportunity to retest the share price at which they invested;
    - Retesting of performance conditions for the vesting of incentives, i.e. postponing the measurement of performance against the targets until a later period, when there is a better chance of achieving the targets or giving a second chance to executives to meet these targets over a longer period;

  - Changing of performance measures during or at the end of a performance cycle when the outcome is already evident;
  - Adjusting performance against measures on a discretionary basis to provide a more positive outcome;
  - Absence of adequate controls to ensure that policy decisions cannot be overruled by management;
  - The use of discretion by the Remuneration Committee to override policy, unless in exceptional circumstances and appropriately disclosed;
  - Management making decisions that determine their own remuneration structure, without oversight by the governing body; and
  - No ceiling for the number of shares that can be issued, thereby causing excessive dilution at the expense of shareholders.
- For executive management, all incentives should be subject to broad and comprehensive financial and non-financial performance conditions.
- Decisions on remuneration, as an appropriation of the organisation's profits, are made after taking into account the impact on all stakeholders, including shareholders, customers, and all employees.
- Governing bodies should display, through disclosure, deliberate actions taken over time to reduce inequality and improve the living standards of the lowest-level employees.
- The governing body should monitor quantitative measures of income dispersion within the organisation. As a general principle, the trend in this measure over time should indicate a moderation of inequality. Measures of inequality should be interpreted in context, i.e. considering the type of organisation, industry, the business model, organisational maturity, etc.

The perception of unfair pay is often rooted in poorly communicated remuneration decisions. Greater care should be taken to provide evidence to stakeholders of the linkages between remuneration and value creation. Disclosure should be transparent regarding the choice of performance measures and value drivers, the achievement against those metrics, and how these translate to variable remuneration outcomes.

Conclusion

Achieving fair and responsible remuneration is not an overnight endeavour, but should be an ongoing priority focus of the Remuneration Committee, taking into account the legitimate interests of all stakeholders. Collaboration with the Board Committee responsible for Risk matters and the Social and Ethics committee should be encouraged.

King IV defines fairness as a governance principle, and the recommended practices provide guidance on the process to achieve the broad outcomes of ethical culture, good performance, effective control, and legitimacy.

PART 2: GUIDELINES TO KING IV: PRINCIPLE 14 AND RECOMMENDED PRACTICES

All references to 'should' do not imply any form of obligation, rather, it is used to signal a best-practice consideration.

REMUNERATION POLICY

Principle 14, Recommended Practice (RP) 26 *"The governing body should assume responsibility for the governance of remuneration by setting the direction of how remuneration should be approached and addressed on an organisation-wide basis."*
Notes: **RP26.1** a. The governing body should appoint a committee responsible for remuneration matters, hereafter referred to as the Remuneration Committee (cf. Principle 8, Recommended Practice 65). b. The Committee should have, as a minimum, three members (cf. Principle 8, Recommended Practice 46). c. The Remuneration Committee should consist of mainly independent directors, with organisation executives attending by invitation, and should operate according to terms of reference that mandate it to oversee the remuneration strategy and policies in the organisation (cf. Principle 8, Recommended Practices 42, 47, 66 & 79). The CEO and other executives should not be member(s) of the Committee (cf. Recommended Practice 79). d. The chairperson of the Remuneration Committee should be independent, and should not be the chair of the Board (cf. Principle 7, Recommended Practice 36 b & e and Principle 8, Recommended Practice 67). e. The chairperson of the Board should ensure that members of the committee possess the required skills and experience in remuneration matters, the company's business, and the sector. This is critical in order for the committee to be able to set appropriate performance targets that align with shareholder value creation over the long term, and to hold executives accountable for outcomes against these targets. f. Any member of the governing body is entitled to attend any committee meeting as an observer. However, unless that member is also a member of the Committee, the member is not entitled to participate without the consent of the chair, does not have a vote, and is not entitled to fees for such attendance, unless payment of fees is agreed to by the governing body and shareholders (cf. Principle 8, Recommended Practice 48). g. A formal process, either externally facilitated or not, in accordance with methodology approved by the governing body, should be followed for evaluating the performance of the Committee, its chair, and its individual members at least every two years (cf. Principle 9, Recommended Practice 73). **RP26.2** The terms of reference of the Remuneration Committee may also be referred to as a 'charter.' The terms of reference provide a mandate regarding the scope of activities of the Committee, and are approved by the governing body. These should be made available to stakeholders (e.g., on the organisation's website). The terms of reference should, at a minimum, deal with the following (cf. Principle 8, Recommended Practice 43): a. the composition of the Committee and, if applicable, the process and criteria for the appointment of any committee members who are not members of the governing body; b. the Committee's overall role and associated responsibilities and functions; c. delegated authority with respect to decision-making; d. tenure of the Committee; e. when and how the Committee should report to the governing body and others; f. the Committee's access to resources and information; g. meeting procedures to be followed; and h. the arrangements for evaluating the Committee's performance. The governing body should approve the appointment, including the employment contract and remuneration, of the company secretary or other professionals providing corporate governance services, including the internal auditor. The governing body should ensure that the person appointed has the necessary competence, gravitas, and objectivity to provide independent guidance and support at the highest level of decision-making in the organisation (cf. Principle 10, Recommended Practice 94).

RP26.3
Remuneration strategy and the Remuneration Policy should be approved by the Remuneration Committee and confirmed by the governing body. The Remuneration Policy should be reviewed annually, to ensure its continued relevance. The Policy should cover all executive remuneration matters, and, at a high level, the philosophy of setting remuneration on an organisation-wide basis, including a philosophy on minimum wage. 'Organisation-wide' therefore implies: from the lowest-level worker to the CEO. Whilst the typical mandate for the governing body is the remuneration of the CEO and first-line reports, the processes and recommended practices for all employees need to be considered. The Remuneration Committee should ensure that there is regular monitoring of the remuneration practices, to ensure that these adhere to the Remuneration Policy.

RP26.4
The governing body needs to ensure that all legislation is adhered to, and that adherence is monitored, particularly the principle of equal pay for work of equal value. The regulations around the implementation of equal pay should be adhered to.

Principle 14, Recommended Practice (RP) 27

"The governing body should approve policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration."

Notes:

RP27.1
The Remuneration Policy should articulate the meaning of fair, responsible, and transparent remuneration in the organisation.

Principle 14, Recommended Practice (RP) 28

"The Remuneration Policy should be designed to achieve the following objectives:

a. To attract, motivate, reward, and retain human capital.
b. To promote the achievement of strategic objectives within the organisation's risk appetite.
c. To promote positive outcomes.
d. To promote an ethical culture and responsible corporate citizenship."

Notes:

RP28.1
The Remuneration Policy should provide guidelines for the implementation of the reward strategy and the design and management of reward plans and processes. Conceptually, an organisation's remuneration philosophy and intent should be captured in a remuneration strategy designed to support its business and human resources strategies, which strategies are then translated into a Remuneration Policy. The Remuneration Committee should ensure that all relevant variables are addressed, and that a balanced remuneration mix is offered, within the organisation's financial constraints.

RP 28.2
The Remuneration Committee should regularly review the Policy and objectively assess the appropriateness of the fixed-to-variable-remuneration mix for the organisation, to ensure that it reflects the remuneration strategy and

a. serves the organisation's operational needs and objectives;
b. is competitive;
c. is sustainable; and
d. serves the achievement of strategic objectives and promotes positive outcomes.

RP28.3
The Remuneration Committee should ensure that the design of the variable pay schemes and the setting of associated targets do not encourage behaviour contrary to the organisation's risk management approach, and does not unintentionally or intentionally drive excessively risky behaviour in pursuit of incentive targets.

The following practices mitigate the risk of unjustified rewards:

a. regular annual awards, as opposed to larger once-off grants;
b. appropriate, multiple performance conditions;
c. gatekeepers and modifiers;
d. share awards such as restricted shares and performance shares, which are less leveraged than share options and share appreciation rights;
e. longer vesting periods or, alternatively, holding or lock-in periods after vesting; and
f. incentive *malus* and clawback provisions.

RP 28.4
The governing body should exercise ongoing oversight of the management of ethics and, in particular, oversee the application of the organisation's ethical standards in terms of, *inter alia*, the evaluation of performance and the rewarding of employees.

The governing body should regularly monitor how the consequences of the organisation's activities and outputs affect its status as a responsible corporate citizen, which includes the setting of targets for purposes of employment equity, ensuring fair and responsible remuneration, and ensuring the health, dignity, and safety of employees. The Social and Ethics Committee should also be responsible for oversight of these principles; therefore, regular, healthy interaction between the Remuneration Committee and the Social and Ethics Committee is encouraged.

Principle 14, Recommended Practice (RP) 29

"The remuneration policy should address organisation-wide remuneration, and include provision for the following specifically:

a. Arrangements towards ensuring that the remuneration of executive management is fair and responsible in the context of overall employee remuneration in the organisation.
b. *The use of performance measures that support positive outcomes across the economic, social and environmental context in which the organisation operates; and/or all the capitals that the organisation uses or affects.*
c. *If the organisation is a company, the voting by shareholders on the remuneration policy and implementation report, and for the implementation of related responding measures are as outlined under Voting on remuneration below."*

Notes:

RP29.1
The policy should include a statement of how fairness of executive remuneration practices in relation to all employees has been considered and executed in the organisation. This discussion could be held jointly by the Social and Ethics Committee and the Remuneration Committee.

RP 29.2
The pay mix of short- and long-term incentives should ensure an appropriate balance between the shorter-and longer-term business objectives, without introducing inappropriate risk to the organisation, and should be appropriate to the life cycle, industry, and type of organisation.

RP 29.3
A balance between financial and non-financial metrics needs to be struck, with performance measures that cover the various contexts and capitals appropriate to the short- and long-term incentives. While there is no prescription regarding the number of measures used, the general principle should be to keep them to a minimum and focus on the critical objectives, and ensure that the outcome addresses the most appropriate contexts. This may change with time as the need to focus on different areas changes.

RP 29.4
In practice, executives should not have too high a dependence on incentive pay-outs to cover their basic daily living expenses, as this could lead to undesired behaviours. The guaranteed remuneration should largely provide for this.

Principle 14, Recommended Practice (RP) 30

"All elements of remuneration that are offered in the organisation and the mix of these should be set out in the remuneration policy, including:

a. base salary, including financial and non-financial benefits;
b. variable remuneration, including short and long-term incentives and deferrals;
c. payments on termination of employment or office;
d. sign-on, retention, and restraint payments;
e. the provisions, if any, for pre-vesting forfeiture (malus) and post-vesting forfeiture (claw-back) of remuneration;
f. any commissions and allowances; and
g. the fees of non-executive members of the governing body."

Notes:

RP 30.1
The Policy should cover the elements of pay as used by the organisation, and may include the following:

a. Fixed pay: salary and benefits, and how these are determined, including contributions to retirement, risk funds, medical benefits, leave entitlements, circumstantial allowances, flexible work conditions, and other benefits in kind.
b. Variable pay: short-term incentives — annual or shorter incentives and (generally) cash performance-based payments, including deferrals (commission schemes are included here);
c. Variable pay: long-term incentives — longer than one year, (usually) share-based awards, which are retention- and performance-based. Provisions for pre-vesting and/or post-vesting forfeiture regarding short-term and long-term incentives to be included.
d. Retention and sign-on payments;
e. All other types of payments, including, e.g., loss-of-office or termination payments and restraint payments; and
f. Non-executive directors' fee structures and the principles for setting of fees.

The value of total earnings (aggregate of the components stated above as (a) to (c)) and the targeted percentage contribution of each reward component within the reward structure should be set and reviewed regularly, and principles of the target remuneration mix should be described.

RP 30.2
Incentive *malus* (pre-vesting forfeiture) and clawback (post-vesting forfeiture) provisions should be considered by the Committee within the context of prevailing local and international regulations and market practice. The Policy should address any such provisions and the nature of the implementation for executive management. Where such provisions have been implemented, these recoveries should be appropriately disclosed in the Implementation Report.

RP30.3
Minimum shareholding requirements/guidelines should be considered by the Committee in the context of prevailing market practice and institutional investor feedback. This means that executives, in line with international practice, may be required to hold a certain percentage of their total guaranteed package or base salary in company shares in terms of beneficial shareholding — this intends to enhance alignment of interests with other shareholders, with a focus on long-term, sustainable company performance. The Policy requirement should be disclosed; the actual shareholding against such requirement/guideline should be disclosed in the Implementation Report.

Principle 14, Recommended Practice (RP) 31

"The governing body should oversee that the implementation and execution of the remuneration policy achieve the objectives of the policy."

Notes:

RP 31.1
The committee should have a systematic agenda to review the remuneration strategy and Policy (including higher-level strategic reward principles that would inform the Policy and implementation thereof), and oversee the implementation of this Policy over an annual cycle. The extent of oversight needs to be carefully considered, so as not to interfere in areas where management ordinarily has discretion.

Formal feedback to the governing body on how the Policy's objectives are being achieved should be provided at least annually, and form part of the process of obtaining approval of the Remuneration Report. A statement of compliance with the Policy should be included in the Background Statement to the Report, as well as an overview of material policy exceptions, together with the rationale for such exceptions.

It is good practice for the Remuneration Committee to perform an annual review of the benefits offered by the organisation, to determine:

a. whether these are appropriate and competitive, given the industry, the organisation's financial position, legislative requirements, and market benchmarks and trends;
b. if the costs relating to the administration of the benefits/schemes are justified. This may include an assessment of how the benefits are perceived and understood by participants;
c. if the schemes/trusts are well-governed;
d. whether the benefits/schemes meet the needs of employees and are fair towards all employees; and
e. whether benefits offered to executives are similarly offered to employees, and, if not, ascertain the justification for this.

As benefit funds (such as retirement funds and medical aid schemes) are typically administered independently through governing bodies of trustees, the Committee (or other relevant governing body committee, such as the Audit Committee) would not typically be required to review the audited financial statements of the fund, but it is important that the Remuneration Committee is satisfied that the interests of employees are protected through sound governance being applied in the administration of retirement- and medical funds.

REMUNERATION REPORT

Principle 14, Recommended Practice (RP) 32

"The governing body should ensure that remuneration is disclosed by means of a remuneration report in three parts:

a. A Background Statement.
b. An overview of the main provisions of the remuneration policy.
c. An implementation report which contains details of all remuneration awarded to individual members of the governing body and executive management during the reporting period."

Notes:

RP32.1
The governing body has discretion to determine where the remuneration disclosures recommended by King IV will be made; for example, in the Integrated Report, Sustainability Report, Social and Ethics Committee Report, or other online or printed information or reports. The governing body may also choose to disclose its compliance with King IV in more than one of these reports. Duplication of disclosures, especially by group

companies, should be avoided by making use of cross-referencing..

Disclosures should be updated at least annually, formally approved by the governing body, and be accessible to the public.

The tables in the Implementation Report (contained in the Remuneration Report) are a notable exception, where duplication of the financial statements is considered necessary, unless there is a cross-reference to the financial statements.

Principle 14, Recommended Practice (RP) 33

"The background statement should briefly provide context for remuneration considerations and decisions, with reference to:

a. *internal and external factors that influenced remuneration;*
b. *the most recent results of voting on the Remuneration Policy and the Implementation Report, and the measures taken in response thereto;*
c. *key areas of focus and decisions taken by the Remuneration Committee during the reporting period, including any substantial changes to the Remuneration Policy;*
d. *whether remuneration consultants were used, and whether the Remuneration Committee is satisfied that these consultants were independent and objective;*
e. *the views of the Remuneration Committee on whether the remuneration policy achieved its stated objectives; and*
f. *future areas of focus."*

Notes:

RP33.1
The Background Statement provides context to the reader on high-level details of the organisation's performance and how this influenced remuneration decisions, contrasted with macro-economic factors, the business, the people strategy, and the risk strategy.

It should be simple and easy to read, using graphics where possible, and should illustrate, through the use of specific examples, how outcomes were achieved.

The reader should obtain a clear sense of the Remuneration Committee's control over pay matters and the aims of pay practices. Policy changes, together with the rationale for such changes, and key decisions taken by the Remuneration Committee should be covered. The Statement should close with a summation of the future outlook.

RP33.2
Note: see RP 39 for information that should be included in the Background Statement, in the event that either the Remuneration Policy or the Implementation Report contained therein (or both) were voted against by 25% or more of the voting rights exercised.

RP33.3
The governing body should approve the protocol to be followed in the event that it or any of its members or committees needs to obtain independent, external professional advice at the cost of the organisation on matters within the scope of their duties. The details of such independent, external advisors should be included in the Remuneration Report.

Principle 14, Recommended Practice (RP) 34

"The overview of the main provisions of the remuneration policy should address the objectives of the policy and the manner in which the policy seeks to accomplish these. The overview should include the following:

a. The remuneration elements and design principles informing the remuneration arrangements for executive management and, at a high level, for other employees.
b. Details of any obligations in executive employment contracts that could give rise to payments on termination of employment or office.
c. A description of the framework and performance measures used to assess the achievement of strategic objectives and positive outcomes, including the relative weighting of each performance measure and the period of time over which it is measured.
d. An illustration of the potential consequences on the total remuneration for executive management, as a single total figure, of applying the remuneration policy for minimum, on-target, and maximum performance outcomes.
e. An explanation of how the policy addresses fair and responsible remuneration for executive management in the context of overall employee remuneration.
f. The use and justification of remuneration benchmarks.
g. The basis of setting of fees for non-executive directors.
h. A reference to an electronic link to the full remuneration policy for public access.

Notes:

RP34.1
The remuneration philosophy informing the remuneration strategy should form part of the Policy. The overview should include a summary of the overall remuneration design principles, the target remuneration mix and benefits offered to executive management, as well as where these differ from what is offered to lower-level employees.

RP34.2
Employment contracts should be so worded that organisations are not obliged to pay special severance or compensation on termination of employment contracts arising out of failure or incapacity to perform, or underperformance against contracted objectives. There should be clear disclosure on the basis for any termination payment to executives, including the rules relating to unvested long-term incentive grants, the application of corporate performance targets (CPTs), and or any service penalties in respect of good leavers. Employment contracts should provide differentiated notice periods for different reasons for termination, for example, incapacity, dismissal, resignation, retirement, retrenchment, or redundancy.

Employment contracts or incentive-scheme rules should not be worded to automatically sever employment contracts with executives because of a change in control. The contracts and schemes should also not allow the early vesting of long-term incentives, or entitle executives to automatic incentive payments when there is a change in control [cf. Principle 14, Recommended Practice Note 35c].

Balloon payments are typically cash payments made in recognition of service, with no performance criteria attached, agreed to in cases of termination (also termed a 'golden parachute'). Balloon payments to end employment contracts should be avoided, and, where they occur, should be disclosed in detail in the Remuneration Report (i.e. the total amount, as well as the rationale for payment).

RP34.3
In setting incentive targets, the Remuneration Committee should ensure that:

a. incentive targets are stretching yet realistic, given business and economic realities;
b. targets and measures are verifiable (if necessary by internal or external auditors); and
c. the process of obtaining approval for the determination and pay-out of incentives is robust.

RP34.3.1
The structure of incentive plans
The structure of variable pay for executives should seek to moderate the impact of positive or negative factors that are completely outside of their control, but influence the overall performance of the organisation. Examples of such factors are the platinum price for platinum mining houses, the international crude oil price for energy

organisations, and the gold price for gold mining organisations. In such organisations, overall sustainable performance should still be targeted, within a mix of other financial and non-financial targets that are directly controllable.

This principle should be carefully considered in the context of overall affordability and alignment with shareholder outcomes.

The use of more than one performance measure based on business outcomes reduces the risk of unintended outcomes impacting the entire award. For example, measures of performance based on accounting, shareholder, absolute, and relative aspects of performance are used together to provide a holistic view of business performance. However, simplicity should be considered. Different measures can also be used in different types of long-term incentive schemes that are used simultaneously (e.g., a combination of appreciation and full-value share-based plans/schemes). It is therefore ideal to avoid the duplication of measures, but, in some instances, this cannot be avoided, e.g., the use of earnings in the short-term and long-term incentive plan (i.e. HEPS and EBITDA). The measures need to be understood by the shareholders and participants.

Where a performance measure is a relative measure based on the company's performance relative to a peer group, this peer group should be disclosed, together with the rationale for changes made to the selected peer group.

However, each scheme with related measures should have a particular objective, and overall simplicity is to be encouraged. The weighting attached to different measures may differ at each level of the organisation, in line with the accountability of employees and the behaviour that needs to be encouraged.

It is important to differentiate between a gatekeeper and a modifier; the gatekeeper typically only acts as a penalty, while a modifier enhances or decreases incentives for performance relative to targets. The gatekeepers (e.g., safety) should be designed to ensure that fundamental principles governing the operation of the business are not violated in the pursuit of profitability.

The issue of affordability in the determination of incentives cannot be ignored, and incentive plans need to take into account an organisation's financial constraints or distress. Incentive schemes should be so worded that organisations are not obliged to pay any incentives or share-based payments in the event of early termination of employment due to resignation or dismissal for good cause.

Annual incentive designs are many and varied, but best practice dictates that they should reward a combination of both business- and individual performance in a sustainable manner:

a. Business performance is usually assessed in terms of a limited number of performance indicators, most likely to be financial in nature, but increasingly with non-financial elements being factored in.
b. Individual performance is usually assessed using a weighted ('balanced') scorecard of key performance areas or value drivers, which could be informed by the performance management framework.

The governing body should have discretion regarding all payments, to mitigate unintended consequences. The application of this discretion should be by exception, and should not be unduly applied.

RP34.3.2
Target-setting
Phased vesting of share awards is preferred over 'cliff' vesting (or binary vesting), where performance is measured in terms of achievement between threshold, target, and stretch target measures. Cliff vesting resulting in an 'all-or-nothing' situation carries the risk of the committee having to use its discretion when the target was almost met, and is thus not recommended, due to the possibility of subjective or arbitrary decision-making. Threshold performance relates to the minimum levels required for the payment of any incentives, such as the baseline performance of the prior year. Target performance relates to good performance, incorporating some stretch performance (e.g., compared to the previous year's performance), and stretch performance relates to truly exceptional performance in the context of the prevailing business- and economic environments. The target–reward mix must be considered when setting the targets. Consideration should be given to fairness between threshold, target, and stretch incentives that relate to appropriate levels of organisational and

individual performance. For each performance measure or scorecard element, a weighting should be set that reflects the measure's overall importance for that year, as well as levels for threshold, target, and stretch performance. Individual and corporate performance targets for short-term and long-term incentives should be reviewed annually, in advance.

An illustration of the potential consequences in terms of the total remuneration for executive management, as a single total figure, of applying the Remuneration Policy to minimum, on-target, and maximum performance outcomes should be included. The on-target values should typically be determined using fair value at grant. The maximum values for share-based awards should be based on the maximum number of units that may vest at the grant price.

RP34.4
Benchmarking of remuneration
The Policy should detail the principles adopted in the benchmarking of remuneration. All elements of remuneration and benefits should be benchmarked. An appropriate peer group for benchmarking should be selected from comparable organisations, with reference to organisation size, geographical location, business life cycle, revenue, profits, market capitalisation, geographical footprint, business model, and number of employees. Comparators are usually drawn from the same jurisdiction as the organisation, but international comparators may be used for global organisations, especially when sector analyses are done. Care should be taken to compare the correct values by, for example, adjusting for cost of living, taxation, and exchange-rate differentials. Comparators may take the form of a peer group or an appropriate executive survey.

The peer group or survey selected for the benchmarking of executive remuneration should be disclosed, together with the rationale for changes when changes are made to the selected peer group.

When benchmarking the guaranteed package (basic salary plus employer contributions towards benefits, allowances, and other guaranteed earnings), comparison should be made with comparable roles within the comparator group. When benchmarking the nature and quantum of annual bonuses, the following factors should be considered for the organisation and the comparator group:

a. the actual payments made for the financial year in relation to performance measures;
b. the level(s) of payment for on-target performance.
c. the level(s) of payment for maximum or stretch performance.

These values should be reviewed in absolute terms, as well as a percentage of guaranteed package/basic salary.

Organisations that set remuneration targets in excess of the median, or the 50th percentile, should explain the reasons for this decision.

RP34.5
Retention policy
The salient features of the Retention Policy should be included in the Remuneration Policy, for example, the nature of the plan (cash or shares), the basis of the awards, the lock-in period, and the terms relating to termination of employment before the end of the retention period. Retention awards are typically used below executive level, as large long-term incentive awards to executives serve as a retention mechanism.

Pure retention schemes or elements of a long-term incentive scheme where there are no specific performance criteria are not encouraged, and should be ring-fenced and appropriately disclosed.

RP 34.6
Setting fees of non-executive directors

To avoid a conflict of interests in determining their own fees and remuneration structure, the Committee should request executive management (through independent advice, if required) to recommend a fee structure.

Factors that influence the fees of non-executive directors include level of responsibility, which includes the complexity and local/global footprint of the organisation, market capitalisation and sector of the organisation, level of competence required of directors, and time commitment (for attendance and preparation). Occasionally, the contribution and profile of the director are used, but this is not common. Inadequate performance of directors should be addressed by the chair. King IV Principle 7, Recommended Practice 28(i) further states: *The member of the governing body is entitled to remuneration contingent on the performance of the organisation*.

A differentiation can be made in the fees paid to resident versus non-resident directors, where the director lives outside of the country/region where most of the Board meetings are held. This differentiation could be in the form of an allowance compensating for hours travelled, or differentiated fee structures in base currencies. If benchmarking of fees is done, it is good practice to use the same comparator group to that used for the benchmarking of executive remuneration. Total Board- and Committee fees need to be assessed relative to the comparator group.

The peer group selected for the benchmarking of non-executive directors' remuneration should be disclosed, together with the rationale for changes when changes are made to the selected peer group.

Performance-based shares and share-option schemes are typically not favoured for non-executive directors, and should thus be used with extreme caution, as they could potentially cause a conflict of interests, with non-executive directors having to set and measure the achievement of the performance targets. Full-value share grants that are not geared instruments and with no performance criteria influencing vesting may be considered. For the same reason, non-executive directors should not participate in performance-bonus schemes.

IMPLEMENTATION REPORT

Principle 14, Recommended Practice (RP) 35

"The implementation report, which includes the remuneration disclosure under the Companies Act, should reflect the following:

a. *The remuneration of each member of executive management, which should include in separate tables:*
   i. *a single total figure of remuneration, received and receivable for the reporting period, and all the remuneration elements that it comprises, each disclosed at fair value;*
   ii. *the details of all awards made under variable remuneration incentive schemes in the current and prior years that have not yet vested, including the number of awards; the values at date of grant; their award, vesting, and expiry dates (where applicable); and the fair value at the end of each reporting period; and*
   iii. *the cash value of all awards made under variable remuneration incentive schemes that were settled during the reporting period.*
b. *An account of performance measures used and the relative weighting of each, as a result of which awards under variable-remuneration incentive schemes have been made, including: the targets set for the performance measures and the corresponding value of the award opportunity; and, for each performance measure, how the organisation and executive managers, individually, performed against the set targets.*
c. *Separate disclosure of, and reasons for, any payments made on termination of employment or office.*
d. *A statement regarding compliance with, and any deviations from, the remuneration policy."*

Notes:

RP35.1
The remuneration outcomes should be disclosed in a clear and concise manner in the annual Remuneration Report, under the section Implementation Report. Plain language should be used, and industry jargon should be avoided. Where technical or legal terms or references to schemes are used, the meaning of these should be explained.

In the interest of transparency, best practice for remuneration disclosure would be on a named individual basis for each member of executive management, and not on an anonymous basis or in aggregate.

The following should be disclosed in relation to executive management (cf. King IV Principle 10, Recommended Practice 83), either in the Remuneration Report or in the Governance Report:

a. the notice period stipulated in the employment contract;
b. the contractual conditions related to termination;
c. other professional commitments, including membership of governing bodies outside the organisation; and
d. whether succession planning is in place for the executive management positions.

Total remuneration for each member of executive management should be reported as a single total figure of remuneration. Refer to Part 3 for a detailed explanation of this concept.

RP35.2
It is important that stakeholders have insight into how incentives were calculated. Therefore, the results of performance against all measures in the corporate and/or individual scorecard, or any other measure, should be disclosed in such a way that the stakeholder can reasonably assess whether the incentive is in line with the performance measures and the Policy.

Where absolute targets and ranges are disclosed together with actual performance, the stakeholder should be able to correlate these values with those reported in other annual documents (e.g., annual financial statements). Where values have been adjusted from those disclosed, a reconciliation to the values used for performance purposes should be provided, together with appropriate justification.

RP35.3
In the event that any type of payment was made as a result of termination of office or employment, these amount(s), should be disclosed separately in the Implementation Report, together with a detailed explanation for the rationale for paying the amount. A reference to a policy document that governs this type of payment will aid the understanding of stakeholders.

RP35.4
The Remuneration Committee should inform stakeholders of deviations from the Remuneration Policy. The intention of this requirement is that the Remuneration Committees will very carefully consider the implications of the discretion/judgement that it can apply in terms of policy deviations.

The concept of materiality needs to prevail in terms of which deviations need to be disclosed, which is defined in King IV as follows: "*…a measure of the estimated effect that the presence or absence of an item of information* [or identified subject matter] *may have on the accuracy or validity of a statement* [or decision]. *Materiality is judged in terms of its inherent nature, impact (influence) value, use value, and the circumstances (context) in which it occurs*." Materiality in relation to the inclusion of information in an Integrated Report refers to matters that "*could substantively affect the organisation's ability to create value over the short, medium and long term*."

VOTING ON REMUNERATION

Principle 14, Recommended Practice (RP) 36

"In terms of the Companies Act, fees for non-executive directors for their services as directors must be submitted for approval by special resolution by shareholders within the two years preceding payment."

Notes:

RP 36.1
Non-executive directors' fees must be approved by special resolution (requiring at least 75% votes, or other percentage as indicated in the Memorandum of Incorporation of the organisation by the shareholders present during an AGM or Special General Meeting, not more than two years prior to the implementation of the fees. Approval must be obtained prior to payment of the fees.

RP 36.2
The shareholders should use this binding vote after due consideration of the structure and quantum of the fees

for the governing body chair and members and the Committee chair and members. The vote should take into consideration the criteria noted in RP34.6.

Principle 14, Recommended Practice (RP) 37

"The remuneration policy and the implementation report should be tabled every year for separate non-binding advisory votes by shareholders at the AGM."

Notes:

RP 37.1
Two separate resolutions for the approval of the Remuneration Policy (as contained in the Remuneration Report) and the Implementation Report should be tabled at the Annual General Meeting. The resolutions require non-binding advisory votes by which the shareholders express their views separately on the Remuneration Policy and the implementation thereof as disclosed in the Implementation Report.

A non-binding advisory vote is aimed at providing an opportunity for shareholders to influence the governing body's perspective on remuneration matters, specifically as it concerns the structure of total remuneration in terms of the Policy (i.e. salary, benefits, and short-term and long-term incentives), as well as the implementation of the Policy and how this translates to actual salaries, incentives, and benefits. The nature of the advisory vote is therefore feedback on the Remuneration Policy (forward-looking) and the implementation of the policy (backward-looking).

RP 37.2
The non-binding advisory nature of the vote is considered appropriate, as the governing body is ultimately accountable for the performance and governance of the organisation. Non-executive directors are appointed as agents by the shareholders, who should hold them accountable.

Despite the governing body being accountable, active engagement with shareholders by members of the Committee, preferably including the chairperson, is expected, and should be reported on in the Implementation Report, together with information on which parts of the Policy were changed following consultation with shareholders.

In organisations that have multiple small shareholders, the principle of materiality should be applied.

Principle 14, Recommended Practice (RP) 38

"The remuneration policy should record the measures that the governing body commits to take in the event that either the remuneration policy or the implementation report, or both, have been voted against by 25% or more of the voting rights exercised. Such measures should provide for taking steps in good faith and with best reasonable effort towards the following at minimum:

a. An engagement process to ascertain the reasons for the dissenting votes.
b. Appropriately addressing legitimate and reasonable objections and concerns raised, which may include amending the remuneration policy, or clarifying or adjusting remuneration governance and/or processes."

Notes:

RP 38.1
Although agreement with all major shareholders on the Remuneration Policy and its implementation may be difficult to obtain, the governing body/Remuneration Committee needs to show its intention to engage with shareholders on an ongoing basis, as well as its endeavours to reach agreement on principle policy matters. The Policy needs to cover the process to be followed to report on concerns that are expressed by shareholders that are considered to be legitimate and reasonable, as well as the actions taken to reach agreement with shareholders on these contentious matters.

RP 38.2
The Policy should cover processes to be implemented should more than 25% vote against the Remuneration Policy and/or the Implementation Report. These plans should include how the governing body would engage

with shareholders to ensure a complete and correct understanding of the Policy and/or implementation, to gain a better understanding of their reasons for voting against the advisory resolution. Although post-event shareholder engagement is required in terms of King IV, it is advisable that the Remuneration Committee engage with shareholders prior to the AGM. Listed companies should also review the JSE Listing Requirements requiring a Stock Exchange News Service (SENS) announcement in the event of receiving a vote that is below 75% in favour of the non-binding resolution.

RP 38.3
Feedback from the engagements needs to be included in the Background Statement of the Remuneration Report.

Principle 14, Recommended Practice (RP) 39

"In the event that either the remuneration policy or the implementation report, or both were voted against by 25% or more of the voting rights exercised, the following should be disclosed in the background statement of the remuneration report succeeding the voting:

a. with whom the company engaged, and the manner and form of engagement to ascertain the reasons for dissenting votes; and
b. the nature of the steps taken to address legitimate and reasonable objections and concerns."

Notes:

RP 39.1
The background statement in the Remuneration Report should reflect:

a. the votes cast in favour or against the Policy and the Implementation Report of those who voted;
b. the shareholder engagement process followed, who was engaged, and the manner of the engagement; and
c. reasonable and material issues raised by shareholders, as well as actions implemented to address these issues.

RP 39.2
Should the engagements not have achieved consensus, the Background Statement should explain why no consensus could be agreed between the organisation and the shareholders, and why the governing body decided to change or not change the Policy or the implementation thereof.

In all cases, the Committee should ensure that shareholders' concerns are only addressed through policy changes if these policy changes are sensible and justifiable in the context of the business model, strategic objectives, and macro-economic environment.

RP 39.3
The Background Statement should provide evidence of the extent that the governing body and/or the Remuneration Committee actively engaged with major shareholders on the remuneration of its executives and its responses to material concerns raised.

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Part 3: Single, Total Figure of Remuneration disclosure

1. The Single, Total Figure of Remuneration

"… a single, total figure of remuneration, received and receivable for the reporting period, and all the remuneration elements that it comprises, each disclosed at fair value." (cf. King IV Principle 14 RP 35(a)(i))

1.1. Introduction

The Single Total Figure of Remuneration Table is intended to enhance transparency of executive remuneration through the consolidation of all relevant information relating to current performance into a single table. Disclosure should be consistent year on year, to ensure that the user is able to make meaningful comparisons.

One of the fundamental principles in this regard is the determination of when remuneration is 'received' and 'receivable' for the reporting period. The recommended practice is to, by and large, follow the principle established (and legislated) in the UK. Remuneration is reflected as 'receivable' in the final financial year of the applicable performance measurement period. Time-based vesting and the continued service of the employee are not taken into account for this purpose. The reason for this method of determining which financial year should be used to report remuneration in is so that the reader can assess whether the remuneration received or receivable over a period is commensurate with the organisation's performance over the same reporting period.

Variations between the amount reflected and the actual cash flow received in a subsequent year will not be reflected in the Single Total Figure of Remuneration Table for the current, future, or prior reporting period(s). The actual cash flow received will be reflected in the Table of Cash Settlement Values. Reasons for variations may be included in the footnotes to the Table.

1.2. Disclosure practice

The composition of the Single Total Figure of Remuneration Table for each member of executive management should be disclosed in separate elements, as follows:

1.2.1. Salary — all salary and fees received or receivable during the reporting period.

1.2.2. Benefits — all benefits (including allowances) received or receivable during the reporting period, including company contributions to retirement savings and insured benefits.

1.2.3. Short-term incentives — the current portion of all variable remuneration awards that are determined on the basis of the reporting year's performance, and which are not subject to further company-performance conditions. This includes cash incentives awarded based on performance against targets for the reporting period, as well as cash or share-based incentives that are to be settled within twelve months of the reporting period (including deferrals without company-performance conditions).

1.2.4. Long-term Incentives : Long-Term Incentives can be made in the form of one or more of the following awards:

1.2.4.1. Performance awards — all variable remuneration awards (settled in cash or shares) that were awarded in prior reporting periods and were subject to company-performance conditions where the performance period ended in the reporting period. This includes performance shares, options, or share-appreciation rights or units that were subject to company-performance conditions, as well as deferred short-term incentives and matching awards with company-performance conditions, where the measurement of achievement against vesting targets is concluded by the end of the reporting period. Options or share appreciation rights that become exercisable within twelve months of the end of the reporting period and do not have explicit company-performance conditions are deemed to have an implicit company-performance condition (that the share price must increase), and should be reflected in the Single Total Figure of Remuneration Table for the reporting period with reference to which they vest (this is one exception to the UK standard, where time-based vested long-term incentives without performance conditions are disclosed in the year of the award).

1.2.4.2. Deferred awards — the deferred portion of variable remuneration awards that are determined on the basis of performance over the performance period and have no further company performance conditions. This includes cash or share-based incentives that are deferred and are settled more than twelve months after the end of the reporting period, but only require continued employment as a vesting condition. The portion of any such awards that are settled within twelve months of the reporting period are also included in the Single Total Figure of Remuneration Table for the current reporting period, in the category Short-term Incentives (cf. 1.2.3).

1.2.4.3. Qualifying dividends — the dividends and distributions received and receivable during the vesting period, or, with reference to the reporting period, arising from any variable pay award up to and including the reflection of that award in the Single Total Figure of Remuneration Table for the current and any prior reporting period(s). The dividends and distributions received arising from any variable pay award after its reflection in the Single Total Figure of Remuneration Table in the current or any prior reporting period(s) should not be reflected in the Single Total Figure of Remuneration Table for the reporting period, but should be included in the disclosure regarding cash flow, discussed below. Dividends and dividend equivalents that are rolled up into an award and vest subject to the performance conditions applicable to the underlying award should not be reflected in this category, but should be reflected in that reporting period, on the same basis of the underlying award, when the underlying award is reflected.

1.2.5. Other — elements of remuneration that are appropriate to reflect separately, such as encashment of leave pay, security benefits, and special once-off payments, including retention- and sign-on awards and termination payments. The full fair value should be reflected in the reporting period in which the award is made, despite any applicable employment- and time-based vesting conditions attached to that award.

1.2.6. Total — the sum of the elements above.

1.3 **Fair value** in the Single Total Figure of Remuneration Table. In most cases, when a variable-remuneration award is reflected in the Single Total Figure of Remuneration Table, the intrinsic value of the award (share price for full shares, and share price less the grant price for options and share appreciation rights) should be used. If an award is made and reflected in the same reporting period, it should be reflected as at the award date. Otherwise, the year-end share price should be used. A volume-weighted average price measured over 20 or 30 trading days could be considered to determine the year-end share price. The methodology and value used should be appropriately disclosed and applied consistently from year to year.

1.4 **Performance conditions include individual and/or company performance conditions**. *Malus* and clawback conditions should be excluded from this definition of performance conditions.

1.5 **Disclosure only once in the Single Total Figure of Remuneration Table.** Any amount that is included in the Single Total Figure of Remuneration Table for any particular reporting period should be excluded from the Single Total Figure of Remuneration Table in future reporting periods. Similarly, any figure that is to be included in the Single Total Figure of Remuneration Table for any future reporting period should not be included in any other reporting period.

1.6 **Prior year disclosure.** The single total figure of remuneration and all its constituent elements should be disclosed for the prior reporting period, on the same basis as the disclosure for the current reporting period.

1.7 ***Malus*, clawback, and forfeiture.** Where an amount that was previously disclosed relates to an award that does not subsequently vest (or is recovered), due to termination of employment, application of *malus*, clawback, or any other reason, an amount representing the negative award should be included in the Single Total Figure of Remuneration Table for the year in which the award is forfeited. Such negative figure should be shown separately in the table as a negative value, and be deducted from the 'total.' Full disclosure of the surrounding circumstances should be made.

1.8 **Difference between the single total figure of remuneration and cash settlement value.** When an amount is included in the single total figure of remuneration where the amount was calculated using an estimate, and the actual settlement amount in a subsequent reporting period differs due to market factors (e.g., change in the share price), then the actual amount must be disclosed in the Cash Settlement Table, but the difference between the estimate and the actual must not be included in the Single Total Figure of Remuneration Table for that reporting period. Explanations for variations can be included in the footnotes to the Cash Settlement Table.

1.9 Transition measures. When a company is undergoing a transition from the use of performance instruments to deferred instruments, the Remuneration Committee should apply its discretion to the disclosure of the single total figure of remuneration, to prevent inappropriate or concomitant disclosures. In certain instances, it may be preferable to disclose the deferred instruments awarded during the year in the Single Total Figure of Remuneration Table, and to disclose the performance instruments whose performance periods end within that year in the Cash Settlement Table, rather than the Single Total Figure of Remuneration Table. This transition measure should be fully disclosed.

2. The Table of Unvested Awards

"… the details of all awards made under variable remuneration incentive schemes in the current and prior years that have not yet vested, including the number of awards; the values at date of grant; their award, vesting and expiry dates (where applicable); and the fair value at the end of each reporting period."(cf. King IV Principle 14 RP 35 (a)(ii)).

2.1. Introduction

The Table of Unvested Awards is intended to show the details of all unvested and outstanding awards at the end of the financial year. All salient details of these awards should be disclosed, so that the reader can assess the nature, timing, and value of benefits that may be payable to each member of executive management.

2.2. Disclosure details

The following details should be disclosed for each member of executive management, categorised by each type of award:

2.2.1 *The naming convention* for each award should indicate the type of award and the financial year that the award was granted, for example, '2016 Performance Shares' or '2015 Share Appreciation Rights.' This nomenclature should be aligned with that used in the Remuneration Policy, so that the nature of the award and applicable performance conditions are clear.

2.2.2 The number of awards outstanding at the end of the year should be disclosed. It may be useful to also disclose the opening balance and the number awarded, forfeited, and settled during the year.

2.2.3 The applicable dates, including the grant date and vesting date. For options and share appreciation rights, the expiry date should also be disclosed, if this is not the same as the vesting date.

2.2.4 The grant value that is usually disclosed as the share price on the grant date, although the fair value and face value on the grant date should be disclosed, if this is not separately disclosed in the suggested Table of Unvested Awards.

2.2.5 The fair value at the end of the reporting period. This fair value disclosure should be determined on the basis detailed in the paragraph below.

2.3. Fair Value in the Table of Unvested Awards

In the case that an instrument vests within twelve months of the financial year end, the intrinsic value may be used for disclosure purposes, as described above, in the section dealing with fair value in the single total figure of remuneration. In this case, intrinsic value should additionally reflect the appropriate number of units estimated to vest in the future.

If an instrument vests more than twelve months after the end of the financial year, an appropriate valuation methodology should be used for purposes of disclosure. The determination of fair value should reflect the effect of all applicable performance conditions, not just the market conditions (as applied in the IFRS 2 accounting statement).

In determining fair value for the purposes of remuneration disclosures, any market-accepted valuation methodology may be used. However, the methodology used should be appropriately disclosed in the Remuneration Policy and applied consistently from year to year. Acceptable valuation instruments include the Black and Scholes, Binomial Tree, and the Monte Carlo methods.

Although King IV specifies the disclosure of unvested awards, it is recommended that all outstanding awards, i.e. vested but unexercised and unvested awards be included in this table.

3. The Table of Cash Settlement Values

"… the cash value of all awards made under variable remuneration incentive schemes that were settled during the reporting period." (cf. King IV Principle 14 RP 35(a)(iii))

3.1. Introduction

The Table of Cash Settlement Values is intended to show the details of the cash value of all awards settled during the year.

3.2. Disclosure details

The following details should be disclosed for each member of executive management, categorised by each award element.

3.2.1 The naming convention for each award should follow that used in the Table of Unvested Awards and the Remuneration Policy.

3.2.2 The number of awards settled, as well as the aggregate cash value of the awards settled, should be disclosed. In the case of share settlement, the share price used for the determination of the taxable income should be used.

3.3. Disclosure within the Table of Unvested Awards

It may be convenient and more readable to also include the details of the awards settled in the reporting period as separate categories in the Table of Unvested Awards, as well as awards that have vested but have not yet been exercised.

4. The Table of New Awards made shortly after the end of the reporting period

4.1. Although this table is not required by King IV, a separate table showing the fair and face values of new awards that will be made according to the Remuneration Policy shortly after the end of the reporting year may be useful, if this information is available at the publication date.

4.2. This is particularly useful when performance awards made early in the following reporting period are influenced by the performance in the current reporting period.

4.3. The award price and number of awards need not be disclosed, because, at the time the Implementation Report is published, these details may not yet be known.

4.4. The face value of the award is defined as the number of awards multiplied by the share price on the award date.

4.5. The fair value of the award should be determined on the same basis as that used in the Remuneration Policy section of the Remuneration Report and in the Table of Unvested Awards.

4.6. The rationale for including both the fair and face value is that, in many instances, the face value will represent a higher value than the fair value (i.e. the target value at award). The reader is then in a position to interpret the anticipated vesting based on the ratio of face value to fair value.

5. Full lifetime disclosure of the value of long-term incentives

The adoption of the King IV remuneration principles and recommended practices will permit stakeholders to follow the value of long-term incentive awards granted to members of executive management over their full lifetime, from award to settlement.

- The intended values (fair/expected/threshold or minimum/on-target value and face/maximum value) at grant are disclosed in the Remuneration Policy;
- The actual fair value and face value at grant are disclosed in the Table of Unvested Awards, or in the Table of New Awards (if this practice is implemented);
- The “in-flight” fair value is disclosed at the end of each year, until they vest or are exercised, in the Table of Unvested Awards;
- The values are reflected in the Single Total Figure of Remuneration in the final year of the performance period; and

- Finally, the amount realised on settlement is disclosed in the Table of Cash Settlement.

6. **Example of a simplified form of the Single Figure Table (populate the fields by referencing the notes in this document)**

		Name
Executive directors	**2017**	**2016**
Salary		
Risk and retirement funding		
Vehicle benefit		
Medical benefit		
Insurance benefit		
Security benefit		
Other benefits		
Total salary and benefits		
Annual short-term incentive		
Annual long-term incentive gains		
Dividends accrued through the vesting cycle		
Total annual remuneration		
Notes		
Cryptic notes explaining for example benefits included under "other",		
or where the benefits are not elaborated on in the policy section,		
are helpful for the reader to understand the nature and rationale for the		
benefit or payment		

PART 4: GLOSSARY OF TERMS

This glossary of terms has been created to assist readers of the recommended practice notes on remuneration to interpret some of the terms used. The descriptions/definitions are by no means exhaustive, but merely intended to create a common understanding among readers of the material.

Terms have been listed alphabetically.

Term	Description/Definition
Allowances	Added components to base pay typically, dependent on circumstances and the type of job, for example, stand-by allowance, shift allowance, car allowance
Awards	Long-term and short-term incentive awards made to employees, and which vest or become payable subject to certain conditions
Basic salary	The guaranteed basic pay or salary received by employees in exchange for time/services/knowledge/competence/outputs, excluding incentives; typically the cash portion of pay, excluding benefits
Benefits	Programmes employers use to supplement cash remuneration, including health care, risk cover, income protection, and savings and retirement programmes (often referred to as programmes that protect families from financial risk); also referred to as fringe benefits or indirect benefits, which may have a tax implication
Bonus	The incentive amount employees typically earn as a result of some measure of performance against a target(s)
Clawback conditions	A right by an employer to claim back monies that were previously awarded or paid, i.e. post vesting; typically in the case of misstatement of financial results, errors in incentive calculations resulting in overpayment, fraudulent actions, or gross misconduct
Company performance conditions/ Corporate performance targets (CPTs)	Conditions that will determine the extent of vesting of current award at some point in the future, which are in addition to time and continued employment, and are typically metrics measuring group/company performance
Consistency	Decisions (reward-related in this context) do not vary arbitrarily, and are aligned with organisational policies and values
External equity	A measure of relativity to an external market; typically defines the organisation's stated market comparative position, for example, median, lower quartile, upper quartile
Face value	The number of units multiplied by share price for shares, share options, and share appreciation rights (excluding the estimated effect of any CPTs)
Fairness	Employees are treated justly and in accordance with the value they add and what is due to them; fairness is defined in King IV as follows: *Fairness refers to the equitable and reasonable treatments of the sources of value creation, including relationship capital as portrayed by the legitimate and reasonable needs, interest and expectations of material stakeholders of the organisation.*

Fair value	Valuation of a share-based instrument using an appropriate methodology (such as Black and Scholes, Binomial Tree, or the Monte Carlo methods), which needs to include an estimation of all company performance conditions; this fair value will differ from the fair value determined for accounting expense purposes under IFRS 2
Grant value	The share price of a long-term incentive on the date of the award
Guaranteed remuneration/ Total guaranteed package	The concept according to which basic salary, allowances, and employer-related costs of benefits are added and monetised, to arrive at an amount (referred to as 'guaranteed remuneration', 'guaranteed package' or total cost to company. Remuneration is also referred to as 'compensation,' predominantly in American literature. In Principle 14 of King IV, this is also referred to as *base pay* or *fixed pay*
Holding period	The period that a participant is prohibited from trading or encumbering shares after the vesting has transpired
Internal equity	A measure of relativity within the organisation, where pay levels are compared internally
Intrinsic value	For share-based awards, intrinsic value is the number of units multiplied by share price, and, for share options or share appreciation rights, it is the number of units multiplied by the premium of share price above strike price. In both cases, where vesting is contingent upon company performance conditions, the valuation disclosed should reflect an appropriate estimate of the number of units expected to vest
Long term incentive (LTI)	Incentives of which the measurement/exercise period is typically longer than one year, for example, in the form of share options, restricted/conditional shares, share appreciation rights, phantom shares, and awards of 'free' or nil-value shares, which vest after a specific period (typically 3 to 5 years), and, in some cases, subject to the achievement of performance conditions
Malus clause	Refers to the policy of pre-vesting forfeiture of variable remuneration awards based on specifically itemised conditions, such as material misstatement of the results on which the variable pay awards were based, major reputational or regulatory issues, or significant financial losses
Phantom schemes	Beneficiaries are awarded a number of phantom shares of organisational shares. No real shares are issued (and no purchase price is paid for the phantom shares), but the phantom shares carry with them economic interests in the organisation, comparable, although not identical, to the organisation's ordinary shares
Recognition	Acknowledgement of employee actions, performance, and behaviour that meet intrinsic psychological and emotional needs; can be done formally, informally, in cash or non-cash (for example trophies, certificates)
Remuneration policy	Guidelines on how to manage rewards and make reward-related decisions, covering aspects such as equity, contingent rewards, pay levels, market comparisons,

	transparency, governance
Remuneration practice	The application of the policy, resulting in the provision or awarding of financial and non-financial rewards
Remuneration process	Various processes followed in the management of remuneration, for example, job evaluation, remuneration review, performance management processes
Reporting period	The time period for which a company or organisation reports financial performance and financial position
Retention payment	Financial schemes implemented over and above standard remuneration, which aim to retain the services of employees for a period of time and are offered in cash or equity arrangements; typically linked to a work-back period
Reward philosophy	The general beliefs around transparency, consistency, fairness, and equity that underpin the reward practices in an organisation
Reward strategy	Longer-term strategies and practices that provide a framework for developing reward systems, policies, and processes
Share awards	Conditional shares: An undertaking to deliver shares at a future date, based on the conditions attached to the award being met. Forfeitable shares: Shares that are already in issue, but where a proportion of these may be forfeited based on not meeting the conditions attached. Restricted shares: Shares that have an employment condition, but no CPTs. Performance shares: Shares that have an employment condition and CPTs.
Share match plan or match arrangements	Schemes that encourage employees to invest a portion of their performance bonus in organisation shares. Often, these shares are matched on a ratio, for example 1:1 or 1:2, after a period of time, sometimes subject to the achievement of performance targets
Share option	A right granted to an option holder, but not an obligation, to sell or acquire an underlying share at a specific price at a future date
Share appreciation rights (SARs)	Rights that entitle the holder to a benefit equal to the difference between the market price and the grant price of a company share
Short-term incentive (STI)	A plan or arrangement (generally settled in cash) for which the period of performance evaluation is one year or less, and that is paid out only once the performance objectives have been achieved
Strategic reward management	The vision for reward processes, formulation, implementation, and maintenance of reward strategies, policies, and processes
Strike price	The price per unit required to be paid by the holder of share options or SARs in order to exercise and acquire the underlying shares
Total remuneration	Guaranteed remuneration, which includes the cost of benefits plus the cost of STIs and LTIs; also referred to as ‘total compensation’

Total reward	Everything that employees receive from their employers (financial and non-financial rewards, intrinsic and extrinsic, direct and indirect) as a result of their employment with an organisation, including goods and services that are offered as payment in kind
Transparency	Reasons for pay and reward policy decisions are objective, fair, and available
Variable remuneration	Remuneration that is not guaranteed, also referred to as ‘incentives,’ either short- or long-term
Vesting period	The time period after which option- or shareholders are free to exercise their rights with regard to the options, or take ownership of shares, provided all other suspensive conditions have been met