

## Regulatory Framework for Social Stock Exchange

### 1. Objective

1.1. This memorandum seeks approval of the Board to amend Securities and Exchange Board of India (Issue of capital and Disclosure Requirements) Regulations, 2018 (“ICDR Regulations”), Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“LODR Regulations”) and Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 in relation to providing a regulatory framework for Social Stock Exchange (“SSE”).

### 2. Background

2.1. The Board in its meeting held on September 28, 2021 approved the framework for SSE as contained in the Memorandum (Board Memorandum placed at Annexure I). Further, it was also decided that the matters relating to Ministry of Corporate Affairs (“MCA”), Ministry of Finance (“MoF”) and Ministry of Home Affairs (“MHA”) may be pursued with them.

2.2. The action matrix as provided at Para 5.4 of the Board Memorandum containing the framework for SSE and the updated status in the matter is as follows:

Sr. No.	Broad Recommendation (WG+TG)	Action Point	Agency Concerned	Status
1	SSE shall be a separate segment on existing Stock Exchanges.	Amendment to ICDR Regulations	SEBI and Stock Exchanges	Amendment proposed
2	Eligibility of a social enterprise, Primacy of Social Impact	Amendment to ICDR Regulations; Cross reference in SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) and SEBI (Mutual Funds) Regulations, 1996 (“MF Regulations”).	SEBI	Amendment proposed to ICDR and AIF Regulations. No amendment necessary to MF Regulations at this stage.

<b>Sr. No.</b>	<b>Broad Recommendation (WG+TG)</b>	<b>Action Point</b>	<b>Agency Concerned</b>	<b>Status</b>
3	Non Profit Organizations (“NPOs”) be registered with SSE prior to raising funds through SSE.	Amendments to ICDR Regulations, issuing guidelines to exchanges for mandatory registration of NPOs Exchanges to set registration framework based on amendments in ICDR Regulations	SEBI and Stock Exchanges	Amendment proposed
4	Public issue of equity [by NPOs /For Profit Enterprises (“FPEs)] FPEs may be listed on Main Board/ SME/ Innovators Growth Platform in terms of existing eligibility and disclosure criteria provided in ICDR Regulations. Further, NPOs may list on the SSE.	Amendments in ICDR Regulations to resolve difficulties, if any, in terms of eligibility criteria for NPOs	SEBI	No action proposed yet.
5	Modes available for fund raising for NPOs other than Equity (section 8 companies) shall be;  (i) Zero Coupon Zero Principal Instrument (ZCZP)	ZCZP will have to be notified as a security under SCRA  Introduction of new chapter under ICDR Regulations for issuance of ZCZPs by NPOs	MoF to include ZCZP as a security under SCRA  SEBI to amend ICDR Regulations to permit ZCZP issuance.	Amendment proposed
	(ii) Development Impact Bonds	Increase awareness and creation of appropriate regulatory framework	SEBI	To be taken up later, through Circular(s)
	(iii) Social Impact Fund (currently known as Social Venture Fund {“SVF”})	Amendment to AIF Regulations	SEBI	Amendment proposed
	(iv) Donations by investors through Mutual Funds	SEBI to sensitize AMFI to increase awareness.	SEBI	To be taken up later, through Circular(s)

<b>Sr. No.</b>	<b>Broad Recommendation (WG+TG)</b>	<b>Action Point</b>	<b>Agency Concerned</b>	<b>Status</b>
6	Disclosures	Amendment to ICDR Regulations, LODR, Regulations, AIF, MF Regulations  Updation of technical guide on Accounting for Not-for-Profit Organizations	SEBI  ICAI to amend the technical guide.	Amendment proposed to ICDR and LODR. No amendment necessary to AIF and MF Regulations at this stage. Matter has been taken up with ICAI.
7	Social Auditor: Audit of social impact i.e. social audit shall be mandatory for Social Enterprises on SSE	Reference to ICAI; Certification program to be developed by NISM in consultation with ICAI, IRs and reputed institutions	ICAI and NISM	Amendment proposed w.r.t. mandating social audit in LODR. Matter also taken up with ICAI and NISM. Action at the end of ICAI and NISM under process
8	Capacity Building Fund ("CBF")	Reference to NABARD, SIDBI and Stock Exchanges	SEBI to engage with stakeholders for creation of CBF.	Matter has been taken up with NABARD and SIDBI
9	Corporate Social Responsibility ("CSR") Related Recommendations	MCA to consider recommendations related to CSR	MCA	Matter is under consideration
10	Tax related recommendations	Department of Revenue to consider tax related recommendations	Department of Revenue	Matter is under consideration
11	Clarify Rule 4 of Foreign Contribution (Regulation) Rules, 2011 ("FCRR") whether foreign entities shall be eligible to invest in SVFs listed on SSE as the donors will not be taking decisions/ will not have any discretion on deployment of their funds to specific NPOs	Clarity required on Rule 4 of FCRR	MHA	Matter has been taken up with MHA.

2.3. In respect of items at Sr. No. 1 to 6 above, excluding 5(iii) and 5(iv), SEBI constituted a task force of representatives of Exchanges and SEBI to provide further detailing so as to operationalize the framework by means of amendments to regulations.

2.4. The matters for amendments to SEBI Regulations viz. ICDR Regulations, AIF Regulations, LODR Regulations, as highlighted in the table above, and the proposals in these regard are discussed point wise below.

### **3. SSE a separate segment on existing Stock Exchanges:**

#### **3.1. Recommendation as approved by the Board**

“In line with the recommendations of the expert groups, the SSE may be created as a separate segment on existing Stock Exchanges. Towards this end, it is proposed that necessary amendments may be made to ICDR Regulations”

3.2. Based on deliberations held within the task force, it was felt that there would be a need for handholding of social enterprises in order to be registered with SSE. A governing council comprising mostly of representatives having expertise in implementation of social projects would appreciate the nuances of the requirements of fund raising for social enterprises better.

#### **3.3. Proposal:**

##### **3.3.1. ICDR Regulations may be amended as follows:**

3.3.1.1. A new chapter “X-A” shall be inserted in the ICDR Regulations to deal with aspects of SSE, and Zero Coupon Zero Principal Instrument.

3.3.1.2. An SSE shall constitute an SSE Governing Council to have oversight on its functioning.

3.3.1.3. SEBI shall specify the composition and terms of reference for the SSE oversight committee

3.3.2. Amendments to ICDR Regulations are placed at Annexure III.

#### **4. Eligibility of a social enterprise, Primacy of Social Impact**

##### 4.1. Recommendation as approved by the Board

A definition of social enterprise may be introduced in the ICDR Regulations. Suitable cross-references in other regulations such as AIF Regulations and MF Regulations, may be made to ensure eligibility for social enterprises using these routes.

##### 4.2. Proposal

4.2.1. ICDR Regulations may be amended so as to define Social Enterprise, Not-for profit organization and For-profit social enterprise.

4.2.2. A social enterprise shall be defined in terms of eligibility requirements as stated in Annexure II.

4.2.3. Not for profit organization shall mean a social enterprise which may be any of the following organizations:

4.2.3.1. a charitable trust registered under the Indian Trusts Act, 1882

4.2.3.2. a charitable trust registered under the public trust statute of the relevant state

4.2.3.3. a charitable society registered under the Societies Registration Act, 1860

4.2.3.4. a company incorporated under section 8 of the Companies Act, 2013

4.2.3.5. any other entity as may be specified by the Board

4.2.4. For profit social enterprise shall mean a social enterprise which is either a for profit company or body corporate and does not include a company incorporated under Section 8 of the Companies Act, 2013

4.2.5. Certain other definitions are also proposed to be introduced as follows:

4.2.5.1. “Draft fund raising document” shall mean a document filed with a Social Stock Exchange in relation to a proposal for a public issue of Zero Coupon Zero Principal Instrument by a not for profit organization registered with the Social Stock Exchange

4.2.5.2. “Final fund raising document” means the final fund raising document filed with the Social Stock Exchange pursuant to incorporation of observations issued in respect of the draft fund raising document by the Social Stock Exchange.

4.2.5.3. “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 (NISM) and holds a valid certificate issued by NISM.

4.2.5.4. “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 or social audits.

4.2.5.5. “Social Stock Exchange” means a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register not for profit organizations or list the securities issued by not for profit organizations in accordance with provisions of these regulations.

4.2.6. AIF regulations may be amended so as to introduce the terms ‘Social Stock Exchange’ and ‘Social Enterprise’ which shall have the same meaning as specified in ICDR Regulations

## **5. Non-Profit Organization (NPO) to be registered with SSE prior to raising funds through SSE**

### 5.1. Recommendation as approved by the Board

“SEBI may, through suitable amendments in the ICDR Regulations, issue guidelines to stock exchanges, for mandatory registration of NPOs. The basic registration criteria may include due diligence on constitutional documentation such as validity of registration certificate, details of ownership and control, valid registration under Income Tax framework, minimum Rs 50 lakh annual spending in past financial year, and minimum Rs 10 lakhs funds raised in past financial year”

5.2. Based on deliberations held within the task force, it was felt that SSE should be provided liberty to seek additional information from the NPO for the purpose of granting registration.

### 5.3. Proposal

5.3.1. ICDR Regulations may be amended so as to mandate a not for profit organization to compulsorily seek registration with an SSE before it raises funds through SSE: Provided that a not for profit organization may choose to only get registered on SSE and not raise funds through SSE.

5.3.2. Minimum requirements for registration may be specified by SEBI through Circular(s).

5.3.3. SSE may provide any additional requirements for registration as deemed fit.

## **6. Modes available for fund raising for NPOs (other than Equity in case of Section 8 Company)**

### **6.1. Zero Coupon Zero Principal Instrument**

#### **6.1.1. Recommendation as approved by the Board**

6.1.1.1. A Zero Coupon Zero Principal instrument issued by an NPO for a specific project for raising funds on SSE may be notified as a security under SCRA.

6.1.1.2. A new chapter may be introduced under ICDR Regulations for issuance of ZCZP by NPOs.

6.1.1.3. The disclosures in offer document for ZCZPs shall be in terms of differentiators and parameters identified in Annexure III 2(d) of the TG report.

6.1.2. Based on deliberations held within the task force, it was felt that instruments through which an NPO shall raise funds shall be clearly indicated within the ICDR Regulations. The task force noted that in the case of an initial public offer by companies certain entities are not eligible to make an initial public offer. These are typically entities which have been debarred by the Board, or if its promoters/ directors have been declared as wilful defaulters. Further, it was felt that an option may be provided in the regulations so to allow SEBI to introduce other means to raise funds, in due course, based on requirements of the sector.

**6.1.3. Proposal:**

ICDR Regulations may be amended to state the following:

6.1.3.1. A not for profit organization may raise funds on SSE through:

- i. Issuance of Zero Coupon Zero Principal Instrument to institutional investors and/or non-institutional investors in terms of Regulations.
- ii. Equity (under the Main Board) or Debt in case of a section 8 company.
- iii. Donation through Mutual Fund scheme as specified by SEBI.
- iv. Any other means as specified by SEBI.

6.1.3.2. A social enterprise shall not be eligible to register or raise funds through SSE:



- i. if the social enterprise, any of its promoters, promoter group or directors or selling shareholders, trustees are debarred from accessing the securities market by the Board.
- ii. if any of the promoters or directors or trustees of the social enterprise is a promoter or director of any other company or social enterprise which has been debarred from accessing the securities market by the Board.
- iii. if the social enterprise or any of its promoters or directors or trustee is a wilful defaulter or a fraudulent borrower.
- iv. if any of its promoters or directors or trustee is a fugitive economic offender.
- v. if the social enterprise or any of its promoters or directors or trustee has been debarred by the MHA or any other ministry of the Central Government or State Government or Charitable Commissioner or any other statutory body.

6.1.3.3. W.r.t issuance of ZCZP, the following amendments may be considered:

- i. ZCZP Instrument shall be issued only by an NPO registered on SSE, bearing a tenure specific to the duration of project/ activity for which it intends to raise funds. The instrument shall have zero coupon and no principal payment at maturity.
- ii. NPOs shall be required to file a “fund raising document” with SSE where the NPO is registered for the purpose of raising funds through ZCZP, containing all material disclosures which are true and adequate to enable the applicants to take an informed decision.
- iii. SSE shall specify the details to be incorporated in such fund raising document. However, SEBI shall specify the minimum disclosures required in a “fund raising document” through circular(s).
- iv. SSE may be permitted to mandate additional disclosures by providing observations to the draft fund raising document.

- v. The fund raising document shall be available on the website of SSE and the NPO for a period of 21 days for public comments.
- vi. ZCZP shall be issued in dematerialized form only.
- vii. SSE shall specify the additional norms in respect of issue procedure including on agreements with depositories, banks, etc. and ASBA related matters, duration for public issuance, allocation methodology and any other ancillary matter related to issue procedure.
- viii. SSE shall be responsible for maintaining the details of the allotment pursuant to issuance of ZCZP by an NPO.
- ix. The minimum issue size shall be rupees one crore.
- x. The minimum application size shall be rupees two lakhs.
- xi. The Minimum subscription required to be achieved shall be 75% of the funds proposed to be raised through issuance of ZCZP. In case of any under subscription, the SSE shall, in the donation (fund raising/ or any other name) document, provide details on the following:
  - xii. a) manner of raising balance capital in case of such under subscription (between 75% and 100%).
  - xiii. b) impact on the objective in case such under subscription is not arranged.
  - xiv. c) funds raised shall be refunded in case subscription is less than 75% of the issue size
- xv. An NPO registered on SSE may be permitted to make private issuance of ZCZP to Social Impact Fund(s) registered under the applicable provision of SEBI (Alternative Investment Fund) Regulations 2012. The provisions related to public issuance of ZCZP shall mutatis mutandis apply to such private issuance.
- xvi. The public issuance of ZCZP by a registered NPO shall be deemed to be in compliance with Rule 19 of the Securities Contracts (Regulation) Rules, 1957

## **6.2. Development Impact Bonds (DIBs) structure**

### 6.2.1. Recommendation as approved by the Board

DIB structures needs more awareness under SSE once ZCZP bonds have been notified as a security. Amendment to appropriate Regulations, if any, will be considered by SEBI.

### 6.2.2. **Proposal**

The matter may be taken up pursuant to notification of framework for issuance of ZCZP by way of Circular.

## 6.3. **Social Impact Funds**

### 6.3.1. Recommendation as approved by the Board

- 6.3.1.1. Social Venture Funds may be rechristened as Social Impact Funds (SIFs).
- 6.3.1.2. In view of the proposal of defining Zero Coupon Zero Principal Bonds (ZCZP) as a security under SCRA, Social Venture Funds will be enabled to invest 100% of their funds in a social enterprise and provide social returns to its investors. A different nomenclature may be created to identify SIFs which employ only ZCZPs for investment. Such units may also have a different nomenclature.
- 6.3.1.3. The minimum corpus requirements for SIFs may be reduced from Rs. 20 Crores to Rs. 5 Crores.
- 6.3.1.4. The minimum subscription amount may be set as Rs. 2 lakhs (for individuals) for SIFs investing 100% in ZCZP issued by not for profit social enterprises (NPOs) which are registered or listed on the Social Stock Exchange. For corporates it shall continue to remain Rs. 1 Crore.
- 6.3.1.5. The reference to “muted returns” in the AIF regulations may be removed
- 6.3.1.6. Additional disclosures may be mandated at the initial placement document level and at periodic level to cover aspects such as

governance, financials, and social impact etc. and matters mentioned in Annexure III 2(a) of the TG report.

6.3.1.7. Suitable amendments may be made in the AIF regulations to give effect to the above proposals.

6.3.2. Earlier, the recommendations of the Working Group on Social Stock Exchange and public comments received in respect of SVFs along with recommendations of Technical Group on social stock exchange were analysed, and the proposals emanating from such internal deliberations were discussed in the meetings of Alternative Investment Policy Advisory Committee (AIPAC) held on November 03, 2020 and July 7, 2021. The framework for SSE including the major proposals with regard to SVFs and the proposal to suitably amend the AIF Regulations to implement such proposals were approved by the Board in its meeting held on September 28, 2021.

6.3.3. Initial and continuous disclosures are being mandated for Social Enterprises (SEs) through the proposed amendments in ICDR Regulations and LODR Regulations respectively. Since, these SEs would be investee companies for Social Impact Funds (SIFs), disclosures regarding the social aspect of such investments would get covered under disclosures mandated at SE level. However, in due course if it is felt that additional disclosures are required at SIF level (which invest purely (100%) in securities of NPOs registered or listed on SSE) then such additional disclosures in the PPM of SIFs may be mandated by way of a circular. Hence, amendment to AIF regulations may not be required at this juncture for the purpose of initial and continuous disclosures.

#### 6.3.4. Definition of 'Social Stock Exchange' and 'Social Enterprise'

6.3.4.1. In the context of Social Stock Exchange (SSE), the Expert Group recommended the eligibility criteria for Social Enterprise which will be listed or registered on SSE (hereinafter referred as SEs). The terms SSE and SE will be defined in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ('ICDR Regulations').

AIPAC also recommended that definition of SEs may be as recommended by the Expert Group.

### **Proposal**

6.3.4.2. Accordingly, it is proposed to amend the AIF Regulations to introduce the terms 'Social Stock Exchange' and 'Social Enterprise' which shall have the same meaning as specified in ICDR Regulations.

### **6.3.5. Change in nomenclature of 'Social Venture Fund':**

6.3.5.1. The Expert Group recommended that SVFs may be rechristened as SIFs.

6.3.5.2. Based on industry feedback, it is understood that the nomenclature of SVF is not in line with current international norms, wherein such investments are generally referred to as 'impact investing'. As investors may be more familiar with terminology similar to 'impact investing', it is desirable to rename the terms using such nomenclature which has wider acceptance. AIPAC also agreed to aforesaid recommendation.

### **Proposal**

6.3.5.3. Accordingly, it is proposed to amend the AIF Regulations to replace the term 'Social Venture Fund' with 'Social Impact Fund'.

6.3.5.4. It is also informed that the existing Social Venture Fund may also be referred to as Social Impact Fund.

### **6.3.6. Definition of 'SIFs' and removing reference to 'muted returns'**

6.3.6.1. 'Social Venture Fund' is defined in the AIF Regulations as an AIF which 'invests primarily in securities or units of social ventures and which satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns.'

6.3.6.2. The Expert Group recommended to remove reference to 'muted returns' in the AIF regulations. Further, as per industry feedback, the

phrase 'restricted or muted returns', may not be appealing to the investors and fails to convey the intent/objective of such SVFs. AIPAC also agreed with recommendation to remove reference to 'muted returns' with respect to SVFs in AIF Regulations.

### **Proposal**

6.3.6.3. It is, therefore, proposed that reference to muted returns may be deleted from the definition of SVF in Regulation 2(1)(v). Regulation 16(4)(d) of the AIF Regulations which states that SVFs may accept muted returns for their investors may also be deleted.

6.3.6.4. Further, to enable fund raising for SEs through SIFs, it is proposed to amend the AIF Regulations to define 'Social Impact Fund' as an AIF which invests primarily in securities, partnership interests or units of social ventures, or securities of SEs as defined in ICDR Regulations and which satisfies social performance norms laid down by the fund.

### **6.3.7. Minimum Corpus of SIFs**

6.3.7.1. In terms of Regulation 10(b) of the AIF Regulations, each scheme of an AIF shall have a corpus of at least INR 20 crore. Data available with SEBI shows that few SIFs have raised funds or made significant investments. Expert Group has recommended that the minimum corpus for an SIF may be reduced to INR 5 Crore from the current requirement of INR 20 Crore.

### **Proposal**

6.3.7.2. Considering the recommendations of Expert Group, it is proposed to amend Regulation 10(b) of AIF Regulations to specify that the minimum corpus for a scheme of SIF shall be INR 5 Crore.

6.3.7.3. It is also proposed that this benefit of lower corpus of INR 5 crore may also be made available to existing SVFs. This would benefit such existing SVFs who have not yet received capital commitment of INR 20 crores. This may be specified by way of circular.

### 6.3.8. Enabling SVF exclusively for SSE

6.3.8.1. The Board in its meeting held on September 28, 2021 had approved the proposal to include Zero Coupon Zero Principal Bonds (ZCZPs) issued by NPOs for raising funds on SSE as a security under SCRA, 1956. This would enable SIFs to invest 100% of their funds in a SEs (i.e. NPOs) and provide social returns to their investors. A different nomenclature was proposed to be created to identify SIFs which employs only ZCZPs for investment. Units issued by such SIFs may also have a different nomenclature.

#### **Proposal**

6.3.8.2. In this regard, it is proposed to amend AIF regulations to provide that SIFs may be set up to exclusively deploy 100% of their investable funds in securities of not-for-profit SE listed or registered on SSE.

6.3.8.3. Further, SIF may be permitted to issue 'social units' against the amount contributed by an investor wherein the investor has opted to receive only social returns/ benefits and no financial return by way of investment in securities of NPOs listed or registered on SSE. It is proposed to amend AIF Regulations to introduce definition of social units and enable SIFs to issue social units.

6.3.8.4. Further, the schemes launched by such SIFs as stated at para 6.3.8.2(b) may identify themselves as SIF-SSE in the private placement memorandum of the schemes, other fund documents and disclosures made to prospective investors.

6.3.8.5. While the existing SVFs are required to invest at least 75% of investable funds in securities and partnership interest of social venture, flexibility is provided with respect to balance amount. It is proposed that the existing SVF may invest balance investable funds in securities of NPOs listed or registered on SSE, provided the consent of at least 75% of the investors by value of their investment is obtained. The investor consent may be required since the deployment of such investable funds would be in securities which do not yield financial return/benefit to investors.

6.3.8.6. The proposal at para 6.3.8.4 and 6.3.8.5 may be specified by way of circular.

#### 6.3.9. Minimum investment in SIF-SSE

6.3.9.1. In terms of Regulation 10(c) of the AIF Regulations, an AIF shall not accept from an investor, an investment of value less than INR 1 crore. However, the Expert Group recommended to reduce the minimum amount that can be invested in an SIF to INR 2 lakhs (for individuals) in case of SIFs investing 100% of investable funds in securities issued by NPOs which are registered or listed on the SSE and to retain INR 1 Crore for corporates.

6.3.9.2. Reduction in investment amount as suggested by the Expert Group may encourage more investors to participate in SIFs and thereby channelize funds towards social causes. As the NPOs are required to be registered or listed on SSE prior to fund raising, this enables transition towards disclosure driven fund raising system. Thus, a lower threshold for minimum investment by individuals may be considered in case an SIF is launched to invest exclusively in securities of NPOs listed or registered on SSE (i.e. SIF-SSE)

#### **Proposal**

6.3.9.3. Accordingly, it is proposed to amend the AIF Regulations to specify that the minimum investment by an individual in an SIF which is launched specifically to invest only in securities of NPOs registered or listed on SSE may be INR 2 Lakh as against the current requirement of INR 1 Crore.

#### 6.3.10. Minimum grant to be received by SIFs

6.3.10.1. In terms of Regulation 16(4)(b) of the AIF Regulations, SVFs may accept grants, subject to such grant being at least INR 25 Lakh. From industry feedback, it is felt that a lower threshold for minimum amount of grant may generate more interest among potential donors to extend



grants to SIFs. AIPAC recommended reducing the minimum amount of grant that may be accepted by a SIF from the existing INR 25 Lakh to an appropriate lesser amount.

### **Proposal**

6.3.10.2. Accordingly, it is proposed to amend Regulation 16(4)(b) of AIF Regulations to specify that the minimum grant that may be received by an SIF shall be INR 10 Lakh from the existing INR 25 lakhs.

## **6.4. Mutual Funds**

### **6.4.1. Recommendation as approved by the Board**

6.4.1.1. Donation to NPOs through Mutual Fund scheme through the following means:

- i. Existing AMCs can collaborate with credible NPOs for donation of returns on investment made by scheme holders.
- ii. Existing AMCs can collaborate with an intermediary in determining credible NPOs for donation of redemption amount from units.

6.4.1.2. SEBI to sensitize AMFI to increase awareness.

6.4.2. Vide circular dated October 04, 2021 SEBI has mandated that upon redemption, funds should directly be credited to the investors registered bank account. Thus, donation through MF schemes is currently not possible.

### **Proposal**

6.4.3. Once necessary amendments are carried out in ICDR Regulations, introduction of new category of scheme and necessary disclosures to be made in Scheme Information Document (SID) may be specified after due deliberations.

## **6.5. Fund raising instruments for FPEs**

### **6.5.1. Recommendation as approved by the Board**

“The existing fund raising structures as available for corporates would also be available for FPEs such as equity, debt, AIFs, etc.”

6.6. Based on deliberations held within the task force, it was felt that an option may be provided in the regulations so to allow SEBI to introduce other means to raise funds, in due course, based on requirements of the sector.

## 6.7. Proposals

6.7.1. ICDR Regulations may be amended to clearly state the following:

For profit social enterprise may raise funds on SSE through

- i. Equity (under the Main Board, SME Platform or IGP platform) or equity issued to an Alternative Investment Fund – Social Impact Fund
- ii. Debt
- iii. Any other means as specified by SEBI

6.7.2. An explanation may also be provided in respect of FPEs that Securities issued by FPEs shall list and trade under the respective segment of the Stock Exchange with an identifier stating that the scrip is a for-profit social enterprise. FPEs will have to meet eligibility criteria for Main Board, SME Platform or IGP platform, as applicable, in addition to criteria to identify an enterprise as social enterprise.

## 7. **Disclosure requirements**

### 7.1. Recommendation as approved by the board

7.1.1. Initial disclosure requirements for various modes of fund raising by NPOs shall include disclosure of aspects called “differentiators”, as highlighted in the TG report. The differentiators cover aspects such as vision, target segment, strategy, governance, management, operations, finance, compliance, credibility, social impact and risks. It is proposed that suitable amendments may be made to SEBI Regulations including ICDR Regulations, MF Regulations and AIF Regulations, in this regard

## 7.1.2. Continuous disclosure requirements

7.1.2.1. SSEs shall disclose Social Impact report (Annual Impact Report/ AIR) on annual basis covering aspects such as strategic intent and planning, approach, impact score card, etc.

7.1.2.2. NPOs on SSE (either registered or listed) will have to disclose general, governance and financial aspects on an annual basis. The disclosures will include vision, mission, activities, scale of operations, board and management, related party transactions, remuneration policies, stakeholder grievance redressal, balance sheet, income statement, program-wise fund utilization for the year, auditors report, etc. NPOs shall be required to comply with Ind AS.

7.1.2.3. SEBI may request ICAI to update its Technical Guide on Accounting for NPOs issued earlier in 2009.

7.1.2.4. Apart from the annual disclosures, the NPO shall report within 7 days any event that might have a material impact on the planned achievement of their outputs or outcomes, to the exchange in which they are registered/listed. This disclosure will include details of the event, the potential impact and what the NPO is doing to overcome the impact.

7.1.2.5. FPE listing equity/debt shall, in addition to social impact reporting requirement, comply with the disclosure requirements as per the applicable segment such as main board, SME, IGP, etc.

7.1.2.6. SEBI may suitably amend LODR Regulations, AIF Regulations and MF Regulations to enforce reporting requirements

7.2. Based on deliberations held within the task force, it was desired that initial disclosure requirements for fund raising through ZCZP and continual disclosure requirement may be mandated through amendments in ICDR Regulations and LODR Regulations. The exact requirements for disclosures may be specified through Circular(s).

## 7.3. Proposals:

7.3.1. ICDR Regulations may be amended to specify that the Board shall specify, from time to time, minimum disclosure requirements in case of issuance of ZCZP.

7.3.2. LODR Regulations may be amended to specify that the Board shall specify, from time to time, continuous disclosure requirements. Amendment to LODR Regulations is placed at Annex IV.

7.3.3. LODR Regulations may also be amended to mandate Annual Impact Report to be submitted by Social Enterprise shall be audited by a Social Audit Firm employing Social Auditor.

8. Other Proposal:

8.1. Since SSE is a novel concept, it would be desirable that an advisory committee be constituted within SEBI to advise on matters related to fund raising for Social Enterprises. The advisory committee may comprise of representatives from Social Stock Exchanges, NABARD, SIDBI, eminent philanthropic organizations, representatives from social sector, etc.

9. The Board is requested to consider and approve the proposal at para 3.3, 4.2, 5.3, 6.1.3, 6.2.2, 6.3.424, 6.3.5.3, 6.3.5.4, 6.3.6.3 to 6.3.6.4, 6.3.7.2 to 6.3.7.3, 6.3.8.2 to 6.3.8.6, 6.3.9.3, 6.3.10.2, 6.4.3, 6.7, 7.3 and 8 above, approve the amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (Annexure III), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Annexure IV), SEBI (Alternative Investment Funds) Regulations, 2012 (Annexure V) and authorize the Chairman to take consequential and incidental steps to give effect to the decisions of the Board.

**Date: February 10, 2022**

**Place: Mumbai**

**Jeevan Sonparote**

**Chief General Manager**

**Annexure I**

(Board Agenda for meeting held on September 28, 2021 has been uploaded on SEBI website)

**Eligibility Criteria for Social Enterprises (SEs)**

- 1) As recommended by the expert groups, a SE on the SSE, shall demonstrate that social intent and impact are its primary goals and that such intent is demonstrated through its focus on eligible social objectives for the underserved or less privileged populations or regions and thus primacy of its objectives to serve social good.
  
- 2) In this regard, the expert groups have recommended a combination of the following three criteria to establish the primacy of social impact objective of the social enterprise (SE):
  - a. 15 broad eligible activities based on Schedule VII of the Companies Act, 2013, Sustainable Development Goals and priority areas identified by Niti Aayog. The list of eligible activities is as follows:
    - i. Eradicating hunger, poverty malnutrition and inequality; promoting health care (including mental health) and sanitation; and making available safe drinking water
    - ii. Promoting education, employability and livelihoods
    - iii. Promoting gender equality, empowerment of women and LGBTQIA+ communities
    - iv. Ensuring environmental sustainability, addressing climate change (mitigation and adaptation), forest and wildlife conservation
    - v. Protection of national heritage, art and culture
    - vi. Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports
    - vii. Supporting incubators of social enterprises
    - viii. Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building
    - ix. Promoting livelihoods for rural and urban poor, including enhancing income of small and marginal farmers and workers in the non-farm sector
    - x. Slum area development, affordable housing, and other interventions to build sustainable and resilient cities

- xi. Disaster management, including relief, rehabilitation and reconstruction activities
  - xii. Promotion of financial inclusion
  - xiii. Facilitating access to land and property assets for disadvantaged communities
  - xiv. Bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection
  - xv. Promoting welfare of migrants and displaced persons
- b. SEs shall target underserved or less privileged population segments or regions recording lower performance in the development priorities of national/state governments
- c. SEs shall have at least 67% of its activities qualifying as eligible activities to the target population, to be established through one or more of a. Revenue, b. Expenditure, c. Customer base
- 3) Corporate foundations, political or religious organizations/ activities, professional or trade associations, infrastructure and housing companies (except affordable housing) shall not be permitted as eligible SEs on SSE.

(This shall be notified at a later date)



(This shall be notified at a later date)

(This shall be notified at a later date)