

Listing on Social Stock Exchange

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What is Social Stock Exchange (SSE)

- SSE is a **separate segment of the existing Stock Exchange**, that can help Social Enterprise(s) to raise funds from public through the stock exchange mechanism.
- SSE will act as a **medium between Social Enterprises and fund providers** and that can help them to select those entities that are creating measurable social impact and reporting such impact.
- Certain type of Social Enterprises i.e. **Not-for-profit organizations (NPOs) that meet the registration criteria can register on SSE** and undertake to make continuous disclosures on their social impact.
- Such **NPOs may or may not choose to raise funds through SSE**, however, would continue to make disclosures including on social impact to stock exchanges.

What is a Social Enterprise in the context of SSE

Two forms of social enterprises

Engaging in the activity of **creating positive social impact**
and that meets **primacy of their social intent**

Not-for-profit organization
(NPO)

For profit social enterprise
(FPE)

How to establish primacy of social intent

- In order to establish primacy of social intent, any entity be **NPO or FPE should meet all three criteria mentioned under Regulation 292E(2) of the ICDR Regulations.**
- Briefly, these criteria require that the entity must:
 - a) indulge in **activities prescribed** under Regulation 292E(2)(a),
 - b) target underserved or less privileged population** segments or regions which have recorded lower performance in the development priorities of central or state governments, and
 - c) have **at least 67% of its activities, qualifying as eligible activities** to the target population

67% qualifying criteria

In order to be identified as a social enterprise, it shall demonstrate that 67% of its activities qualifying as eligible activities to the target population shall be demonstrated by either of the following:

≥ 67% of its **revenue** of the immediately preceding 3-year average of revenues comes from providing eligible activities to members of the target population

≥ 67% of the immediately preceding 3-year average of **expenditure** has been incurred for providing eligible activities to members of the target population

members of the **target population** to whom the eligible activities have been provided constitute ≥ 67% of the immediately preceding 3-year average of the total customer base and/or total number of beneficiaries

Special Note

- However, corporate foundations, political or religious organizations or activities, professional or trade associations, infrastructure, and housing companies, **except affordable housing**, shall not be eligible to be identified as a Social Enterprise.

Which Social Enterprises are not eligible to get registered or raise funds through SSE

- if the **Social Enterprise**, any of its promoters, promoter group or directors or selling shareholders or trustees are **debarred from accessing the securities market** by the Board;
- 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;
- if the Social Enterprise or any of its promoters or directors or trustees is a **wilful defaulter** or a fraudulent borrower;
- if any of its promoters or directors or trustees is a **fugitive economic offender**;
- if the Social Enterprise or any of its promoters or directors or trustees has been **debarred from carrying out its activities or raising funds by the Ministry of Home Affairs or any other ministry** of the Central Government or State Government or Charitable Commissioner or any other statutory body.

What is a Not-for-profit organization in the context of Social Stock Exchange?

- a) a **charitable trust** registered under the public trust statute of the relevant state;
- b) a **charitable society** registered under the Societies Registration Act, 1860;
- c) a **company incorporated under section 8** of the Companies Act, 2013;
- d) any **other entity as may be specified** by SEBI

What is a for profit social enterprise in the context of Social Stock Exchange?

- a) 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
- b) A **body corporate operating for profit**

What are the ways in which a Not-for-profit organization can raise funds through SSE?

A Not-for-Profit organization after registering with Social Stock Exchange may raise funds on Social Stock Exchange through:

Issuance of **Zero Coupon
Zero Principal Instruments**
[through private placement
or public issuance]

**Donations through Mutual
Fund Schemes** [as shall be
specified by SEBI]

**Any other means that
SEBI may specify** in future

How can a for profit social enterprise raise funds through Social Stock Exchange?

- A For Profit Social Enterprise may raise funds through:
 - Issue of **Equity Shares** on Main Board, SME Platform or innovators growth platform of stock exchange as the case may be;
 - Issue of Equity Shares to an **Alternative Investment Fund** including Social Impact Fund;
 - Issue of **Debt Instruments**;
 - Any **other means that SEBI may specify** in future

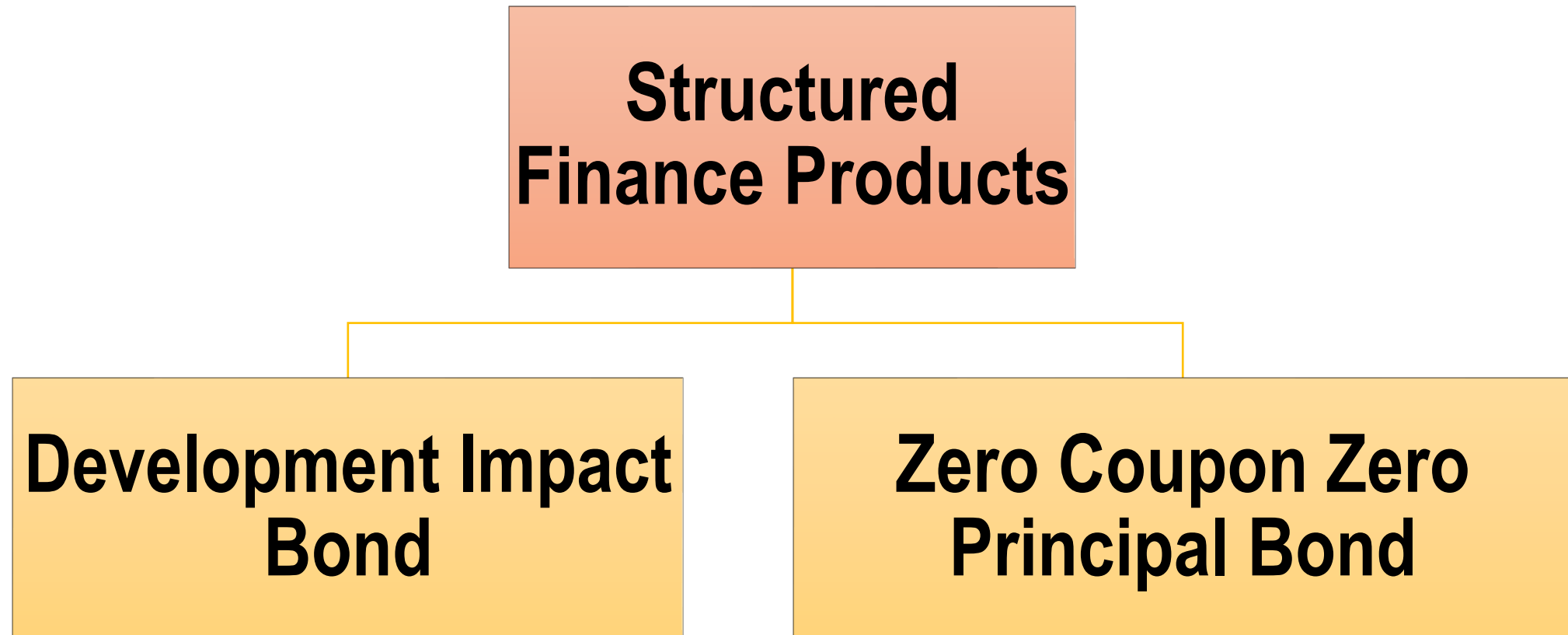
Is it mandatory for a Not-for-profit organization to register in order to raise funds through SSE?

- Yes, it is mandatory for a Not-for-profit organization to register with Social Stock Exchange before it raises funds through Social Stock Exchange.
- However, a Not-for-profit organization may continue to raise funds through any other means, as permissible under the law, whether it is registered or not with Social Stock Exchange.

What are the criteria for registration on Social Stock Exchange in respect of NPOs?

- SEBI vide its circular dated September 19, 2022 has prescribed certain minimum requirements in order for a not-for-profit organization to register on Social Stock Exchange.
- These criteria include:
 - mandatory age of NPO as 3 years,
 - valid certificate u/s 12A/12AA/12AB of the Income Tax Act,
 - valid section 80G registration,
 - minimum INR 50 lakhs as annual spending and minimum INR 10 lakhs of funds being received in the past year etc.
 - Social Stock Exchanges are also permitted to prescribe additional requirements in order for a not-for-profit organization to register on it.

What structured finance product is available for Not-for-Profit Organizations through social stock exchange mechanism?



Development Impact Bond

- A development impact bond is a type of financial security that is used to finance development programs in low-resource countries by attracting private investors.
- Development impact bonds are considered a sub-type of social impact bonds.
- The main purpose of development impact bonds is to attract private investors to subsidize development projects.
- Although the security is called a bond, it lacks most of the features of conventional bonds.
- The bonds come with a fixed term, but they do not offer a fixed rate of return to the investors. Instead, the repayment of the bonds primarily depends on the success of a project that's been subsidized using the proceeds from the sale of the bonds.
- If a project is successful, the investors are repaid by the outcome funder (a philanthropic organization or an aid agency). However, if the project fails, the investors do not receive anything. Therefore, development impact bonds are high-risk instruments for investors.

Basic principle of a DIB structure

- The basic principle of a DIB structure is that a grant is made to an NPO after it delivers on pre-agreed social metrics at pre-agreed costs/ rates.
- The donor who makes the grant when the social metrics are achieved is termed as “Outcome Funder”.
- Given that the outcome funder makes the payment on a post facto basis, the NPO needs to raise funds to finance its operations. Such a funder is termed as “Risk Funder”.
- A risk funder not only enables financing of operations on a pre-payment basis, but also undertakes the risk of non-delivery of social metrics by the NPO.
- To compensate for this risk, a Risk Funder typically earns a small return if the social metrics are delivered.

Zero Coupon Zero Principal Instruments

- The Government on July 16, 2022 declared the so-called zero-coupon, zero-principal instruments as securities that can be listed on SSEs.
- According to the gazette notification, “zero coupon zero principal instrument” is an instrument issued by a not-for-profit organisation that will be registered with the social stock exchange segment of a recognised stock exchange in accordance with the SEBI Regulations.
- **What are 'zero-coupon, zero-principal' instruments:** These are financial instruments that any non-profit organisation can use to raise funds. Usually, such organisations raise money through donations from individuals or corporates. Now, they can issue a zero-coupon, zero-principal security through a SSE and those willing to donate money to their cause can buy these securities.
- **How the instrument will be structured:** With its zero-coupon, zero-principal structure, it resembles a debt security like a bond. When an entity takes a loan by issuing regular debt security like a bond, it has to make interest payments and the principal when the bond matures. But with this new financial instrument, when an entity issues these securities and raises money, it is not a loan but a donation. So, the borrowing entity does not have to pay interest—therefore zero coupon—and it does not have to pay the principal (zero principal) either.

Zero Coupon Zero Principal Instruments

- These bonds will carry a tenure equal to the duration of a given project.
- It has been proposed that the issue size will need to be a minimum of Rs 1 crore and the application size a minimum of Rs 2 lakh.
- There is no clarity yet on whether the security will be transferable.
- **But why donate in this complicated manner:**
 - There have been concerns around lack of transparency in the way donations are used by these (non-profit or for-profit social) enterprises. The organisations listed on the exchange will need to do regular audits of social impact and these will be disclosed to all stakeholders (much like it is done by for-profit entities on regular stock exchanges).
 - Also, if an organisation issues these instruments and has few takers, it can be a red flag for other donors. The interested may then want to dig deeper before signing that cheque.
- **How can you buy the security:** Any individual or corporate can buy the security through any of the social security exchanges, once they are open for business.

Whether retail investors can invest in securities issued by Social Enterprises in the Social Stock Exchange Platform?

- Retail investors are permitted to invest only in securities offered by For-profit social enterprise under the Main Board.
- In all other cases, only institutional investors and noninstitutional investors can invest in securities issued by Social Enterprises.
- As per SEBI (Issue of capital and disclosure requirements) Regulations, 2018, a retail individual investor is one who applies or bids for specified securities for a value of not more than two lakhs rupees and non-institutional investor is separately defined as an investor other than a retail individual investor and qualified institutional buyer.

Will an NPO promoted by the promoters of a body corporate be eligible to apply?

- If the NPO is dependent on the corporate for more than 50% of its funding, then it shall not be eligible to apply

Whether an NPO needs to be in operations for 3 years before registering on the SSE?

- Yes, a Not-for-Profit Organization is mandatorily required to be in operations for 3 years before registering on the Social Stock Exchange

Can an NPO that is not registered on the NGO Darpan portal register on the SSE?

- No, the registration of NPO on the NGO Darpan portal is mandatorily required for registering it on Social Stock Exchange.

Practice Pointers!!

- If an NPO registers on the SSE, then they have to follow all the compliances (SEBI-LODR) even if they do not list any instruments on it;
- The instruments issued by NPOs are not available for trading in secondary market. Whereas the instruments issued by For-Profit Organizations are available for trading in secondary market on respective platforms of the Stock Exchanges, on which they are listed.
- There is no Lock-in or minimum period between registration of any NPO and raising of funds from the market.
- Merchant banker is not required to be appointed for preparing the draft fund raising document.
- Funds raised by the NPO shall be in the form of a grant and not as loan.
- Foreign Investors are currently not allowed to invest through the SSE.
- Zero Coupon Zero Principal Instruments will not be subject to securities transaction.

IFRS | Corporate Laws | Due Diligence | Forensic Audits | BRSR

Thank you

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