

Flexibility in the framework for Social Stock Exchanges (SSE)

1. Objective

1.1. This memorandum seeks approval of the Board to amend SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2018 (“ICDR Regulations”), SEBI (Listing Obligation and Disclosure Requirement) Regulations, 2015 (“LODR Regulations”) and to modify certain conditions specified through Circular dated September 19, 2022 relating to the framework for Social Stock Exchanges with respect to the following aspects:

i. Amendments to ICDR Regulations

- a. Review of minimum issue size in case of public issuance of Zero Coupon Zero Principal instrument (ZCZP) by Not for Profit Organizations (NPOs)
- b. Review of minimum application size in case of public issuance of Zero Coupon Zero Principal instrument (ZCZP) by Not for Profit Organizations (NPOs)

Seeking guidance of the Board

- c. On allowing to move certain aspects of the SSE framework from ICDR Regulations into a separate Circular to enable SEBI to provide relaxation from the applicability of such provisions in view of the nascent stage of development of the SSE.

ii. Amendments to ICDR Regulations and LODR Regulations

- a. Substituting the term “Social Auditor” with “Social Impact Assessor”

iii. Modifying certain conditions specified in SEBI Circular dated September 19, 2022

- a. Inclusion of entities under Section 10(46) of the Income Tax Act, 1961 which do not possess registration under section 80G of the Income Tax Act, 1961 for the purpose of registration and fund raising on SSE in addition to already eligible entities registered under Section 12A/12AA/12AB of the Income Tax, Act 1961.

- b. Review of requirement of disclosure of past social impact in format prescribed by SEBI
- c. Review of requirement of “no pending notice or ongoing scrutiny by Income Tax” against NPOs for the purpose of registration and fund raising on SSE

Seeking guidance of the Board

- d. On inclusion of entities under Section 10(23C) of the Income Tax Act, 1961 which do not possess registration under section 80G of the Income Tax Act, 1961 for the purpose of registration and fund raising on SSE.

2. Background

2.1. SEBI in its Board meeting held on February 15, 2022 approved the regulatory framework for Social Stock Exchanges. In this regard, certain decisions were to be prescribed through amendments to SEBI Regulations while others were to be prescribed through Circular.

2.2. Accordingly, pursuant to the notification of “Zero Coupon Zero Principal” instrument as a security under Securities Contracts (Regulation) Act, 1956 in the Gazette Notification on July 15, 2022, the following regulations were amended on July 25, 2022:

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

The amendment to ICDR Regulation covered, inter-alia, aspects related to creation of separate Social Stock Exchange (SSE) segment on existing Stock Exchanges, eligibility conditions for identifying Social Enterprises, conditions for issuance of Zero Coupon Zero Principal (ZCZP) by NPOs. The amendment to ICDR Regulations also provided that a fund raising document –be filed by NPOs with the SSE.

2.2.2. 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, and the format of annual impact report required to be submitted by Social Enterprises.

2.2.3. SEBI (Alternative Investment Funds) Regulations, 2012 [AIF Regulations]

The amendment to AIF Regulations covered, inter-alia, aspects related to substituting the term social venture fund with social impact fund, permitting investment in securities issued by social enterprises etc.

2.3. SEBI has issued following circulars on SSE covering various aspects decided by the Board:

2.3.1. SEBI Circular dated September 19, 2022

The circular prescribed minimum requirements to be met by NPOs for registration with SSE, minimum initial disclosure requirements for NPOs raising funds through issuance of ZCZP, Annual disclosure requirements for NPOs which are registered with SSE, Annual Impact Report formats etc.

2.3.2. SEBI Circular dated October 13, 2022

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

3. Present status on Social Stock Exchange

3.1. NSE and BSE have set-up SSE segments. As on October 16, 2023, 25 not for profit organizations (NPOs) have registered on NSE-SSE segment and 24 NPOs have registered on BSE-SSE segment which includes five NPOs that are common to both SSEs.

3.2. SEBI has constituted a Social Stock Exchange Advisory Committee (SSEAC) under the chairmanship of Dr. R. Balasubramaniam, Member, Capacity Building Commission to advise the Board on issues pertaining to the development and growth of the SSE segment, issues pertaining to the Regulatory Framework for SSE

including Social enterprises and intermediaries, and on matters related to regulating the intermediaries in order to ensure stakeholder protection in respect to Social Stock Exchange. The advisory committee has met three times since its constitution in November, 2022.

3.3. NISM vide its notification dated January 17, 2023 launched its program for certification of Social Auditors. Candidates qualifying the examination conducted by NISM are eligible to join a Social Audit firm and carry out audit of the social impact of Social Enterprises. As on October 12, 2023 a total 1,097 individuals have cleared the certification program. A capacity building fund (CBF) housed under NABARD has been constituted with a total authorized corpus of Rs. 100 crores with contributions from NABARD, SIDBI, NSE and BSE. The CBF has been instituted to enable NPOs and other stakeholders to navigate the SSE and its processes, instruments etc. apart from creating awareness of the SSE. The initial corpus of CBF is Rs 10 Crores out of which contributions amounting to Rs. 9.5 crores have been received.

3.4. SEBI, Exchanges, NABARD, SIDBI, ICAI and ICSI and ICMA each have conducted various awareness programs to help NPOs understand the various nuances of Social Stock Exchange. These awareness programs have been conducted in both online and offline mode across the country.

3.5. SEBI has also had discussion with Ministry of Corporate Affairs regarding extending the CSR benefit for donation through ZCZP on SSE. Similarly, Department of Economic Affairs also held meeting with various stakeholders including Department of Revenue, SEBI, SSEAC members, NSE, BSE and NABARD to discuss issues related to SSE and also ascertained the position of DoR and MCA in respect of exemption under section 80G and extending CSR benefit for donation through ZCZP on SSE respectively.

4. Issues and Challenges

4.1. Even though several steps have been taken as referred above, it is noticed that pace of acceptance of Social Stock Exchange framework is slow. In order to understand the challenges faced by the stakeholders, a brainstorming session was organized at SEBI wherein a few investors and NPOs were invited. The session was attended by

Dr. R. Balasubramaniam- Chair SSEAC, NSE, BSE, representatives from NABARD, SIDBI, few members of the SSE advisory committee, and senior SEBI officials. During the session, investors and NPOs identified issues/ roadblocks for fund raising on SSE.

4.2. Concerns highlighted during the Brainstorming session included:

4.2.1. High threshold of the minimum issue size for NPOs issuing ZCZP i.e. Rs 1 crore. It was suggested that this threshold be reduced to Rs 50 lakhs.

4.2.2. High threshold of the minimum application size in public issue of ZCZP i.e. Rs 2 lakhs. It was suggested that this threshold be reduced Rs 10,000/- to enable wider retail participation.

4.3. While endorsing the suggestions received in Brainstorming session, SSEAC has also recommended the following changes, for consideration of SEBI, in order to encourage participation:

4.3.1. Permitting 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 on Social Stock Exchange.

4.3.2. To do away with the requirement of “no pending notice or ongoing scrutiny by Income Tax” against NPOs for the purpose of registration on SSE.

4.3.3. Substituting the term Social Auditor with Social Impact Assessor.

4.4. Stock Exchanges have been regularly conducting workshops for NPOs to assess challenges faced by them and have suggested the following changes to the requirements specified by SEBI vide Circular dated September 19, 2022:

4.4.1. NPOs may be permitted to provide past social impact but not specifically as per the format mandated by SEBI in their fund raising document.

5. Public Consultation and Analysis

In view of the above feedback, a consultation paper was placed on the website of SEBI on August 29, 2023, seeking public comments on proposals made therein based

on the recommendations of the stakeholders, SSEAC and Social Stock Exchanges. In response to the consultation paper, 12 entities have provided their comments. The queries in the consultation paper and summary of the public comments received is placed at **Annexure -I**.

The issues in the existing regulatory framework, recommendation of SSEAC and SSE on the regulatory framework, issues for public consultation, analysis of public comments received thereon and the proposal for consideration of the board is brought out in the following paragraphs: -

5.1. Reduction in issue size in case of ZCZP issuance by NPOs

5.1.1. Existing Regulatory Framework:

Regulation 292N under SEBI ICDR Regulations specifies the conditions relating to issuance of Zero Coupon Zero Principal Instrument. Regulation 292N(2) is reproduced as under:

“292N(2) The minimum issue size shall be rupees one crore.”

5.1.2. Recommendations of SEEAC:

Based on the feedback received from the NPOs and Donors/investors in the Brainstorming session, SSEAC has recommended that the minimum issue size may be reduced to Rs 50 lakhs. It was discussed that while originally it had been assessed that a minimum size of Rs. 1 Crore was required so that relatively mature and stable NPOs raise funds on the SSE given the feedback that Rs. 1 Crore was too large for a “point in time” fund raise, a lower threshold may be considered.

5.1.3. Public Consultation, Comments and Analysis:

a) Queries for Public Consultation

“Should SEBI consider reduction in minimum issue size NPOs issuing ZCZP from the existing limit of Rs 1 crore?”

Public Comments

- i. 10 entities have provided their comments on the proposal of reducing minimum issue size for the NPOs issuing ZCZP from the existing limit of Rs 1 Crore. All the entities have supported the proposal of reducing the minimum issue size by NPOs issuing ZCZP. The break-up of the comments received are as under: -

Total Comments received	Number of comments in favor of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
10	10	Nil	Nil

Analysis

- i. SSE is at a nascent stage and NPOs may find it difficult to raise Rs 1 crore from a limited set of investors. The investors are also not fully aware of SSE framework which will develop through more awareness programs and listings. Thus, it may not be easy for an NPO to find investors to subscribe to the required issue size of Rs 1 Crore.

b) Queries in Public Consultation

If Yes, should the above limit be reduced to Rs 50 lakhs

Public Comments

- i. 10 entities have provided their comments on the proposal for reducing the limit to Rs 50 lakhs. Majority of the entities have supported the proposal to reduce the minimum issue size from existing limit of Rs 1 crore to Rs 50 lakhs. The break-up of the comments received are as under: -

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
10	8	Nil	2

- ii. The two entities who have partially agreed with the proposal to reduce the existing limit to Rs 50 lakhs have argued that this limit should further reduced to below 50 lakhs to include the small NGOs, otherwise only the established NGOs can be able to raise funds. One of the entities has suggested to reduce this limit to Rs 25 lakhs and one has suggested to reduce it to Rs 35 lakhs.

Analysis:

SEBI Circular on “Social Stock Exchange Framework” dated September 19, 2022 has prescribed the minimum requirements to be met by a NPO for registration on SSE. One of the requirements regarding minimum fund flows specified through the circular is produced as under:

- a. Annual spending in the past 1 financial year must be at least Rs. 50 lakhs;
- b. Funding in the past financial year must be at least Rs 10 lakhs.

Those NPOs fulfilling the above criteria of Minimum fund flows will only be eligible to register on SSE. Therefore, the recommendation of SSEAC to reduce the existing limits of issue size seems to be in line with the minimum annual spending requirement of the NPOs in the past year.

- i. As regards suggestion to reduce limit below Rs 50 lakhs it is felt that allowing extremely small fund raising at Social Stock Exchange may be counter-productive given the disclosure requirements that an NPO has to make in order to establish its credibility as well as to enhance trust for its fund raising activity. Accordingly, at this stage, it is considered that the limit of fund raising may not be reduced below Rs. 50 lakhs.

5.1.4. Proposal for Board Consideration:

In view of above, we may agree with the recommendation to reduce minimum issue size from the existing limit of Rs 1 crore to Rs 50 lakhs.

Accordingly, Regulation 292N(2) of the ICDR Regulations may be amended as under:

“(2) The minimum issue size shall be Rs 50 lakhs”

5.2. Reducing minimum application size

5.2.1. Existing Regulatory Framework:

- a) Regulation 292N under SEBI ICDR Regulations specifies the conditions relating to issuance of Zero Coupon Zero Principal Instrument. Regulation 292N(3) is reproduced as under:
- b) “(3) The minimum application size shall be rupees two lakhs.” Regulation 292C deals with access to Social Stock Exchange. Regulation 292C) is reproduced as under:

“292C A Social Stock Exchange shall be accessible only to institutional investors and non-institutional investors:

Provided that the Board may permit other class(es) of investors, as it deems fit, for the purpose of accessing Social Stock Exchange.”

5.2.2. Recommendations of SSEAC:

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

5.2.3. Public Consultation, Comments and Analysis:

a) Queries in Public Consultation

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

Public Comments

- i. 10 entities have provided their comments on the proposal of reducing minimum application size for the NPOs issuing ZCZP from the existing limit of Rs. 2 lakhs. The break-up of the comments received are as under: -

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
10	10	Nil	Nil

Analysis

- i. Investment in ZCZP provide social return but no financial return nor return of principal. Presently, SSE is accessible only to Non-institutional and Institutional Investors. ICDR Regulations state that “retail individual investor” means an individual investor who applies or bids for specified securities for a value of not more than two lakhs rupees. Thus, reducing minimum application size would include “retail individual investor”.
- ii. 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 Rs 2 lakh may be too large for people who donate on regular basis.

b) Queries in Public Consultation

If Yes, should it be reduced to Rs 10,000 (Ten thousand)?

Public Comments

- i. 10 entities have provided their comments on the proposal for reducing the limit of minimum application size to Rs 10,000 (Ten thousand only) and majority of the entities have agreed on the proposal. The break-up of the comments received are as under: -

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
10	9	Nil	1

- ii. One entity has agreed partially on the proposal and has suggested to reduce the limit to Rs. 5,000/- (Five Thousand only).

Analysis:

- i. In the brainstorming session as referred above, the unanimous view was to reduce the minimum application size to Rs. 10,000. Majority of the views received in response to public consultation are in favour of reducing the minimum application size to Rs. 10,000.

5.2.4. Proposal for Board Consideration:

In view of above, it is proposed to reduce the limit of minimum application size from Rs 2 lakhs to Rs. 10,000 in the case of subscription to ZCZP issued by NPO on SSE and accordingly the following ICDR Regulations need to be amended:

- a. Regulation 292N(3) of the SEBI ICDR Regulations may be amended as under:

“(3) The minimum application size shall be Rs 10,000/-”

- b. Regulation 292C may be amended as under:

“292C A Social Stock Exchange shall be accessible to institutional investors, non-institutional investors and retail individual investors.”

5.3. Conditions in respect of Income Tax provisions at the time of registration on SSE

5.3.1. Existing Regulatory Framework:

- i. Regulation 292F of the ICDR Regulations deals with requirements relating to registration of a NPOs on SSE. The regulation also states that the minimum requirements for registration of a NPO on SSE shall be specified by the Board from time to time.
 - a) SEBI has prescribed these requirements through SEBI Circular dated September 19, 2022. One of the conditions for registration of NPO on SSE is existence of Registration Certificate under section 12A/12AA/12AB under Income Tax Act, 1961. Further, entities are also required to possess valid 80G registration under Income Tax Act, 1961.
 - b) One of the conditions as stipulated in the said circular for registration of NPO on SSE is that these entities should not have a notice or ongoing scrutiny by Income Tax.

5.3.2. Recommendations of SSEAC:

- i. SSEAC has recommended that the NPOs having registration certificate under Section 10(23C) [Education Institutes] and 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 also be considered as eligible for registration as NPO with SSE. The requirement of valid 80G certificate for NPO may not be mandated for them to seek registration with SSE as per SEBI Circular dated September 19, 2022.

- ii. In respect of the requirement that the NPO “does not have a notice or ongoing scrutiny by Income Tax”, the committee recommended NPOs having notice or ongoing scrutiny by Income Tax may be permitted subject to following:
 - a) Details regarding pending notices or scrutiny cases may be disclosed at the time of making the application for the registration on SSE.
 - b) Fines or penalties if imposed shall be disclosed as paid or appealed.
 - c) The Stock Exchanges have the right to refuse registration of those applications, if the notices are serious enough to endanger the registration of the NGO under the provisions of Income Tax Act.

5.3.3. Public Consultation, Comments and Analysis:

a) Queries in Public Consultation

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?

Public Comments

- i. In respect of query regarding inclusion of NPOs registered under section 10(23C) and 10(46) of the Income Tax Act as eligible entities under SSE, a total ten (10) entities have provided their comments on the proposal. The break-up of the comments received are as under: -

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
10	7	3	Nil

- ii. One entity while disagreeing with the proposal was of the view that the consultation paper also suggested reduction of the issue size and minimum investment amount and considering the same, entities registered under section 10(23C) and 10(46) are not of small size and if these are brought under this framework the proposed reduction should not be applicable for them. Another entity while disagreeing has stated that organization are mostly run on either fees generated from their customers or from Government budgets. There will be serious issues on conducting performance evaluation of these organizations as the performance is based on several other factors and not just availability of funding. Third entity has stated that allowing entities that do not offer 80G will impact the willingness of individuals and entities to donate.

Analysis

- i. 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 are wholly or substantially financed by the Government are fully exempt from tax. The section also includes entities which are fund or institution established for charitable purposes, such as hospitals, as approved by the Principal Commissioner of the Income Tax Act.
- ii. The Institutes registered u/s 10(46) include 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.
- iii. It may be noted that any entity that is merely registered under these Sections of Income Tax Act does not automatically become eligible for registration with SSE. Regulation 292E of the ICDR Regulations provides basic eligibility conditions which are summarized below:

- a) NPO should have activity under 16 broad activities specified by SEBI
- b) NPO should target underserved or less privileged population
- c) 67% of the activities of the NPO should qualify as eligible activity to target population based on Revenue, Expenditure or Customer Base.

Thus, an entity has to meet above mentioned eligibility conditions in addition to registrations certificate under Income Tax Act. Since entities registered under Section 10(46) include 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, we may not have any concerns.

However, guidance is sought from the Board in respect of entities registered under Section 10(23C) of the Income Tax Act.

- iv. SSE permits only specific project/ activity based fund raising, the performance review of which is required to be undertaken for the said specific project. Thus, concerns regarding performance review in case of organization which are not of small size would be addressed.
- v. As regards 80G, it may be noted that individuals always have a choice to contribute or not in the fund raising by NPO in case no 80G benefits are available.
- vi. It is noted that entities registered under section 10(23C) and 10(46) of the Income Tax Act may not be registered under section 80G. Thus, the requirement for registration under 80G of the Income Tax Act, 1961 may not be mandated for entities registered under section 10(23C) [subject to guidance of the Board] and 10(46) of the Income Tax Act. SSEAC has also recommended that the criteria of valid 80G may not be mandated for these entities on SSE.

b) Queries in Public Consultation

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?

Public Comments

- i. 11 entities have provided their comments to the query pertaining to pending notices or ongoing scrutiny by Income Tax. In this regard, the break-up of the comments received are as under: -

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
11	7	1	3

Majority of the entities (7 out of 11) have supported the proposal. Few entities while agreeing to the proposal are of the view that only minor or technical notices may be excluded and further clarification may be sought from the NGOs regarding the nature of the notice. One entity has disagreed with the proposal and has opined that SEBI should not consider excluding the criteria of no pending notices or ongoing scrutiny by Income Tax Department for the purpose of registration, as the outcome of pending notices or ongoing scrutiny by Income Tax Department is important to understand the image of the NPO. Others have commented that minor or technical nature of notices should be excluded. Exemption should not be granted to entities that receive notice for violation under Foreign Contribution (Regulation) Act, 2010 (hence forth “FCRA”).

Analysis

- i. In respect of notices received under Income Tax Act, 1961, it is noted from the deliberation in SSEAC that issuance of notices by the Income Tax Department or ongoing scrutiny is a common phenomenon for many

institutions and, it per-se, does not indicate any wrong doing by the institution. In the case of IPO by Companies, such matters are required to be disclosed and do not necessarily prohibit any issuer from raising funds. Further, listed entities also are only required to disclose such notices. The current regulatory framework does not specifically mention notices received under FCRA. Further, based on the comment it is desirable that notices from all regulatory and statutory authorities are considered and disclosed in the application for registration as well as in the fund raising document before permitting such an entity on Social Stock Exchange. An approach similar to Income Tax Act, where if the notice is grave enough to endanger the registration of the NGO or as a going concern may be considered in case of all notices received from regulatory and statutory authorities.

c) Queries in Public Consultation

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?

Public Comments

- i. 10 entities have provided their comments on the query regarding mandating disclosure of pending notices. The break-up of the comments received are as under:

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
10	10	Nil	Nil

- ii. All the 10 entities have supported the proposal of detailed disclosure of Income Tax Notices and ongoing scrutiny at the time of registration and fund raising by the NPOs.

Analysis

- i. In terms of the recommendations, Exchanges may reject any registration in case it believes the Income Tax notices are serious enough to endanger the registration of the NPO under the various provisions of the Income Tax Act and FCRA. Further, in respect of disclosure of fines or penalties, it is desirable that a time frame of say 30 days, may be provided within which it shall be disclosed whether such fines have been paid or appealed by the NPOs.

5.3.4. Proposal for Board Consideration:

A. Seeking Guidance of Board

In view of above, guidance is sought from the board on the following:.

Whether entities registered under section 10(23C) of the Income Tax Act may be permitted to be registered with SSE subject to compliance with eligibility conditions prescribed under Regulation 292E of the ICDR Regulations.

B. Proposal

It is proposed to modify provisions in Circular dated September 19, 2022 related registration of NPOs

- i. Entities registered under Section 10(46) of the Income Tax Act, 1961 shall be eligible to be registered with SSE subject to compliance with eligibility conditions prescribed under Regulation 292E of the ICDR Regulations.
- ii. The requirement of valid 80G registration under Income Tax Act, 1961 shall not be applicable in case of entities registered under Section 10(23C) [subject to the guidance of Board] and 10(46) of the Income Tax Act
- iii. In respect of pending notices or ongoing scrutiny, Circular dated September 19, 2022 on Framework for Social Stock Exchange may be modified in respect of registration of NPOs as follows:

- a) Details regarding pending notices from all regulatory or statutory authorities or scrutiny cases shall be disclosed at the time of making the application for the registration on SSE segment of exchanges as well as fund raising document.
- b) Fines or penalties if imposed shall be disclosed as paid or appealed within 30 days.
- c) The Stock Exchanges have the right to refuse registration of those applications and fund raising document, if the notices, are grave and debilitating enough to endanger the registration of the NGO under applicable laws or as a going concern.

5.4. Substituting the term Social Auditor with Social Impact Assessor

5.4.1. Existing Regulatory Framework:

- i. Regulation 292A(f) of the ICDR Regulation states as follows:
“Social Auditor means an individual registered with a self-regulatory organization under the Institute of Chartered Accountants of India or such other agency, as may be specified by the Board, who has qualified a certification program conducted by National Institute of Securities Market and holds a valid certificate.
- ii. Regulation 292A(g) of the ICDR Regulation states as follows:
“Social Audit Firm means any entity which has employed Social Auditors and has a track record of minimum three years for conducting social impact assessment;
- iii. Regulation 91E(2) of the LODR Regulation states as follows:
“The annual impact report shall be audited by a Social Audit Firm employing Social Auditor”

5.4.2. Recommendations of SSEAC:

SSEAC has recommended to modify the term ‘Social Auditor’ to ‘Social Assessor’ or ‘Social Impact Assessor’. NPOs have provided a feedback to various members of SSEAC that the term “audit” gives a negative connotation. The SSE framework envisages 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.

5.4.3. Public Consultation, Comments and Analysis:

a) Queries in Public Consultation

Should SEBI consider substituting the term Social Auditor with Social Impact Assessor?

Public Comments

- i. 11 entities have provided their comments on the above proposal of substituting the term Social Auditor to Social Impact Assessor. The break-up of the comments received are as under: -

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
11	10	1	Nil

- ii. Majority of the entities have supported the proposal. However, one entity who has disagreed on the proposal is of the view that there should not be any substitution of the term Social Auditor. Instead SEBI should give more teeth to the social auditor in order to protect the social auditor to fight corruption and if any substitution is allowed it may damage the intent of legislation. Further, the entity has also stated that the term Social Impact Assessor may dilute the purpose and image of Social Audit.

Analysis:

- i. NPOs have provided feedback to 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 visible to its investors/ donors. Thus, while the scope of the work remains the same, the substitution would provide some level of comfort to NPOs and convey a positive approach

towards social sector. Further, merely substituting the term will not dilute the scope of Social Impact Assessment.

Proposal for Board Consideration:

5.4.4. In view of above, it is proposed to substitute the term 'Social Auditor' with 'Social Impact Assessor' and "Social Audit Firm" with "Social Impact Assessment Firm". Accordingly, the following amendments may be carried out in ICDR and LODR Regulations.

- i. Regulation 292A(f) of the ICDR Regulation may be amended as follows:
"Social Impact Assessor means an individual registered with a self-regulatory organization under the Institute of Chartered Accountants of India or such other agency, as may be specified by the Board, who has qualified a certification program conducted by National Institute of Securities Market and holds a valid certificate.
- ii. Regulation 292A(g) of the ICDR Regulation may be amended as follows:
"Social Impact Assessment Firm means any entity which has employed Social Impact Assessor and has a track record of minimum three years for conducting social impact assessment;
- iii. Regulation 91E(2) of the LODR Regulation may be amended states as follows:
"The annual impact report shall be assessed by a Social Impact Assessment Firm employing Social Impact Assessor".

5.5. Details of past social impact in the fund raising document by NPO in the format provided by SEBI

5.5.1. Existing Regulatory Framework:

Regulation 292K(1) of the ICDR Regulations provide for the Board to specify the minimum disclosure requirements in respect of the fund raising document from time to time.

SEBI has prescribed these requirements through SEBI Circular dated September 19, 2022. One of the matters to be included in the draft fund raising document includes the details of the past 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”.

5.5.2. Recommendations of Stock Exchanges:

The format and details of the past social impact to be provided can be at the discretion of the NPO.

5.5.3. Public Consultation, Comments and Analysis:

a) Queries in Public Consultation

Should SEBI consider allowing the details of past Social Impact in the fund raising document as per the practice of the NPOs instead of restating the past Social Impact in the format prescribed by SEBI?”

Public Comments

- i. Nine (9) entities have provided their comments on the above proposal. The break-up of the comments received are as under:

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
9	6	3	Nil

- ii. Majority of the entities supported the proposal. The entities who are in disagreement with the proposal are of the view that allowing all the NPOs using different formats for submitting details of past Social Impact might invite ambiguous and non-uniform reports. Therefore, SEBI should prescribe a set format with distinguishable heads assessing Social Impact which will bring in uniformity. One entity has suggested that there is a need for balancing flexibility and standardized reporting in respect of past social impact report.

Analysis:

- i. It is desirable to have a standard format for past social impact which is similar in structure to the Annual Impact Report, required to be prepared by NPOs pursuant to listing as this would enable comparison for donors. However, exchanges have highlighted that many NPOs may have already carried out past social impact assessments and the same may not be in the format prescribed by SEBI.
- ii. It is also noted that as per the Annual Impact Report prescribed in SEBI Circular dated September 19, 2022, a “baseline status at the end of the last reporting period” is required to be disclosed by a Social Enterprise. A baseline measurement is done to establish the starting point in any activity, intervention, program or project. The concerns regarding comparison to past social impact to be comparable to reports required to be submitted after fund raising can be addressed through the requirement of disclosure of “baseline measurement” pursuant to fund raising. It is noted that “baseline measurement” has already been mandated for NPOs that raise money on SSE.
- iii. The difference in reporting format for the social impact by NPO shall be only once prior to the fund raising. Once it is listed/ pursuant to fund raising, an NPO shall necessarily have to follow the format prescribed by SEBI and thus the concerns regarding non-uniform or ambiguous reports would not arise.
- iv. Further, restating past social impact assessment to the format prescribed by SEBI would involve cost and be a time consuming exercise for NPOs. By allowing existing past social impact assessment in the fund raising document will facilitate faster listing by NPOs.

Thus, the requirement of past social impact in format prescribed by SEBI may not be insisted upon.

- v. However, there is a need to ensure that the past social impact provides some meaningful assessment which is relevant for investors. In the absence of any prescribed format, there is a need to ensure that the past social impact covers atleast certain basic core parameters, which may be essential for an investor to decide upon the investment in the NPO such as number of beneficiaries, key outcome parameters, cost per beneficiary, and administrative overheads.

5.5.4. Proposal for Board consideration:

In view of above, it is proposed that the requirement of details of past social impact in terms of aspects prescribed under Annual Impact Report in SEBI Circular dated September 19, 2022 may be changed to details of past social impact as per the existing practice of the NPOs/Social Enterprises. Further, the report should highlight trends in the key metrics/ parameter relevant to the NPOs' activity (as may be determined by the Exchange) for which it seeks to raise funds on SSE, number of beneficiaries, cost per beneficiary and administrative overheads.”

5.6. Relaxation from applicability of provision relating to Social Stock Exchange

5.6.1. Existing Regulatory Framework:

Regulation 300(1) of the ICDR Regulation states as follows:

“300. (1) The Board may, in the interest of investors or for the development of the securities market, relax the strict enforcement of any requirement of these regulations, if the Board is satisfied that:

a) the requirement is procedural in nature; or

b) any disclosure requirement is not relevant for a particular class of industry or issuer; or

c) the non-compliance was caused due to factors beyond the control of the issuer.”

5.6.2. Public Consultation, Comments and Analysis:

a) Queries in Public Consultation

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?

Public Comments:

10 entities have provided their comments on the proposal to grant power to SEBI to relax provisions of Chapter X-A of the ICDR Regulations and the circulars issued on aspects related to Social Stock Exchange. The detailed break-up of the comments is as under:

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
10	10	Nil	Nil

- i. All the entities have agreed on the above proposal and suggested that the concept of SSE is new and it is advisable to have flexibility with SEBI to relax some provisions of ICDR Regulations regarding SSE Framework. This flexibility is crucial in ensuring that the regulatory framework remains responsive to the evolving needs and dynamics of SSE, which inherently involves a diverse set of stakeholders and unique social impact objectives.

Analysis:

- i. Social Stock Exchange as a concept is novel and unique in nature. The SSE structure as envisaged by India does not have a direct parallel across any other jurisdiction. The process of registration and listing have already provided many learnings for Stock Exchanges and SEBI. Further, newer challenges

unanticipated at the time of drafting regulation/ provision of circular have arisen at the time of implementation.

The SSE segment will require hand-holding at all levels. While Regulation 300(1) of the ICDR Regulation provides for granting exemption for procedural requirements, it is desirable that certain additional flexibility in dealing with provisions of Social Stock Exchange may be granted in the interest of developing SSE and at the same time protecting the interest of investors.

b) Queries in Public Consultation

If Yes, what areas/broad principles under the ICDR Regulations should be considered by SEBI for exemption?

Public Comments:

- i. 7 entities have provided their views regarding the areas to be considered by SEBI for exemption. The detailed break-up of the comments is as under: -

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
7	6	Nil	1

- ii. Some of the suggestions on areas to be considered by SEBI are given below:
- a) Regulation 292N- The procedure and condition for the issue of ZCZP instrument involve cost like dematerialization, publication, consultancy etc. For an issue size of Rs 50 lakhs these costs can be proportionately very high and discouraging. Further failure to get 75% can be more challenging for NPOs. Therefore, SEBI should consider to relax some of the procedures or Increase the time limit to facilitate NPOs in the initial years.

To facilitate proposed changes in the framework, the following regulations may be considered for exemption: Regulation 292A(e)- Definition of NPO, Regulation 292M (1)- content of the fund raising document, Regulation 292N(1), (2) and 292N(3) – conditions related to issuance of ZCZP i.e. demat form, issue size, and application size

Analysis

Entities have covered most of the provisions of Chapter X-A of the ICDR which deals with Social Stock Exchange such as Definition of NPO, procedures and conditions of issuance of ZCZP, Content of fund raising document, issuance conditions, etc. However, to facilitate the fund raising through ZCZP and getting NPOs listed on SSE, a view needs to be taken as to whether SEBI may consider granting exemptions in matters dealing with provisions related to conditions of issuance of ZCZP, Content of fund raising document, other issuance conditions etc.

c) Queries in Public Consultation

Further, should such power be granted to SEBI for a limited period, say 12 months?

Public Comments:

- i. 10 entities have provided their views on the proposal of granting power to SEBI for a limited period i.e. for 12 months.

Total Comments received	Number of comments in favour of the proposal	Number of comments in disagreement of the proposal	Number of comments partially agreed with the proposal
10	7	3	Nil

- ii. Majority of the entities have agreed to the proposal and suggested that a period of 12 months seems appropriate. Few entities while agreeing with the proposal to grant power to SEBI to relax provisions of Chapter X-A of the ICDR Regulations have suggested that SEBI should carry out the amendments to regulations based on the situation prevailing at the time and the same should be modified any time if assumption or condition of market is changed.

Analysis

- i. Majority of the entities have agreed that SEBI may be granted such power for a period of 12 months. Few entities have commented that amendments to the regulations may be carried out based on prevailing situation.

5.6.3. Seeking guidance of the Board:

Guidance is sought from the board on the following:

- a. Whether SEBI should proceed in moving certain aspects of SSE framework from ICDR Regulations into a separate Circular. The areas that may be considered for moving into Circular are as follows:
 - i. Provisions related to conditions of issuance of ZCZP (Regulation 292K of the ICDR Regulation)
 - ii. Content of fund raising document (Regulation 292M of the ICDR Regulation)
 - iii. Other issuance conditions (Regulation 292N of the ICDR Regulation)
- b. Such flexibility may be provided for a limited period , say, 12 months from the date of moving such provisions from Regulations into Circular.

Proposal:

6. The Board is requested to consider and approve the proposals at para 5.1.4, 5.2.4, 5.3.4, 5.4.4, 5.5.4 and provide guidance in respect of para 5.3.4(A) and 5.6.3. The Board is also requested to consider and approve the amendments to ICDR and LODR Regulations placed at Annexure II. Further, the Board may also authorize the Chairperson to take consequential and incidental steps to give effect to the decisions of the Board.

(This has been excised for reasons of confidentiality)

Annexure 2

(The amendments shall be uploaded on SEBI website upon notification)