

Microfinance Reporting Standards Initiative

Standards-Setting & Adoption Process



**Financial Services Working Group
Sub-committee on Financial Reporting Standards**

Summer, 2009

This concept note outlines the adoption process proposed by the Microfinance Reporting Standards Initiative.

Reporting Standards

A single set of high quality, understandable global accounting guidelines that require transparent and comparable information in general purpose financial and operational statements for microfinance institutions.

INTRODUCTION

The SEEP Network Financial Services Working Group (FSWG) proposes the following Reporting Standards Adoption Process for the microfinance industry. The process is adapted from the International Accounting Standards Board (IASB), based upon the process they currently use, which has been shaped from more than 30 years of standards development experience. It also incorporates the successful practices used in developing the standards published in the microfinance industry 2005 publication, called the Framework¹. IASB standard-setting processes are documented in the publications -- “Due Process Handbook for the IASB” and the “Who Are We and What Do We Do?” -- both uploaded to the FSWG workspace.

This document is organized into the following sections:

- A. Overall Process
- B. Standards Setting in six Steps

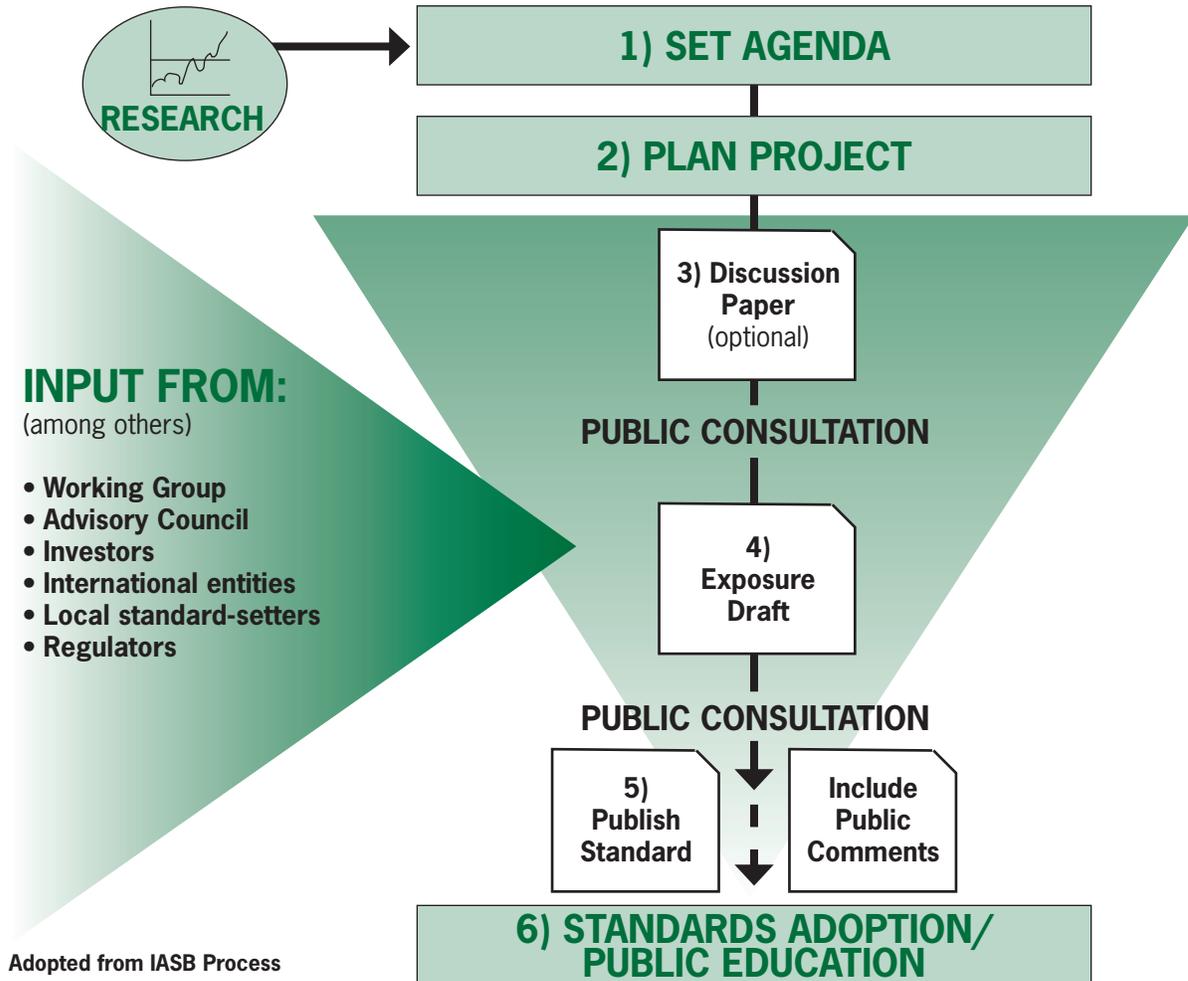
The **Microfinance Reporting Standards Initiative** places high value on transparency and public inclusion and seeks common ground for standards setting. The objective of the process is to find the highest level of agreement of value for the most people and institutions world-wide. Review from all stakeholder groups and input from topic experts ensure technical integrity, promote brand recognition, build trust and greater participation and adoption, and facilitate continued investment.

The standards-setting and -adoption process is actively managed by a centralized administration, called the Secretariat. The Secretariat leads communications, marketing, gathering input and feedback, and the coordination of working groups, stakeholder representatives and topic experts.

The procedures are reviewed regularly and updated as needed. At a minimum, the reporting standard-setting process is officially reviewed and evaluated on an annual basis through stakeholder feedback, assessing challenges in adoption or compliance, and evaluation of the sector’s changing information needs. This annual evaluation culminates approximately in November of each year.

¹ The SEEP Network, 2005, “Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring”
<http://www.seepnetwork.org/Pages/Frame.aspx>

A. OVERALL PROCESS



B. STANDARD SETTING IN SIX STEPS

In general there are six steps in setting reporting standards. They are illustrated above and narrated in summary below:

- 1) **Setting the Agenda.** The agenda for reporting standards adoption and new business is managed by the Financial Reporting Standards Initiative, a collegial body that represents the full range of microfinance stakeholders. Agenda items are prioritized based upon their:
 - relevance to users of the information, particularly investors and managers;
 - stakeholder input;
 - reliability of information in order to reach a universal standard; and
 - possibility of increasing convergence in the field towards uniform reporting.

- 2) **Project Planning.** The Secretariat facilitates project planning, developing a three-year plan and updating it on a rolling annual basis. The Secretariat also coordinates other relevant programmatic activities, including representation at industry events, communications, promotion, meetings, etc. An annual plan is developed each December to address topics of work for the following year:
 - research and development;
 - discussion, debate, and/or technical expertise;
 - public consultations;
 - release and dissemination; and
 - education, publication, and promotion of new reporting standards.

- 3) **Discussion Paper** (if necessary). This step is taken only if there is not clarity or uniformity for a standard. It provides an initial exploration, as well as a mechanism for public comment before an official standard is proposed. A public comment period is officially set for 90 days. This step is undertaken if funding is available to the discretion of the standards body in order to provide:
 - first publication in a new topic;
 - comprehensive overview of an issue; and
 - invite public comment before a formal standard proposal.

- 4) **Exposure Draft.** The proposed new standards are documented in an exposure draft. This draft has the suggested new language for standards, as well as rationale, application, illustrations, and examples. It is circulated with the explicit purpose of public comment and input; a public comment period of 90 days is officially set. All formal comments are aggregated into a public document with an official response. The purpose of this step is to:

¹ The Initiative is currently hosted by the SEEP Network. The Secretariat's work falls under the umbrella of the SEEP Network's Financial Services Working Group, which provides practitioner input, technical assistance and facilitates broader stakeholder engagement. <http://seepnetwork.org/Pages/Initiatives/FinancialReportingStandardInitiative.aspx>

- maintain a vehicle for consulting the public;
- set out a specific proposal;
- invite comments on a draft standard from various stakeholder groups; and
- provide a means to seek consensus among various stakeholders.

5) **Standards Publications with Procedures.** A review is made of all comments submitted through Step 4, above. The Secretariat facilitates the final draft with input from the Financial Reporting Standards Initiative, including technical experts if needed and practitioners via the SEEP Network Financial Services Working Group sub-committee under which this initiative is housed. Assent and approval of the final version is made by the Initiative stakeholder representatives. The final version includes an adoption of edits, record of the public response period and mechanism (if necessary), effective dates, and documented procedures.

6) **Standards Adoption.** Once there is a standards publication, the adoption process begins. The Secretariat will assume responsibility for the publication, dissemination, and promotion of updated standards. This includes education to inform microfinance stakeholders about this new standard and its procedures. It also includes formal presentations, trainings, online discussions, public promotion, and so forth. Successful implementation requires coordination with numerous industry stakeholders, as well as regular meetings.

The six-step process allows for gradual advancement of priorities and concepts. In addition, there is a regular and consistent procedure for public input. The emphasis is on transparency, reliability, full stakeholder engagement, and systematic processes in order to maximize public trust, acceptance and adoption. In particular,

- There is regular and consistent call for public and stakeholder input.
- Financial Reporting Standards Initiative: the microfinance representative stakeholder body will document all meetings, work, proceedings, and make materials available to anyone.
- Formal comments made in the standards-setting process are all publicly available, reviewed by the appropriate working groups, responded to by the body, and – when appropriate – adopted into the standards documentation.
- The work of the Initiative, its working processes, and activities are publicly available.
- The goal of the process is to maximize public adoption of new standards.



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Additional Resources

“Microfinance Industry Financial Reporting Standards Initiative, Survey Results Brief”

“Microfinance Reporting Standards Initiative, Business Models Review”

“Microfinance Reporting Standards Committee, Concept Note”

Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring

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About SEEP

The Microfinance Reporting Standards Initiative is supported by The SEEP Network. It is the focus of a subcommittee of the Financial Services Working Group. Project information can be found online at www.seepnetwork.org. This report was written by Drew Tulchin, Social Enterprise Associates, with content from AYANI Consulting. Project facilitator is Drew Tulchin, Social Enterprise Associates (drew@socialenterprise.net). We welcome all input, comments, opinions, and support to advance this initiative for the advancement of the entire microfinance industry.

The SEEP Network is a membership association of organizations that support micro- and small enterprise development programs around the world. SEEP’s mission is to connect microenterprise practitioners in a global learning community.

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