

Social stock exchange: Unique funding proposition for a noble cause

Over the years various efforts have been made by corporate and non-corporate organizations to support the government in its various public welfare initiatives like health, education etc. These organizations raise funds through various conventional methods like donations, grants etc. The government has now introduced another unique method of raising funds through a stock exchange which is dedicated to “non-profit organizations” (NPO).

Social Stock Exchange (SSE) means a separate segment of a recognized stock Exchange, permitted to register NPO and / or list the securities issued by NPO in accordance with provisions of “ICDR” regulations and objective is to take capital markets to the organisations working towards social welfare, in order to make it easier for them to raise funds.

NPO will list their securities (which will be share of social project/activity/program undertaken by them) with SSE and upon subscription of such securities, NPO will get fund from subscriber.

Global Scenario

SSE concept was first introduced in 2003 by Brazil (named as Socio environmental investment Exchange), after that six more country had introduced similar concept but at present only 3 out of 7 are active (Jamaica social stock exchange- Jamaica, Impact Investment Exchange- Singapore, and Social Venture Connexion- Canada) and various method used by them to raise funds are tabulated:-

Country	Details
Jamaica (JSIM)	Allows only donations
Brazil & Portugal	Crowd funding platform
Canada (SVX)	Offers Loans, preference shares & private equity
Singapore -IIX	Recently introduced bonds (women Livelihood bonds)

Indian Framework

- The following regulations were amended by SEBI to provide a broad framework for Social Stock Exchange:
 - 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”).
 - Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”).
- In India, two of the largest stock exchange Bombay stock exchange (BSE) and National stock exchange (NSE) has received final approval from Securities exchange Board of India (Board) to operate SSE.
- SSE shall be accessible to both Institutional and non-institutional investor, it may be Individual, government body, corporate body etc. In future Board may permit other class of investor for access to SSE.

- Every Stock exchange shall constitute a SSE Governing Council, to have an oversight on SSE functioning.
- The detailed framework on SSE specified in the circular dated September 19, 2022 has four major components.
 - Minimum requirements to be met by a Not for profit organisation (NPO) for registration with SSE.
 - Minimum Initial Disclosure Requirement for NPOs raising funds through the issuance of Zero Coupon Zero Principal Instruments.
 - Annual disclosure by NPOs on SSE which have either raised funds through SSE or are registered with SSE.
 - Disclosure of Annual Impact Report by all Social Enterprises which have registered or raised funds using SSE.
- NPO shall seek registration before raising fund through SSE (they can register but may not raise fund).
- Eligibility criteria: Entities must be registered in India as one of the below: -
 - a charitable trust registered under the public trust statute of the relevant state.
 - a charitable trust registered under the Societies Registration Act, 1860.
 - a charitable trust registered under the Indian Trusts Act, 1882.
 - a company incorporated under section 8 of the Companies Act, 2013.
- Fund raising instruments:
 - By issuance of Zero coupon Zero principal (ZCZP) instrument to Investor.
 - By donation through Mutual Fund scheme specified by Board (example mutual funds for social causes like HDFC Cancer Fund).
 - By any means specified by the Board.
- Other conditions and compliance requirements
 - Registration certificate valid at least for next 12 months at the time of seeking registration with SSE.
 - NPO must have been registered for at least 3 years.
 - Annual Spending in the past financial year must be at least 50 lakhs.
 - Funding in the past financial year must be at least 10 lakhs.
 - The detailed frame work issued contains various conditions like issue Draft Fund Raising Document (DFRD) similar to a prospectus which is required to be issued for IPO.
 - The NPO would have to ensure compliances with the requirements of the listing agreement including filling of annual activity report (audited by social auditor) etc.

Concept of social auditor & initiatives taken by ICAI

- Social auditor means an individual registered with Self-Regulatory Organization (SRO) under the Institute of Chartered Accountants of India (ICAI) or such other agency, as may be specified by the Securities and Exchange Board of India (SEBI). 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.

- The social audit firm employing a social auditor would audit the annual activity report which is required to be filled by the NPO with the SSE.
- ICAI has constituted Sustainability Reporting Standards Board (SRSB) which has introduced framework for Social audit standards and is playing a vital role in development social audit professional.
- Recently ICAI has issued a Primer on concept of Social stock exchange to develop knowledge and increase awareness about the social stock exchange.

Opportunities challenges and way forward

The listing of NPO would require a significant change in the mindset of the trustees / those in charge of governance of the trust considering the increased disclosure requirements.

It needs to be seen whether any Ind AS would be made applicable to the trust which are not in the form of company (presently it is applicable to only Companies including section 8 companies). ICAI may consider issuing specific guidelines / technical guides on the accounting framework and disclosures for listed NPO. These guidelines would ensure consistency in preparation and presentation of financial statements of the NPO. Further clarity as regards tax treatment of donations made through SSE and inter-se transfer of instruments may be required.

SSE will help NPO to commercialize their financing so that they can scale up operations and break their dependency on grant funding and it will create separate marketplace for impact investment. This will be great avenue for Corporate social responsibilities. SSE has huge potential to infuse funds for social development, growth, innovation, and creation of sustainable ecosystem.

SSE would promote transparency in fund raising process for the NPO and it would also enhance the level of corporate governance standards in these organizations. This would also create more unique opportunities for professionals who acquire the skills required to do a social audit.

Since it is a new concept, it would have its own challenges which will have to be dealt with along the journey. More regulatory guidelines would emerge to clarify the questions and resolve the initial issues.

More steps and initiatives need to be taken through innovation and technology to ensure that SSE become a successful and provide fuel to the social cause and overall upliftment of the society