

SOCIAL STOCK EXCHANGE

◆ Legal Series Vol. XV ◆ Issue 4

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OVERVIEW OF THE PROPOSED SCHEME AND RULES



Standards & Norms

Resource support on NGO Governance, Accounting and Regulations



Authors* :

Adv. (Dr.) Manoj Fogla, Founder, SAGA LAW LLP

Dr. Sanjay Patra, Executive Director, FMSF

Suresh Kejriwal, Consultant

Sandeep Sharma, Director Program, FMSF

FMSF Research Team

* The Authors can be contacted at mfogla@yahoo.com

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SOCIAL STOCK EXCHANGE FRAMEWORK – REGULATIONS

1.01 The Social Stock Exchange (SSE) will provide social enterprises with an additional avenue to raise funds. At the same time, the private sector will be able to search for their CSR implementing partners. With regard to SSE, Securities and Exchange Board of India (SEBI) has notified various framework for the social stock exchange (SSE) by making the following amendments:

- Amending the SEBI (Issue of Capital and Disclosure Requirements (ICDR)) Regulations, 2018. The amended regulations shall be called the **SEBI (ICDR) (Third Amendment) Regulations, 2022**. For amended regulation kindly follow the link below:

https://www.sebi.gov.in/legal/regulations/jul-2022/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-third-amendment-regulations-2022_61171.html

- Amending the SEBI (Listing Obligations and Disclosure Requirements (LODR)) Regulations, 2015. The amended regulations shall be called the **SEBI (LODR) (Fifth Amendment) Regulations, 2022**. For amended regulation kindly follow the link below:

https://www.sebi.gov.in/legal/regulations/jul-2022/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-fifth-amendment-regulations-2022_61169.html

- Amending the SEBI (Alternative Investment Funds (AIF)) Regulations, 2012. The amended regulations shall be called the **SEBI (AIF) (Third Amendment) Regulations, 2022**. For amended regulation kindly follow the link below:

https://www.sebi.gov.in/legal/regulations/jul-2022/securities-and-exchange-board-of-india-alternative-investment-funds-third-amendment-regulations-2022_61156.html

All the above amendments are effective from 25th July, 2022.

TERMINAL AND ACCESS TO SSE

2.01 The SSE will be a separate segment of the recognised stock exchanges having nationwide trading terminals permitted to register Non-Profit Organizations (NPOs) or list of securities issued by NPOs. SSE is only accessible to:

- Institutional Investors **and**
- Non-Institutional Investors

SEBI may permit other classes of investors, as it deems fit.

ELIGIBILITY CRITERIA TO BE IDENTIFIED AS A SOCIAL ENTERPRISE

3.01 Presented below are the organizations eligible to be classified as Social Enterprise and accordingly participate in the SSE:

(i) **Non-Profit organisations (NPOs)** which are defined as:

- A Charitable Trust registered under the Trusts Act, 1882
- A Charitable Trust registered under the public trust statute of the state
- A Charitable Society registered under the Societies Registration Act, 1860
- A Company incorporated under Section 8 of the Companies Act, 2013
- Any other entity as may be specified by SEBI in future

However, NPOs should also establish primacy of its Social intent to be eligible for SSE.

(ii) **For-Profit Social Enterprise** which are defined as a company or body corporate operating for profit but having “social intent” and impact as their primary goal.

Further, certain ineligibility criteria for Social Enterprises has also been mentioned in Rule 292H of the notification. Corporate foundations, political or religious organizations or activities, professional or trade associations, infrastructure and housing companies (except affordable housing) shall not be eligible to be identified as a Social Enterprise. Accordingly, they will not be able to participate in the SSE.

PROVING THE PRIMACY OF SOCIAL INTENT

4.01 In order to be eligible for SSE, Social Enterprises as defined above should follow the following conditions:

- (i) Shall engage in at least one of the **Sixteen (16) defined activities**. Further, SEBI may define additional activities from time to time;
- (ii) Shall target underserved or less privileged population segments or regions recording lower performance in the development priorities of central and/or state governments;
- (iii) Shall have at least 67% of its activities (activity as said in point 'i' above) towards the target population (as defined in point 'ii' above). The said activities shall be at least 67% of the immediately preceding 3-year
 - **average of revenues** from providing eligible activities to members of the target population OR
 - **average of expenditure** incurred for eligible activities to members of the target population OR
 - **average of the total customer base and/or total number of beneficiaries** for members of the target population to whom the eligible activities have been provided.

4.02 *Sixteen activities designated for establishing social intent:* The eligible Social Enterprise shall engage in at least one of the following activities:

- (i) eradicating hunger, poverty, malnutrition and inequality
- (ii) promoting health care including mental healthcare, sanitation and making safe drinking water available;
- (iii) promoting education, employability and livelihoods;
- (iv) promoting gender equality, empowerment of women and LGBTQIA+ communities;

- (v) ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation;
- (vi) protection of national heritage, art and culture;
- (vii) training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports;
- (viii) supporting incubators of Social Enterprises;
- (ix) supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building;
- (x) promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector;
- (xi) slum area development, affordable housing and other interventions to build sustainable and resilient cities;
- (xii) disaster management, including relief, rehabilitation and reconstruction activities;
- (xiii) promotion of financial inclusion;
- (xiv) facilitating access to land and property assets for disadvantaged communities;
- (xv) bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection;
- (xvi) promoting welfare of migrants and displaced persons;
- (xvii) any other area as identified by the Board or Government of India from time to time

REQUIREMENTS OF MANDATORY REGISTRATION OF NPOs WITH A SSE

5.01 Before raising any funds through a SSE, NPOs should mandatorily seek registration with a Social Stock Exchange. The minimum requirements for registration of a NPOs shall be specified by SEBI from time to time.

FUND RAISING OPTIONS FOR NPOs

- 6.01 Zero Coupon Zero Principal Instrument:** It will have zero coupon rate and no principal amount shall be payable on maturity. Further, it can be issued only for a specified project or activity which falls under the list of eligible activities specified under regulation 292E and for a specified project duration.

The procedure and conditions for public issuance of it have been defined in regulation 292K, 292L and 292N. Termination of listing of it from the SSE has been defined in regulation 292P.

- 6.02 Donations through Mutual Funds Schemes:** NPOs shall be eligible to receive donations through mutual fund schemes. It should be noted that currently there are certain mutual funds which give a part of their income for charitable purposes. In future, an NPO will have to be registered with the SSE to access such funds.

- 6.03** Any other means as may be specified by SEBI in future

FUND RAISING OPTIONS FOR FOR PROFIT SOCIAL ENTERPRISE

- 7.01**
- (i) Issuance of Equity Shares
 - (ii) Issuance of Debt Securities
 - (iii) Any other means as may be specified by SEBI in future

DISCLOSURE REQUIREMENT

- 8.01 Disclosure by NPOs:** A NPO registered on SSE shall be required to make annual disclosures to the SSE on specified matters within 60 days from the end of the financial year or as subsequently specified by SEBI.

8.02 Disclosure by For Profit Social Enterprise: A For-Profit Social Enterprise whose designated securities are listed on the SSE shall comply with the disclosure requirements contained in these regulations with respect to issuers whose specified securities are listed.

8.03 Intimation and disclosure of events or information to the SSE are:

- (a) The Social Enterprise shall frame a policy for determination of materiality, duly approved by its board or management, which shall be disclosed on the SSE.
- (b) The board and management of the Social Enterprise shall authorize one or more of its Key Managerial Personnel for the purpose of determining materiality of an event or information and for the purpose of making disclosures to the SSE and the contact details of such personnel shall also be disclosed to the SSE.
- (c) A Social Enterprise shall disclose the event, *comprising details of the event including the potential impact and the steps being taken by the Social enterprise to address the same*, to the SSE within 7 days of any event that may have a material impact on the planned achievement of outputs or outcomes. Further, relevant updates shall be provided to the SSE on a regular basis with relevant explanations till the time concern events remains material.
- (d) The Social Enterprise shall provide specific and adequate reply to all queries raised by the SSE, with respect to any events or information.

The Social Enterprise shall also disclose on its official website all such events or information which have been disclosed to the SSE, under this regulation.

8.04 Disclosure with respect to Social Impact are:

- (a) A Social Enterprise, shall be required to submit an annual impact report to the SSE in the format specified from time to time.
- (b) The annual impact report shall be audited by a Social Audit Firm employing Social Auditor.
- (c) The SSE may specify parameters, in addition to those specified by the SEBI, which shall also be required to be disclosed on an annual basis.

8.05 Disclosure with respect to Statement of Utilization of Funds:

- (a) A listed NPO shall submit to the SSE, category-wise amount of money raised, utilised & balance unutilised on a quarterly basis and till the issue proceeds have been fully utilised or the purpose has been achieved.
- (b) The unutilised amount shall be kept in a separate bank account and shall not be co-mingled with other funds.

OTHER ISSUES

- 9.01** - The SEBI (AIF) Regulations, 2012 has been applicable to the Social Enterprises.
- A Social Impact Fund (SIF) or schemes of SIF may also issue social units. However, each scheme of the SIF shall have a corpus of at least Rs. 5 Crores.
 - Individual investor can invest a minimum of Rs. 2,00,000/- in securities of NPOs listed on an SSE through Social Impact Fund (SIF).
 - A social impact fund or schemes of a social impact fund launched exclusively for a NPO, shall be permitted to deploy or invest 100% of the investable funds in the securities of NPOs registered or listed on a social stock exchange.
 - At least seventy-five percent of the investable funds shall be invested in unlisted securities or partnership interest of social ventures or in units of social ventures or in securities of social enterprises. However, existing SIF may invest the remaining investable funds in securities of NPO registered or listed with the prior consent of at-least 75% of the investors by value of investment.