

## EMERGING ROLE OF SOCIAL STOCK EXCHANGE IN INDIA

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### Abstract: -

The emerging role of Social Stock Exchange in India signifies a paradigm shifts in financial market emphasizing the integration of profit with social impact. This explores the evaluation of stock exchange their objectives and the potential they hold for channelling investment towards enterprises committed to social welfare development and environmental causes. The analysis delves into regulatory framework, instrument issued, opportunities and challenges surrounding these exchanging highlighting the role of social stock exchange in fostering sustainable and responsible social business practices in an Indian financial scenario.

**Key words:-** Social Impact, Social stock exchange, Instrument, social business practices

### Introduction:-

The concept of Social Stock Exchange in our country start getting emphasis as when the honourable union finance minister as a part of her budget speech for the financial year 2019-2020 had proposed to initiate steps towards creating Social Stock Exchange under direct regulations of SEBI.

The extract of the speech relevant to Social Stock Exchange is as below, “It is time to take our capital markets closer to the masses and meet various social welfare objectives related to inclusive growth and financial inclusion. I propose to initiate steps towards creating electronic fund-raising platforms a Social Stock Exchange under the regulatory ambit of SEBI for listing social enterprises and voluntary organization working for realization of a social welfare objective so they can raise capital and equity, debt or as units like mutual funds.”

With the reference of Hon. Union finance minister`s speech and timely amending of framework and rules regarding Social Stock Exchange..... It is an electronic fund-raising platform that allows alternative fund raising structure to social enterprises like Non-profit organizations, Non-government organizations and for profit organizations.

This particular organization provide platform to raise the funds from public. Where social enterprises include revenue generating business whose primary objective is to achieve social objective. Social enterprises means organizations where it is Non-profit organizations and for profit organizations that engaged in social upliftment. These social enterprises shall be involved in one of the 17 activities identified under ch. XA of ICDR (Issue of Capital and Disclosure Requirements). It shall target underprivileged population groups or areas and shall have 67% of the activities qualifying as eligible activities to target population.

### Objectives of Study:-

1. To analyze the current amendments in Social Stock Exchange.
2. To study the raising need of Social Stock Exchange in our country.
3. To analyze various instruments that issued by Social Stock Exchange and its effects on investors, donors.
4. This Study mainly focused on increasing awareness of social stock exchange in simple way.

### Research methodology:-

This research is based on secondary data sources in which data is collected from various journals, research papers, articles, reports and websites.

### Literature Review:-

Narrowing down towards India the government has on July 5<sup>th</sup> 2019, proposed union budget brought major significance on social enterprises and voluntary organizations paving a way towards revolution of social stock exchange into Indian market.

This implies that there is a shift towards sustainable management with raise in capital for social welfare and also on environment. Sanjana s. (International journal on advanced research in commerce, management and social science – Dec.2019)

1. The role of Social stock exchange is almost similar to that of any other stock exchange where securities issued by corporate re listed, same as the stock exchange provided a platform for raising the capital for business community.

2. Social Stock Exchange is going to provide a platform to all social enterprise to raise funds. Shamikdas Gupta (Practicing C.S., SEBI empanelled arbitrator of NSE, BSE, MCX, NCDEX, CSDL)

3. Social stock exchange refers to a separate segment of recognized social enterprise having nationwide trading terminals permitted to registered for NPO and list the securities issued by NPO in accordance with provisions of SEBI.

.... Report of Institute of Cost Accountant of India

### **Types of Social Enterprises which are eligible to register in SSEs:-**

There are majorly two types of enterprises that working for social, environmental and welfare development causes which are as follows....

#### **1) Non - profit organizations (NPOs)**

A trust or an organization which is registered under Trust act 1882A charitable trust registered under the public trust statue of the state A charitable society registered under society's registration act 1860A company incorporated under section 8 of company's act which work for social causes without motive of any profit.

#### **2) For profit organizations (FPOs)**

These types of organizations or body corporate which is operating for profit motive but having social intent and impact as their primary objective. These organizations are not included in under section 8 of Company's act 2013.As there are many types of activities done by NGOs/ NPOs or social enterprises to raise the funds but due to certain problems that raises funds with the help of social stock exchange. These trusts are able to raise funds electronically. At present our country having 3.4 million NGOs, from which 1,89,997 NGOs are actively working in various fields with the help of government agencies.

They are striving to develop the living standards and trying to protecting the interest of particular group/area or community which is under privileged or under developed. Such NGOs are far better in their working areas but somewhere they are lacking in terms of funding, so Social Stock Exchange role takes precedence.

SSE lists funding channels for social sector and offers a set of procedure that act as a filler which enlist only those NGOs or trusts which creates measurable social impact and reporting of it. The above enterprises registration certificate will valid till next 12 months at the time of seeking registration. SSE which owned or controlled by Government or private. These NGOs having 3 years of age after registration for one time. Such enterprises must have 50 lacs of receipts or payment from audited account and funding in past financial years must be 10 lacs.

### **Framing of Social Stock Exchange:-**

In the line with the recommendation of working committee and expert group SSE may be created as separate segment on stock exchange which only deals or trade in capital of NGOs/NPOs/FPOs or social enterprises. Social Stock Exchange framed under complete rules, guidelines and prescriptions of SEBI and proposed to make necessary amendments made to SEBI's Issuance of Capital and Disclosure Requirements (ICDR) 2018.

Subsequently SEBI in September 2019 constituted a working group under the chairmanship of shire Shoat Hussain to inter alia make recommendations on possible structure and mechanism within security market domain. The central government in the notification published on 16<sup>th</sup> July 2022 made it mandatory that only listed NPOs will allowed to raise funds through ZCZP (Zero Coupon Zero Principal) bonds and the security shall be registered in SSE segment of stock exchange.

Accordingly a new chapter (IX-A) comprising regulations 91 A to 91 F is already introduced SEBI by amending LODR (Listing Obligations and Disclosure Requirements) 2015 and lays down the frame work for SSEs effective from 25<sup>th</sup> July 2022 and on the same date SEBI notified ICDR (Issue of Capital and Disclosure Requirements). Third amendment 2022 and introduced exclusive Chapter X-A to regulate SSEs.

SSE provide social enterprises with an additional revenue to raise funds at same CSR implementing partners with regards to Social Stock Exchange, SEBI provide certain framework are as follows....

- Amending SEBI ICDR 2018 (Third amendment 2022)
- Amending SEBI LODR 2015 (Fifth amendment 2022)
- Amending SEBI Alternate Investment Fund(AIF) regulations 2012 called SEBI AIF Third amendment 2022

**Features of Social Stock Exchange: -**

1. It is an electronic foundation that helps to lift up funds for social enterprises.
2. It refers to a separate segment of recognized stock exchange having nationwide trade permit for NGOs.
3. It completely framed and established under the rules and guidance of SEBI.
4. It fill up the gap of funds for Social Enterprises like NGOs/NPOs/FPOs that are working for social causes.
5. It only allows the Social Enterprises which came under the criteria developed by SEBI ICDR ch. X A
6. It lists funding channels for social enterprises by various instruments.

SSEs are the institutions which bridges the gap between NGOs/NPOs and private capital funds. It links the social enterprises and investors. It is a platform that enable NGOs to trade their shares after going through audit.

**Vision of Social Stock Exchange:-**

The SSE`s vision is to create transparent, accountable efficient funding mechanism for social enterprises. The SSEs seems as catalyst in promoting sustainable and equitable development by aligning capital with social and environmental causes.

**Requirements for registration:-**

Before raising funds through social stock exchange, NPOs should mandatory to seek registration with SSEs. The minimum requirements for registrations of NPOs are specified by SEBI time to time.

For registration in SSE NGO must hold certificate under section 12A/12AA/12AB of Income tax act which recognize the NGOs exemption status.

NGOs must have a valid 80G certificates enabling donors to claim tax deductions. 3 step process of registration as follows.

1. Submit application by NGOs in prescribed manner with necessary documents.
2. After submission of application SSE will scrutinize and review an application and attached documents to compliance with eligibility criteria. After that SSE will visit of site and seek additional information.
3. Finally after analyzing all situations and documents NGO will receive approval to access various fund raising instruments.

**Means by which a social enterprise can raise funds through Social Stock Exchange: -**

SSE recommends for registered social enterprise to raise funds and get exposure to capital market by following modes as instruments of raise funds....

A. For NPOs(Non-Profit Organizations)

- ZCZP (Zero Coupon Zero Principal bonds)
- Donations through mutual funds
- Any other means that specified in future

B. For Profit Social Enterprises

- Issue of Equity shares
- Issuance of debt security
- Any other means that specified in future

## For NPOs (Non-Profit Organizations)

### 1. Zero Coupon Zero Principal bonds (ZCZP)

ZCZP bonds shall be issued only by NPOs registered in SSE. ZCZP bonds will have zero coupon rate and no principal amount shall payable on maturity. This ZCZP instrument do not offer fixed interest or repayment returns but promises social return to the fund giver.

This bond issued only for specified project or activity which fall under the list of eligible activity under section 292 E of SEBI regulations for specified duration of project.

As the technical group report on SSE and SEBI notification on 25<sup>th</sup> July 2022 the minimum subscription required to be achieved shall be 75% of the funds proposed to be raised through issuing ZCZP instruments.

Eligibility for issuing such bond and conditions for issuance this instrument.

1. ZCZP instrument shall be issued in electronic form only.
2. Minimum issuance size shall be 1 crore rupees.
3. Minimum application size be 2 lac rupees.
4. Minimum subscription shall be 75% of fund proposed.
5. In case of under subscription following details shall be provided...
  - Manner of raising capital in case of such under subscription.
  - Possible impact on achieving social objective in case of under subscription and funds shall be refund.
6. Social Enterprise maintains details of allotments pursuant to issuance of ZCZP.
7. SSE shall be specify additional norms in respect to issue procedure including an agreement with depositories, banks etc.

#### Issuance of ZCZP:

##### A) Public issuance:

1. NPO shall file draft fund raising document with SSE where it is registered along with fees as specified by SSE and application seeking in principal approval.
2. The draft fund-raising document shall be made available on website of SSE and NPO period of at least 21 days.
3. The SSE shall provide its observation on the draft fund-raising document within 30 days from filling of the draft fund raising document.
4. NPO shall incorporate the observations of the SSE in draft fund raising document with prior to opening an issuance.

##### B) Private issuance:

1. NPO registered on SSE also make private issuance of ZCZP social impact fund instrument registered under the applicable provisions of the SEBI regulations 2012.
2. The provisions related to public issuance on ZCZP specified applied to private issuance.

#### Termination of ZCZP bonds:

In following conditions ZCZP bonds shall be terminated....

- A. The object for which the funds were raised has been achieved and certificate to this effect is submitted to SSE.
- B. The tenure to achieve the object of fund for which the funds has to be raised has expired.

### 2. Donations through Mutual Funds

Mutual fund is professionally managed investment scheme usually run by an asset management company which invests funds collected from public into various assets like stocks, bonds etc. in the same context NPOs shall eligible to receive donations through mutual funds as the mutual funds are investing currently in bonds, stocks and any other assets with the same context.

Mutual funds give their income for charitable purpose. In future time NPOs will have to be registered with SSE to access such funds.

### **3. Any other means as may be specified by SEBI in future**

Currently the concept of social stock exchange is a first experience for our country, so for modernization and amendment in provisions, Technical group and working group is appointed to work for provision and structure set up.

#### **For FPOs (For Profit Organizations)**

##### **A) Issuance of Equity shares**

As SEBI specified that such FPOs are not as per company act 2013 section 18, which generally collect or raise funds by issuing equity shares in market for which following procedure shall be followed. An issuer has to follow few step procedures prior to making an application for listing its securities.

##### **1. In principal approval of draft prospectus:**

An issuer shall file the draft prospectus along with document mentioned. This draft shall be prepared in accordance with SEBI ICDR. An issuer may particularly keep in mind the provisions of the company act security contract and relevant subordinate legislations there to.

##### **2. Submission of application:**

An issuer shall require to submit the draft along with application and relevant documents.

##### **3. SSE permit an issuer after analyzing:**

The minimum income and spending also with the position of social enterprises in form of assets and relative activities mentioned in Ch. X A of ICDR.

##### **B) Issuance of Debt securities**

An NGOs who are registered in social stock exchange are issue debt security bonds or debentures for raising funds in SSE. This gives social returns instead of capital and interest on bonds. But before issuance of such kind of securities issuer NGO must have fulfil criteria requirement of SSE.

##### **Social Impact Funds (SIF):**

Whatever activities from the list of 17 given by SEBI amendment shall be done by any NGOs, generate an impact on society and with that impact NGOs shall able to raise funds. SSE aims to integrate social impact with their standards aligning India with global trends in impact investors. The securities permitted to be issued by social impact fund “Social Units” which has been defined under the regulations to mean this units issued by SIF to investors who have agreed to receive only Social Return or benefits, No financial returns against their contributions.

##### **Following are the regulations which affect SIF framed by SEBI:**

1. Minimum corpus requirement for SIF shall be 5 crore instead of 20 crore.
2. For SIF`s investing only in securities of NGOs registered in SSE the minimum application size shall be 2 lacs instead of 1 crore.
3. Minimum value of grant that must be accepted by SIF has been reduced of rupees 10 lacs from 25 lacs.

In short SIF directly connects Donors or Investors to such kind of needy NGOs who are engaged in deploying social welfare development activity where. Donor provides funds to SIF – SIF invests in social project which develop social welfare – the return provide to donor in form of social return.

##### **Ineligibility to raise funds through SSE:**

The social enterprise will unable to register or raise funds through SSE where...

1. If Social Enterprise, any promoter of Social Enterprise, director of Social Enterprise, shareholder of Social Enterprise, trustees of Social Enterprise are debarred from accessing the security market by SEBI.
2. If Social Enterprise, any promoter of Social Enterprise, director of Social Enterprise, shareholder of Social Enterprise, trustees of Social Enterprise are wilfully defaulter or fraudulent borrower.

3. Any promoter of Social Enterprise, director of Social Enterprise, share holder of Social Enterprise, trustees of Social Enterprise is fugitive economic offender.
4. Any promoter of Social Enterprise, director of Social Enterprise, share holder of Social Enterprise, trustees of Social Enterprise has been debarred from carrying out its securities or raising funds by ministry of Home affairs or any other State or Central government ministry.

**Conclusion:**

In conclusion the concept of Social Stock Exchange represents a promising step towards aligning financial market with social and environment goals. By providing dedicated platform for impact driven enterprises. It facilitates the flow of capital towards businesses committed to positive social change. This innovative approach not only encourages responsible investing but also promoting transparency and accountability as government. Investors and corporation increasingly recognize the importance of sustainable practices on SSE as a pivotal tool in fostering a more inclusive and environmentally conscious global economy.

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