

CONSULTATION PAPER
Flexibility in the framework on Social Stock Exchange (SSE)

1. Regulatory Framework of Social Stock Exchange

The regulatory framework for Social Stock Exchange (SSE) was prescribed by SEBI through amendments dated July 25, 2022 to certain SEBI Regulations and also through Circulars dated September 19, 2022 and October 13, 2022. A brief on the amendments is placed alongside at **Annexure 1**.

2. Present status on Social Stock Exchange

- 2.1. NSE and BSE have both set-up the SSE segment. A Not for profit organization (NPO) is required to be registered with SSE to raise funds. As of August 07, 2023, 31 NPOs have been registered in this segment with the two Exchanges.
- 2.2. A certification program for Social Auditors has been launched by NISM and a total 957 individuals have cleared the certification program.
- 2.3. A capacity building fund (CBF) housed under NABARD has been constituted with participation of NABARD, SIDBI, NSE and BSE to enable NPOs and other stakeholders to navigate the SSE and its processes, instruments etc. apart from creating awareness. The initial corpus of CBF to be deployed is Rs. 10 Crores.
- 2.4. SEBI, Exchanges, NABARD, SIDBI, ICAI, ICSI and ICMA have conducted various awareness programs to help NPOs to understand the various nuances of Social Stock Exchange.
- 2.5. SEBI has constituted a Social Stock Exchange Advisory Committee (SSEAC) under the chairmanship of Dr. R. Balasubramaniam, Member, Capacity Building Commission, Govt. of India, to advise the Board on the issues relating to the development and growth of the SSE segment.

3. Issues and Challenges

3.1. In order to facilitate fund raising by NPOs, a brainstorming session was organized at SEBI wherein few investors and NPOs were invited. The session was attended by Chair-SSEAC, representatives from NSE, BSE, NABARD,

SIDBI, few members of the SSE advisory committee, and senior SEBI officials. During the session, investors and NPOs have identified issues/roadblocks for fund raising on SSE. Independently, the SSEAC and Exchanges too have identified areas, based on their interactions during the awareness programs that may be coming in the way of NPOs to raise funds.

3.2. The issues raised by SSEAC/Exchanges are enlisted below:

- i. The threshold of the minimum issue size for NPOs issuing Zero Coupon Zero Principle Instrument (ZCZP) i.e. Rupees 1 crore was on the high side.
- ii. The threshold of minimum application size in public issue of ZCZP i.e. rupees 2 lakhs was high and would be reduced.
- iii. Entities that do not possess valid certificate under Section 80 G but are established under Section 10(23C) and 10(46) of the Income Tax Act may be permitted as NPO on Social Stock Exchange.
- iv. The requirement of no pending notice or ongoing scrutiny by Income Tax against NPOs for the purpose of registration on SSE may be done away with.
- v. Substituting the term Social Auditor with Social Impact Assessor
- vi. NPOs may be permitted to provide past social impact but not strictly as per the format specified by SEBI in their fund raising document.

4. Recommendations of the SSEAC/ Exchange:

4.1. Minimum issue size for NPOs issuing ZCZP

As per existing ICDR Regulation the minimum issue size is Rs. One crore.



4.1.1. Recommendation

Based on the feedback received in the Brainstorming session, SSEAC has recommended that the minimum issue size may be reduced to Rs. 50 lakhs.

4.1.2. Rationale

SSE is at an initial stage and NPOs may find it difficult to raise Rs. One crore from a limited set of investors. The investors are also not aware of SSE framework which will develop through more and more awareness programs. It may therefore not be easy for such NPOs to find investors to raise Rs. One crore. Further, it is also noted that minimum fund flow requirements for the past financial year of the NPO on the SSE has been fixed at Rs. 50 lakhs (for annual spending) and Rs. 10 lakhs (for funding).

4.2. Minimum application size for NPOs issuing ZCZP

As per existing ICDR Regulation the minimum application size is Rs. Two lakhs.

4.2.1. Recommendation

Based on the feedback received in the Brainstorming session, SSEAC has recommended that the minimum application size may be reduced to Rs. 10,000/-

4.2.2. Rationale

Lowering the minimum application size threshold will help large number of investors who may like to subscribe to ZCZP of more NPOs. Further, the minimum application size of Rupees 2 lakh may be too large for people who donate on regular basis.

4.3. Allowing entities under section 10(23C) and 10(46) of the Income Tax Act, 1961 on SSE

In terms of SEBI Circular dated September 19, 2022, entities registered under Section 12A/12AA/12AB under Income Tax Act, 1961 which have valid 80G registration are eligible for registration as NPO with SSE.



4.3.1. Recommendation

SSEAC has recommended that the NPOs having registration certificate under Section 10(23C) [Education Institutes] and section 10(46) [i.e. Body/Authority/Board/Trust/Commission established or constituted by or under a Central/State/Provincial Act or constituted by the Central/State Government with the object of regulating or administering any activity for the benefit of general public.] of the Income Tax Act, 1961, may be considered as eligible for registration as NPOs with SSE. The requirement of valid 80G certificate for NPOs may not be mandated for them to seek registration with SSE as per SEBI Circular dated September 19, 2022.

4.3.2. Rationale

Under Section 10(23C), income received by any university or educational institution existing solely for educational purposes and not for the purpose of profit and which is wholly or substantially financed by the Government is fully exempt from tax. Further, the Institutes registered u/s 10(46) includes Body/Authority/Board/Trust/Commission established or constituted by or under a Central/State/Provincial Act or constituted by the Central/State Government with the object of regulating or administering any activity for the benefit of general public.

These entities may not be registered under Section 80G of the Income Tax Act but are established or largely funded by Government. Hence, the requirement of registration under 80G of the Income Tax Act, 1961 may not be mandated for such entities to get registered as NPO with SSE.

4.4. Relaxation of the requirement of “no pending notice or ongoing scrutiny by Income Tax” for the purpose of registration and fund raising by NPO on SSE.

In terms of SEBI Circular dated September 19, 2022 an NPO having pending notice or ongoing scrutiny by Income Tax is ineligible for registration with SSE.

4.4.1. Recommendation

SSEAC has recommended that NPOs having notice or ongoing scrutiny by Income Tax may be permitted on SSE subject to following:

- i. Details regarding pending notices or scrutiny cases may be disclosed at the time of making the application for the registration on SSE.
- ii. Fines or penalties if imposed shall be disclosed as paid or appealed within 7 days.

However, the SSE will have the right to refuse registration of those applications, if the notices are grave and harmful enough to endanger the registration of the NPO under the relevant provision of Income Tax Act.

4.4.2. Rationale

In case of fund raising through IPOs by Companies, matters regarding pending notices or ongoing scrutiny of the Income Tax are required to be disclosed in the offer document and do not necessarily bar such issuer from raising funds. Further, listed entities too are only required to disclose such notices on Stock Exchanges. It is desirable that a similar approach may be considered for NPOs seeking registration and fund raising through SSE.

4.5. Substituting the term 'Social Auditor' with 'Social Impact Assessor'

The term Social Auditor is defined in ICDR Regulations and referred by LODR Regulations as well as SEBI Circular dated September 19, 2022.

4.5.1. Recommendation

SSEAC has recommended to modify the term as Social Auditor to Social Impact Assessor.

4.5.2. Rationale

NPOs have provided a feedback to various members of SSEAC that the term “audit” gives a negative connotation. The SSE framework envisaged that impact of the activity undertaken by the NPO should be duly reflected to its investors/ donors. Thus, while the scope of the work

remains same, changing the nomenclature would provide some level of comfort to NPOs and convey a positive approach towards social sector.

4.6. Relaxation of the requirement of disclosure of past social impact in SEBI specified format in the fund raising document

SEBI has prescribed the contents of the fund raising document through SEBI Circular dated September 19, 2022. One of the matters to be included in the fund raising document include details of social impact in terms of parameters which cover aspects prescribed under Annual Impact Report such as “Strategic Intent and Planning”, “Approach” and “Impact Score Card”.

4.6.1. Recommendation

Exchanges have recommended that the format and detail of the past social impact to be provided can be provided by NPOs based on past practice of the NPO.

4.6.2. Rationale

Many NPOs have already carried out social impact assessment in the past and the same may not be in the format prescribed by SEBI. Restating past social impact assessment into a format prescribed by SEBI would be a costly and time consuming exercise for NPOs. By allowing past social impact assessment reports in the fund raising document will facilitate faster listing by NPOs.

5. Matter for public consultation

Views/ public comments are sought on the following query: -

5.1. Should SEBI consider reduction in minimum issue size NPOs issuing ZCZP from the existing limit of Rs. 1 Crore?

5.1.1. If yes, should it be reduced to Rs. 50 lakhs?

5.2. Should SEBI consider reduction in minimum application size NPOs issuing ZCZP from the existing limit of Rs. 2 lakhs?

5.2.1. If yes, should it be reduced to Rs. 10,000 (Rs. Ten thousand only)?



- 5.3. Should SEBI consider NPOs registered under Section 10(23C) and 10(46) that do not have 80G certificate for registration and raising funds on SSE?
- 5.4. Should SEBI consider excluding the criteria of “no pending notices or ongoing scrutiny by Income Tax against NPOs” for the purpose of registration and raising funds on SSE?
- 5.4.1. If yes, should SEBI mandate detailed disclosure of such notices/ ongoing scrutiny at the time of registration and in the fund raising document by NPO?
- 5.5. Should SEBI consider substituting the term Social Auditor with Social Impact Assessor?
- 5.6. Should SEBI consider allowing the details of past Social Impact in the fund raising document as per the practice of the NPO instead of restating the past Social Impact in the format prescribed by SEBI?
- 5.7.¹ Should SEBI have power to relax provisions of Chapter X-A (Social Stock Exchange) of the ICDR Regulations and the circulars issued on aspects related to Social Stock Exchange, based on the recommendation of Exchanges, in the interest of developing SSE?
- 5.7.1. If yes, what areas/ broad principles under the ICDR Regulations should be considered by SEBI for exemption?
- 5.7.2. Further, should such power be granted to SEBI for a limited period, say 12 months?

¹ Social Stock Exchange as a concept is novel and unique in nature and the SSE structure as preferred by India does not have parallel across any other jurisdiction. There is a need to develop the fund raising of Social Sector in India.



6. Submission of public comments

- 6.1. Public comments are invited considering the implications of the matter at paras 5.1 to 5.7 above, on the market participants including issuer NPOs and investors.
- 6.2. Comments may be sent by email to consultationcfd@sebi.gov.in latest by September 19, 2023. While sending email, kindly mention the subject as **"Comments on Consultation paper on flexibility in the framework on Social Stock Exchange (SSE)"**
- 6.3. The comments may mandatorily be sent by email in the format prescribed as under: [Link to download the format.](#)

Issued on August: 29, 2023



List of Abbreviations

Sr. No.	Abbreviation	Description
1	ICDR Regulation	SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018
2	ICAI	The Institute of Chartered Accountant of India
3	ICSI	The Institute of Company Secretaries of India
4	ICMA	The Institute of Cost Accountant of India
5	LODR Regulation	SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
6	NABARD	National Bank for Agriculture and Rural Development
7	NPO	Not for profit Organization
8	SIDBI	Small Industries Development Bank of India
9	SSE	Social Stock Exchange
10	SSEAC	Social Stock Exchange Advisory Committee
11	ZCZP	Zero Coupon Zero Principal Instrument

Annexure 1

SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 [ICDR Regulations]

The amendment to ICDR Regulation covered, inter-alia, aspects related to eligibility conditions for identifying Social Enterprises, conditions for issuance of Zero Coupon Zero Principal Instrument (ZCZP) by not for profit organization (NPO) such as - fund raising document –to be filed by NPO with SSE.

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [LODR Regulations]

The amendment to LODR Regulations covered, inter-alia, aspects related to continuous disclosure requirements such as disclosure of Social Impact, Statement of Utilization of Funds etc.

SEBI (Alternative Investment Funds) Regulations, 2012

The amendment to AIF Regulations covered, inter-alia, aspects related to permitting investment in securities issued by social enterprises etc.

Circular dated September 19, 2022

The circular prescribes minimum requirements to be met by NPO for registration with SSE, minimum initial disclosure requirements in the fund raising document to be filed by NPOs for raising funds through issuance of ZCZP, Annual Social Impact Report formats etc.

Circular dated October 13, 2022

The circular prescribes composition of the Social Stock Exchange governing council at the SSE, and its terms of reference.