

SEBI notifies social stock exchanges in India

What is a Social Stock Exchange (SSE)?

In 2019, the Securities and Exchange Board of India (SEBI) conceptualised the idea of Social Stock Exchanges (SSE) in India. Similar to the securities of companies which are listed and traded on recognised stock exchanges across India, the social enterprises (SE), i.e., those enterprises engaged in social activities can also now register themselves and list their securities on the stock exchanges.

Legal Position

On 25 July 2022, SEBI notified a new chapter X-A 'Social Stock Exchange' in the SEBI (Issue of Capital and Disclosure Requirements) Regulations. Accordingly, an SSE means a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register Not-for-Profit Organizations and/or list the securities issued by Not-for-Profit Organizations in accordance with provisions of these regulations. Parallely, in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, a separate chapter IX-A 'Obligations of Social Enterprises' is inserted. At present, SSE shall be accessible only to institutional investors and non-institutional investors.

Eligibility

To qualify as SE, 'For-Profit Enterprise' (FPE) or 'Not-for-Profit Organisation' (NPO) must:

- i. have social intent as its primary goals and indulge in at least one social activity out of the 17 broadly eligible social activities approved by SEBI.
- ii. must target underserved/underprivileged populations or regions recording lower performance in the development priorities of central or state governments.
- iii. minimum 67% of its activities qualify as eligible activities to the target population, i.e.
 - a. At least 67% of its preceding 3-year average revenue comes from the eligible activities or,
 - b. At least 67% of its preceding 3-year average expenditure is incurred for eligible activities or
 - c. At least 67% of the target population is served (preceding 3-year average out of the total beneficiaries by number).

Fund raising, social audit and disclosures

NPO may choose to get registered as SE, however, registration is mandatory if an NPO wants to raise funds.

NPO	FPO
<p>Raising of funds</p> <ul style="list-style-type: none"> • Issuance of Zero Coupon Zero Principal Instruments to institutional investors and/or non-institutional investors; • Donations through Mutual Fund schemes; • Any other means as specified by SEBI. <p>The draft and the final fund-raising document shall contain all material disclosures which are true and adequate to enable the applicants to take an informed decision.</p>	<ul style="list-style-type: none"> • Issuance of equity shares on the main board, SME platform or innovators growth platform or equity shares issued to an Alternative Investment Fund including a Social Impact Fund; • Issuance of debt securities; • Any other means as specified by SEBI.

SEBI notifies social stock exchanges in India

Disclosures

Annual disclosures to the SSEs on matters specified by SEBI within 60 days from the end of the financial year or other specified period.

Where the designated securities are listed on the stock exchange, the disclosures should be in line with the disclosure requirements of issuers whose specified securities are listed on the Main Board or the SME Exchange or the Innovators Growth Platform.

Annual impact report

Annual impact report to be submitted by a SE. The report shall be audited by a Social Audit Firm employing a Social Auditor.

The 'materiality' factor

Materiality has gained tremendous importance recently. Like any other listed enterprise, a SE whose specified securities are listed should identify its key managerial personnel to determine the 'materiality' of an event or information and which needs to be reported to the stock exchanges. Such listed SE must frame a 'materiality' policy duly approved by its board or management for disclosures to be made to the stock exchanges. Thus, any event having a material impact on the planned achievements/output must be reported to the concerned SSE.

Weblink

https://www.sebi.gov.in/legal/regulations/jul-2022/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-third-amendment-regulations-2022_61171.html

https://www.sebi.gov.in/legal/regulations/jul-2022/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-fifth-amendment-regulations-2022_61169.html

Therefore

In the business world where social enterprises play a dominant role alongside the corporates, there was a necessity to regulate their functioning, accountability and reporting due to a colossal public money involved. The big NPO and FPOs are professionally managed and use public funds like any other listed corporate involved in CSR activity. Thus, a proper regulatory framework, social audit and investor awareness was the need of the hour which is aptly brought in by SEBI through amendment to the abovesaid regulations.