Exploring the Landscape of Social Stock Exchanges in India under BRSR Regime

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A. Overview

In the ever-evolving landscape of responsible business practices, the spotlight continues to shine on innovative financial models that marry profitability with positive societal impact.
In our previous article we covered the points about BRSR Reporting, and analysis of their significance. We gave insights upon:

- Global Footprints and Needs for BRSR Reporting
- Pillars and advantages of Incorporating ESG Standards
- Auditing Standard Issued for BRSR Reporting
- Reporting Format for BRSR Reporting
- Journey from BRR to BRSR
- Format of Reporting Disclosure under BRSR
- Companies Embracing BRSR Reporting
- Things to do to comply with BRSR Reporting

For a detailed exploration about ESG and BRSR reporting, fundamentals, and insights please refer to

https://www.linkedin.com/posts/dipen-d-shah-associates-chartered-accountants_dipen-d-shah-associatesbrsr-article-activity-7143854658007076864-3Mlj?utm_source=share&utm_medium=member_desktop

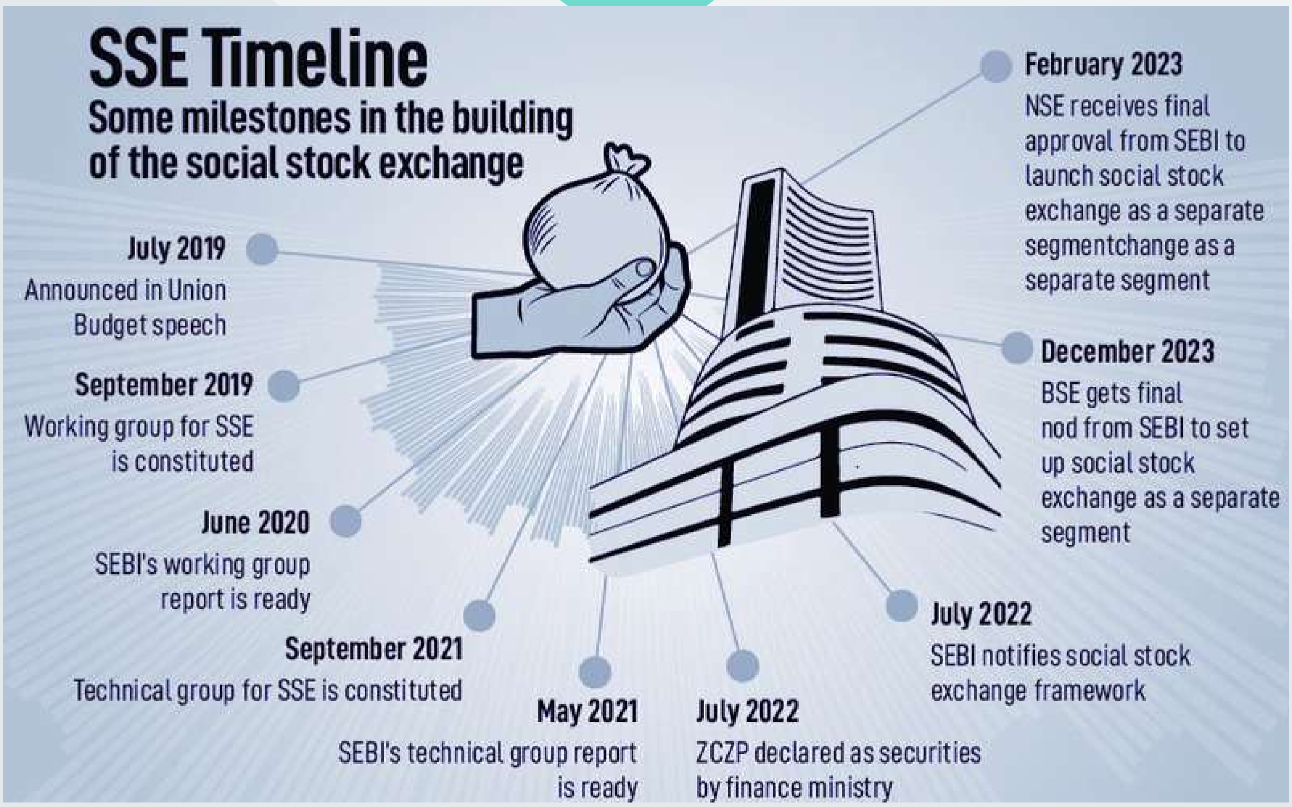
https://www.linkedin.com/posts/dipen-d-shah-associates-chartered-accountants_disclosure-requires-in-annual-report-activity-7146469248364703744-mno0?utm_source=share&utm_medium=member_desktop

Building on our recent exploration on Business Responsibility and Sustainability Reporting (BRSR) reporting in the previous articles, we now turn our attention to another groundbreaking initiative that aligns financial markets with social and environmental responsibility – the Social Stock Exchange (SSE) in India. This approach sets the stage for readers to understand the interconnectedness of sustainable reporting and the emergence of social impact within the financial sector.

B. Background

Social enterprises, development sector organizations, not-for-profits, NGOs and civil society organizations (CSOs) aim to bring about a positive change in society. However, their efforts to convert intent into impact are often constrained by a lack of capital, as well as by lack of sustained access to this capital. At present, the social-development sector in India receives funding through multiple sources spanning corporate social responsibility (CSR), philanthropy, government funding and retail charity.

With this in mind, and with an aim to enhance the ability of social enterprises and voluntary organization, our Hon'ble Finance Minister Smt. Nirmala Sitharaman as part of the Budget Speech for FY 2019-20 proposed the idea of an electronic fund-raising platform Social Stock Exchange("SSE").



C. What is SSE?

A Social Stock exchange (“SSE”) is a platform where social enterprises and voluntary organizations working for the realization of a social welfare objective can raise capital as equity, debt or as units like a mutual fund under the regulatory ambit of SEBI for listing.

An SSE would attempt to bring coherence across to diverse platforms with uniform frameworks of funding, utilization, impact-creation, measurement, disclosures, and reporting. An SSE will act as a bridge between the less-informed but willing donors and legitimate organizations doing real social work.

SEBI has specified that every Social Stock Exchange shall constitute a Social Stock Exchange Governing Council (SGC) to provide oversight and guidance to facilitate the smooth functioning of the operations of the Social Stock Exchange, with regard to registration, fund raising and disclosures by Social Enterprises.

C.1. The SSE is designed for:

1. Meeting Investment Demand: To solve the fund crunch faced by social enterprises
2. Transparency & Accountability: To ensure the proper utilizations of funds
3. Performance-based Philanthropy: To reward high-performing projects.

C.2. Objectives of the Social Stock Exchange:

- Regulated platform that brings together social enterprises and donors
- Facilitate funding and growth of social enterprises
- Enabling mechanism to ensure robust standards of social impact and financial reporting

D. Who can raise funds on SSE?

As per SEBI, two types of Entities i.e. Not for Profit Organization ("NPO") and For profit Social Enterprise ("FPE") can raise funds on SSE.

1. Who are Not for Profit Organization ("NPO")?

To be a NPO one should fulfill following Eligibility criteria:

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

ii. a charitable society registered under the Societies Registration Act, 1860 (21 of 1860);

iii. a company incorporated under section 8 of the Companies Act, 2013 (18 of 2013);

iv. any other entity as may be specified by SEBI;

2. Who are For Profit Social Enterprise ("FPE")?

To be a FPE one should fulfill following Eligibility criteria:

i. A company under the Companies Act, 2013, operating for profit and does not include a company incorporated under section 8 of the Companies Act, 2013 (18 of 2013);

ii. A body corporate operating for profit

E. Registration Process on SSE

For the purposes of these regulations, both NPOs and FPEs put together are called Social Enterprise (“SE”).

To get registered on to SSE, they have to establish primacy of social intent. The primacy of its social intent is established if SE meets following criteria:

A. SE shall be indulged in one of the *seventeen identified social activities.

B. SE shall target underserved or less privileged population segments or low performing regions, or

C. SE shall have at least 67% of its activities, qualifying as eligible activities to the target population.The said activities shall be at least 67% of the immediately preceding 3-year

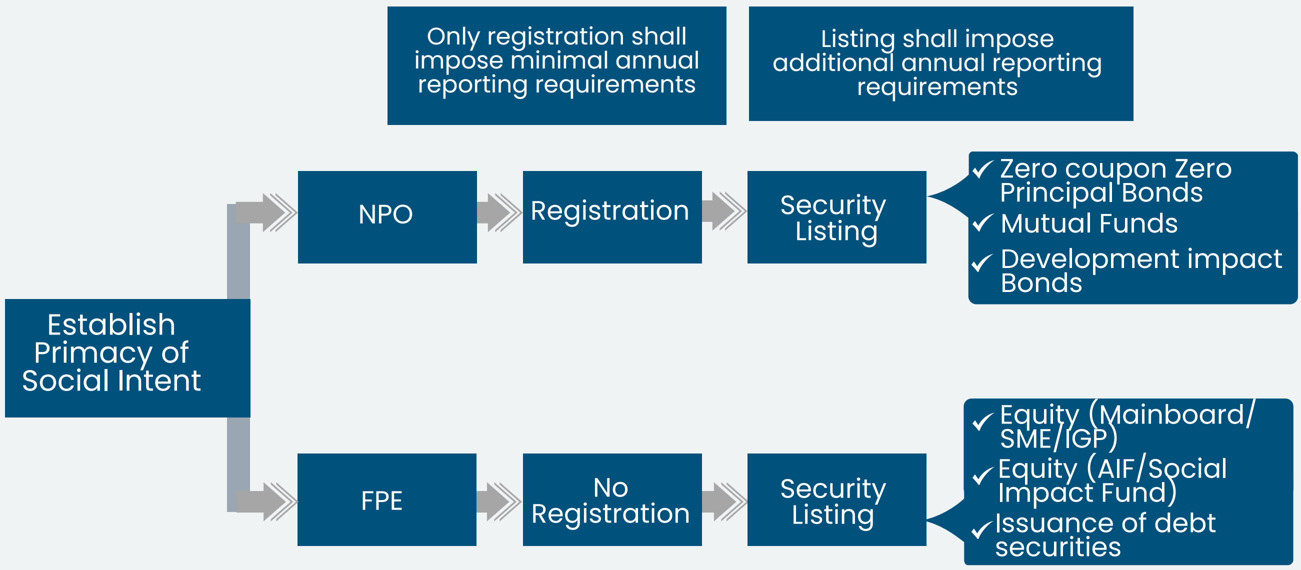
- average of revenues from providing eligible activities to members of the target population OR
- average of expenditure incurred for eligible activities to members of the target population OR
- average of the total customer base and/or total number of beneficiaries for members of the target population to whom the eligible activities have been provided.

The entity have to engage in at least one of the 17* welfare activities which are as follows

Eradicating Hunger	Promoting health care	Promoting education, employability
Promoting gender equality	Addressing climate change	Protection of national heritage, art and culture
Promoting sports	Supporting incubators of Social enterprises	Strengthen the non-profit ecosystem
Promoting livelihoods for poor	Support sustainable and resilient cities	Disaster management
Promotion of financial inclusion	Enabling access to assetsfor disadvantaged communities	Addressing issues of misinformation
Promoting welfare of migrants and displaced persons	any other area as identified by the Board or Government of India from time to time	

*As and when the list is updated, the eligible activities for social enterprises also changes

Social Enterprises - Instruments and Process Overview



Essential Requirement for registration of NPO:

1. A NPO shall mandatorily seek registration with SSE before it raises funds through Social Stock Exchange
2. A NPO may choose to register on a SSE and not raise funds through it
3. Age of NPO should be 3 years
4. Registration certificate shall be valid for atleast next 12 months at the time of seeking registration.
5. Copy of TAN PAN GST Registration Number Audited financials and IT returns for last 3 years
6. Proof of ownership and control – whether private or Government
7. Should have valid 80G, 12 AB, 12 A, 12AA and 10 (23C) registration under the Income Tax Act
8. Annual spending of NPO should be Rs. 50 lakhs and funding of at least Rs. 10 lakhs.

F. What are the ways through which Social Enterprise can raise funds?

Instruments for NPOs to raise funds are as follows:

1. **Zero coupon zero principal bonds:**

Allowing NPOs to directly list on the SSE through issuance of bonds in the form of zero coupon or zero principal bonds. This is a feasible option to unlock funds from donors, philanthropic foundations and CSR spenders. These bonds would carry a tenure equal to the duration of the project that is being funded, and at tenure, they would be written off the investor's books.

2. **Social Venture Funds (SVF):**

An SVF is a category Alternative Investment Fund (AIF) that is already allowed by SEBI to issue securities or units of social ventures to investors.

3. **Mutual funds:**

An asset management company could offer closed-end mutual fund units to investors. The units could be redeemable in principal terms, but all of the returns could be channel led towards suitably chosen NPOs by the fund which acts as the intermediary.

4. **Pay-for-success models:**

Pay-for-success models through lending partners or through grants are highlighted as effective mechanisms to ensure a more efficient and accountable deployment of capital.

Instruments for FPEs to raise funds are as follows:

1

Equity listing:

FPEs would list equity on the SSE subject to a set of listing requirements, including operating practices (financial reporting and governance) and social impact reporting.

2

Social Venture Funds (SVFs):

AIFs and SVFs already exist for FPEs but do not require social impact reporting.

Conclusion:

In conclusion, the Social Stock Exchange will not only introduce a new dimension to financial markets but also help the growing investment market to be more regulated capital market in India. It will also impact investment to become more accessible which will increase the flow of money into sustainable development. The Social Stock Exchange represents a harmonious blend of profit and purpose. It will be in line with vision of our Hon'ble Prime minister for sustainable growth with economic development. Social Stock Exchange's have been already been set up in many countries like Brazil, Italy, South Africa, Jamaica, the UK, Canada & Singapore. In years to come SSEs will play pivotal role in the development of capital markets.

Thank you

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