

Social Sector Hotline

January 04, 2023

SEBI ACCORDS IN-PRINCIPLE APPROVAL FOR SOCIAL STOCK EXCHANGE

- Securities Exchange Board of India has notified the framework for Social Stock Exchange
- Social Stock Exchange will benefit the social sector of India by funnelling higher capital
- Enterprises engaging in political or religious activities are not eligible to be identified as a Social Enterprise under this notification
- Both not-for-profit organizations and for-profit social enterprises can list themselves on the Social Stock Exchange
- Zero Coupon Zero Principal Instruments shall be issued only by a not-for-profit organization

INTRODUCTION

Securities and Exchange Board of India ("SEBI") under its regulatory ambit issued **SEBI (Issue of Capital and Disclosure Requirements) Third Amendment Regulations, 2022 ("SEBI Regulations, 2022")**¹ to amend the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018; inserting 'Chapter X-A' dealing with the Social Stock Exchange ("SSE"). These Regulations were notified on 25th July, 2022. SEBI granted an 'in-principle approval' to the Bombay Stock Exchange in October 2022 and the National Stock Exchange in December 2022. This step shall enable social enterprises and voluntary organizations working for the realization of a social welfare objective to list themselves on SSE to raise capital as equity, debt or as units like a mutual fund amongst other financial instruments.

However, it is pertinent to note that enterprises engaging in political or religious activities, professional or trade associations, infrastructure, and housing companies (excluding affordable housing) are not eligible to be identified as a Social Enterprise ("SE") under this notification.

SSE will be a novel concept for India.² In India, SSE was first mooted by the Finance Minister of India Nirmala Sitharaman in her budget speech 2019-20.³ In September 2021, the notifications first came after SEBI's board approved the framework. SEBI has amended the rules governing alternative investment funds, Issue of Capital and Disclosure Requirements Rules ("ICDR") and Listing Obligations and Disclosure Requirements ("LODR") norms.

Seven other countries have previously acquainted themselves with the concept of SSEs, viz. – Canada, Jamaica, Singapore, Brazil, Portugal, South Africa, and United Kingdom.⁴ While among these seven countries, only three countries have active SSEs – Canada, Jamaica and Singapore.⁵ SSEs may aid in lessening the economic harm brought by the Covid-19 pandemic. The huge pools of social capital will be made accessible through the SSE. Commercial capital and social capital will jointly address plethora of social issues.

FUND RAISING BY SOCIAL ENTERPRISES

Both not-for-profit organizations and for-profit social enterprise can list themselves on the SSE. The SE shall establish primacy of its social intent. Further, they shall engage in either (one or more) of the sixteen (16) activities, including eradication of hunger, poverty, and inequality; promoting healthcare, education, employability, and livelihoods; gender equality empowerment of women and LGBTQIA+⁶ communities; and supporting incubators of social enterprise, listed under the SEBI Regulations, 2022.

A Social Enterprise may raise funds through following means:

- In case the SE is a not-for-profit SE: It may raise funds on an SSE through:
 - issuance of Zero Coupon Zero Principal Instruments⁷ to institutional investors and/or non-institutional investors;
 - donations through mutual fund schemes as specified by the Board ("SEBI Board");
 - any other means as specified by the Board from time to time.
- In case the SE is a for-profit SE: It may raise funds on an SSE through:
 - issuance of equity shares on the main board, Small and Medium Enterprises ("SME") platform or innovators growth platform or equity shares issued to an alternative investment fund including a social impact fund;
 - issuance of debt securities;
 - any other means as specified by the Board from time to time.

Research Papers

Taxing Offshore Indirect Transfers in India

February 28, 2025

Unlocking Corporate Philanthropy

February 27, 2025

Digital Health in India

February 26, 2025

Research Articles

Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

Key changes to Model Concession Agreements in the Road Sector

January 03, 2025

Audio

CCI's Deal Value Test

February 22, 2025

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

SIAC 2025 Rules: Key changes & Implications

February 18, 2025

How Cross Border M&A Will Shape

Zero coupon zero principal instruments shall be issued only by a not-for-profit organization registered on the SSE and shall have a specific tenure. In case of for-profit SE(s), securities issued must be listed and traded under the relevant segment of the stock exchange with an identifier indicating that the security is that of a for-profit SE and that the for-profit SE(s) meet the requirements for the main board, SME Platform, or innovators growth platform.

KEY PROVISIONS IN THE SSE FRAMEWORK

SEs will be mandated to submit 'annual impact report' as disclosures to the SSE. A social audit firm will be auditing the annual impact report through a social auditor. Social venture funds under alternative investment funds of SEBI have been renamed as social impact funds to attract investments in not-for-profit organizations. Requirement of corpus has been decreased from twenty crore rupees to five crore rupees. Minimum amount to be invested by an individual investor in such funds shall be two lakh rupees. Amount of grant to be received has been decreased from twenty-five lakh rupees to ten lakh rupees.

Further, the Zero Coupon Zero Principal Instruments shall only be issued in dematerialised form wherein the minimum issue size shall be one crore rupees and the minimum application size shall be two lakh rupees. The SE must achieve seventy-five percent (75%) of the proposed funds through Zero Coupon Zero Principal Instruments. In the event of any undersubscription, the not-for-profit organization must, in the fund-raising document, include a) how to raise balance capital in the event of an undersubscription between seventy-five percent (75%) and hundred percent (100%); and b) potential impact on achieving the social objective(s) in the event that an undersubscription is not arranged; however, funds shall be refunded in the event that the subscription is less than seventy-five percent (75%) of the issue size.

The listing of Zero Coupon Zero Principal Instruments of a not-for-profit organization on the SSE shall be terminated when either a certificate – stating that the goal for which the funds were solicited has been accomplished – has been submitted to the SSE; or the period provided in the fund-raising document to accomplish the objective for which money were raised has expired. It is pertinent to note that for for-profit entities the social venture funds that fall under SEBI's alternative investment fund regulations have been designated as social impact funds.

IMPLICATIONS ON REGISTERED SE(S) LISTED ON SSE

The SE(s) that list on the SSE shall be required to increase their accountability and transparency. The new regulations include the necessary checks and balances, such as disclosing the objectives for raising funds and setting a timeline for the utilization of the said funds. The mandate to produce yearly impact reports that have been reviewed by social audit firms would increase the degree of transparency.

The deployment or investment of hundred percent (100%) of the investable funds in the securities of not-for-profit organizations registered or listed on an SSE is permissible for a social impact fund or schemes of a social impact fund formed expressly for a not-for-profit organization registered or listed on an SSE. It will facilitate the alignment of the venture capital sector's social impact activities with those of the stock exchanges and further reduce the requirements for social funds' minimum corpus, grant eligibility, and investing practises. SSE shall also enable CSR contributors and philanthropic donors by giving them a larger channel to direct money towards credible social impact creating opportunities.

Further, Registered SE(s) raising funds through the SSE are also required to submit disclosure of audited Annual Impact Report ("AIR") per Regulation 91 of the LODR Regulations outlining the deployment of funds raised by the SE.⁸ The AIR encompasses the strategic intent and planning and the metrics deployed by the SE for the furtherance of impact on the target segment(s) by the SE. This ensures transparency in the fulfilment of welfare goals.

NDA OPINION

The need for a unified platform for funding in the not-for-profit sector gained momentum due to the growing need for an alternative source of social capital in the country; particularly during the COVID-19 pandemic. This shall contribute in mobilizing capital for SE(s) working towards sustainable development goals. The SSE framework, in itself, places emphasis on sustainable development goals since the SE(s) shall compulsorily engage in a social activity listed in the framework; outlining the primary objectives of the framework.

This move by the Finance Ministry under the regulatory ambit of SEBI will aid in meeting welfare objectives for inclusive growth. India is ranked 131 out of 188 nations for the year 2022⁹ according to the Human Development Index, which combines the three factors of education, health, and income to give a complete indicator of a country's development accomplishments. It is pertinent to note that for economic growth and development of economy, such growth must also be inclusive where capital needs and economic growth rises in tandem to social welfare objectives. The SSE has the potential to transform the Indian economy but this transition may be constrained by a number of variables and may potentially have unforeseen effects on the industry.

It is believed that India would substantially benefit from the increased support for the social sector, which is specifically concerned with making a sizable and quantifiable impact. This will help the government accomplish its goals for sectoral growth.

– Rahul Rishi

(The author would like to acknowledge and thank Ms. Shhreiya Agarawal (volintem) for her contribution to this hotline.)

You can direct your queries or comments to the author

¹ SEBI (Issue of Capital and Disclosure Requirements) Third Amendment Regulations, 2022: 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

² <https://www.thehindu.com/business/markets/sebi-notifies-social-stock-exchange-framework/article65685372.ece>

³ https://www.indiabudget.gov.in/budget2019-20/doc/Budget_Speech.pdf

⁴ <https://www.financialexpress.com/market/social-stock-exchanges-in-india-can-they-help-lift-the-underserved/2350675/>

⁵ *Ibid.*

⁶ LGBTQIA+ signifies Gay, Lesbian, Bisexual, Transgender, Queer, Intersex, and Asexual people collectively.

⁷ A 'Zero Coupon Zero Principal Instruments' is an instrument issued by a not-for-profit organization which shall be registered with a recognised stock exchange. These instruments will be governed by rules made by the SEBI.

⁸ SEBI Circular No.: SEBI/HO/CFD/PoD-1/P/CIR/2022/120: https://www.sebi.gov.in/legal/circulars/sep-2022/framework-on-social-stock-exchange_63053.html

⁹ <https://worldpopulationreview.com/country-rankings/hdi-by-country>

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.