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“ALL ABOUT SOCIAL STOCK
EXCHANGE (SSE) & SOCIAL AUDIT”

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BACKGROUND:

The Hon'ble Finance Minister as part of the Budget Speech for FY 2019-20 had proposed to initiate steps towards creating a social stock exchange, under the regulatory ambit of Securities and Exchange Board of India, for listing social enterprise and voluntary organizations. The relevant extract of the speech 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 an electronic fund raising platform- a social stock exchange-under the regulatory ambit of Securities and Exchange Board of India for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund."

Accordingly, SEBI constituted working group on Social Stock Exchange to examine and make recommendations with respect to possible structures and mechanisms, within the securities market domain, to facilitate raising of funds by social enterprises and voluntary organizations. The report of working group on Social Stock Exchange was uploaded by SEBI for public comments on June 01, 2020. While analysing the comments received on this report, it was felt that further expert advice and clarity may be needed on certain critical operational issues before comprehensively firming up views in the matter. Accordingly, a Technical Group (TG) was constituted by SEBI on September 21, 2020, the report of which was uploaded by SEBI on its website on May 06, 2021 for public comments.

The Board considered and approved the framework and proposals for Social Stock Exchange. Further, based on the approved framework, specific amendments in the applicable regulations such as ICDR Regulations, LODR Regulations, AIF Regulations, Mutual Fund Regulations etc., shall be subsequently placed before the Board for approval.

APPLICABLE PROVISIONS:

1. Regulation 292 of Securities And Exchange Board Of India (Issue Of Capital And Disclosure Requirements) (Third Amendment) Regulations, 2022
2. Regulation 91 of Securities And Exchange Board Of India (Listing Obligations And Disclosure Requirements) (Fifth Amendment) Regulations, 2022
3. Securities And Exchange Board Of India Circular No. SEBI/HO/CFD/PoD-1/P/CIR/2022/120 dated September 19, 2022
4. ICSI Social Audit Standards by Institute of Company Secretaries of India
5. Frequently Asked Questions on Social Stock Exchange by NSE

WHAT IS SOCIAL AUDIT?

“Social Audit” means an independent, qualitative and quantitative assessment regarding a Social Enterprise engaged in any of the activity enumerated under Regulation 292E(2)(a) of SEBI (Issue of Capital and Disclosure Requirements), Regulations, 2018. It reaffirms the primacy of the social intent of a Social Enterprise and brings a systematic and disciplined approach to evaluate and improve the effectiveness of impact of the social activity.

A detailed Social Audit needs to be carried out to analyse and understand the impact made by existing intervention, program or projects and also make project design responsive to social development concerns in future. Social Audit also helps in enhancing the project benefits to poor and vulnerable people while minimizing or mitigating concerns, risks and adverse impacts. Social Audit seeks to analyse and understand whether the intervention, program or projects implemented by the Social Enterprise addressed the intended or desired object or goal in an effective manner and produced positive impact to the target area or people.

OBJECTS OF SOCIAL AUDIT:

The main objects of Social Audit are as follows:

- Assessing the impact made by the Social Enterprise through implementation of activities, intervention, programs or projects;
- Verifying the authenticity and validity of implementation of projects;
- To identify and report the gap between desired object and actual impact made by the Social Enterprise;
- Assessing the nature, intensity and duration of impact of the project;
- Evaluating the cost and efficiency of the projects/ interventions being carried out by the Social Enterprise;
- Evaluating the unintended effects and how to use the experience from the running projects to improve the design of future projects;
- Verifying whether all the statutory requirements are fulfilled or not

WHAT IS A SOCIAL AUDIT FIRM?

Social Audit Firm is an entity which has employed Social Auditors and has a track record of minimum three years for conducting social impact assessment.

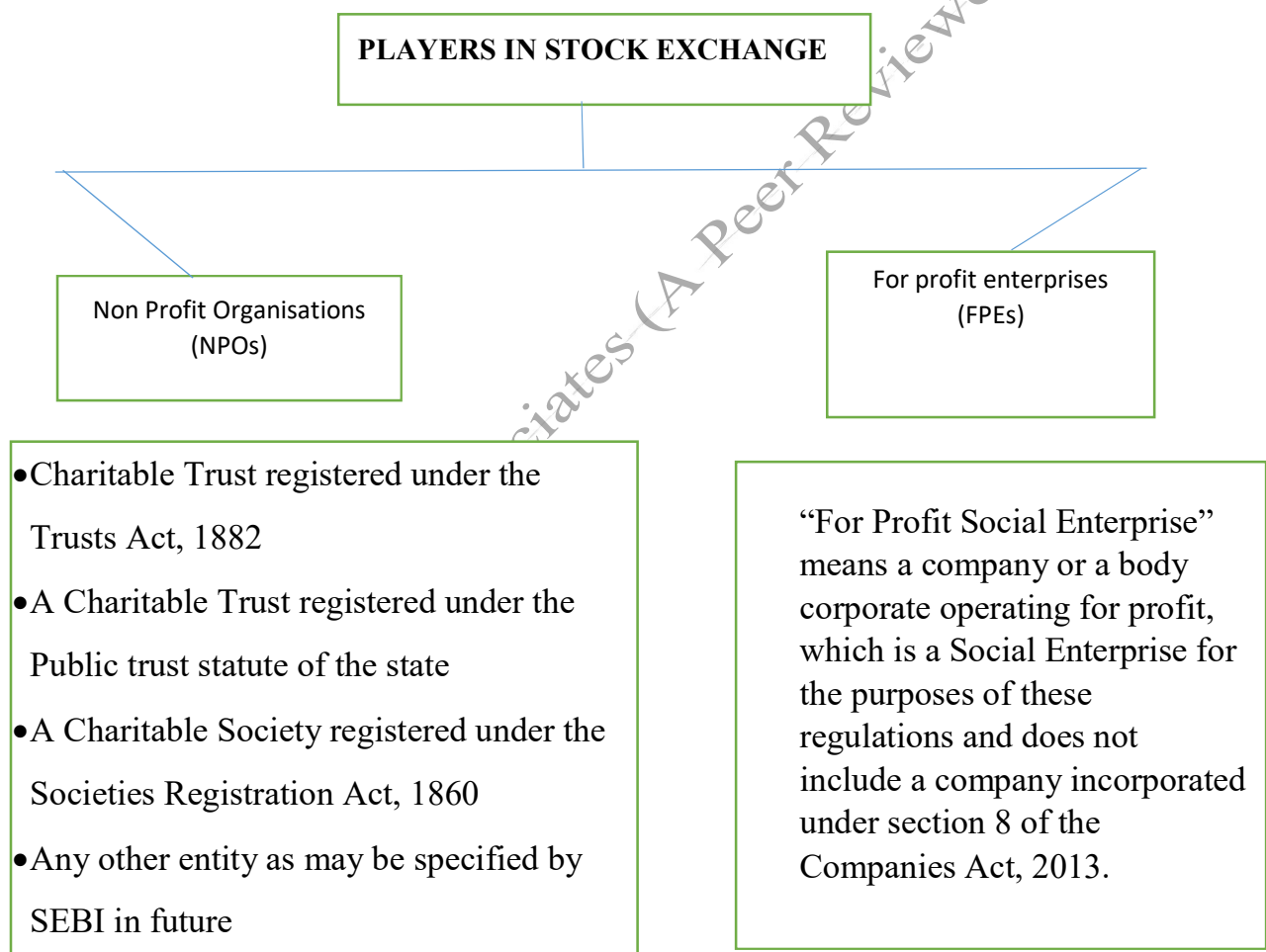
WHO CAN ACT AS SOCIAL AUDITOR?

An individual who is registered with a self-regulatory organization under the Institute of Chartered Accountants of India (or such other agency, as may be

specified by SEBI) and who has qualified a certification program conducted by National Institute of Securities Market and holds a valid certificate can act as Social Auditor.

WHAT IS SOCIAL STOCK EXCHANGE?

Social Stock Exchange (SSE) is a separate segment of the existing Stock Exchange that can help Social Enterprises 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.



The key difference between these two categories is that they source different kinds of capital. Specifically, FPEs can raise equity while NPOs cannot. Equity is a residual claim for the owner, i.e., it is a claim on profits. This means that the owners of an FPE can reasonably expect some financial gain. NPOs do not

generate profits and therefore cannot issue equity. However, Section 8 companies can issue equity but the shares do not represent a residual claim on the Section 8 Company's profits, as the law prevents dividends from being paid out to shareholders.

WHICH ENTITY CAN IDENTIFY ITSELF AS A SOCIAL ENTERPRISE?

In order to establish the primacy of its social intent, such Social Enterprise shall meet the following eligibility criteria:- (as per Regulation 292E(2) of the ICDR Regulations)

(a) the Social Enterprise shall be indulged in at least one of the following activities:

- (i) eradicating hunger, poverty, malnutrition and inequality;
- (ii) promoting health care including mental healthcare, sanitation and making available safe drinking water;
- (iii) promoting education, employability and livelihoods;
- (iv) promoting gender equality, empowerment of women and LGBTQIA+ communities;
- (v) ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation;
- (vi) protection of national heritage, art and culture;
- (vii) training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports;
- (viii) supporting incubators of Social Enterprises;
- (ix) supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building;
- (x) promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector;
- (xi) slum area development, affordable housing and other interventions to build sustainable and resilient cities;
- (xii) disaster management, including relief, rehabilitation and reconstruction activities;
- (xiii) promotion of financial inclusion;
- (xiv) facilitating access to land and property assets for disadvantaged communities;
- (xv) bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection;
- (xvi) promoting welfare of migrants and displaced persons;
- (xvii) any other area as identified by the Board or Government of India from time to time

(b) the Social Enterprise shall target underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state governments;

(c) Further, 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:

- (i) at least 67% of the immediately preceding 3-year average of revenues comes from providing eligible activities to members of the target population;
- (ii) at least 67% of the immediately preceding 3-year average of expenditure has been incurred for providing eligible activities to members of the target population;
- (iii) members of the target population to whom the eligible activities have been provided constitute at least 67% of the immediately preceding 3-year average of the total customer base and/or total number of beneficiaries.

INELIGIBLE ENTITIES

- i. Corporate foundations that are primarily funded by a parent corporate entity or a group of corporate entities.
- ii. Political or religious organisations or activities
- iii. Professional or trade associations.
- iv. Infrastructure companies and housing companies (other than affordable housing companies).

HOW CAN SOCIAL ENTERPRISES RAISE FUNDS?

A Social Enterprise may raise funds through the following means: –

(a) A Not-for-Profit Organization may raise funds on a Social Stock Exchange through:

- Issuance of Zero Coupon Zero Principal Instruments;
- Donations through Mutual Fund schemes;
- Any other means as specified by the Board from time to time.

(b) A For-Profit Social Enterprise may raise funds through:

- 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;

MINIMUM REQUIREMENTS TO BE MET BY A NPO FOR REGISTRATION WITH SOCIAL STOCK EXCHANGE IN TERMS OF REGULATION 292F OF ICDR REGULATIONS

A NPO desirous of registration on SSE, in terms of Regulation 292F (1) of ICDR Regulations, shall fulfil the following criteria:

- Mandatory age of NPO as 3 years,
- Valid certificate u/s 12A/12AA/12AB of the Income Tax Act,
- Valid 80G registration

Minimum Fund Flows		
Annual Spending in the past financial year	Receipts or Payments from Audited accounts/ Fund Flow Statement	Must be at least Rs. 50 lakhs
Funding in the past financial year	Receipts from Audited accounts/ Fund Flow Statement	Must be at least Rs. 10 lakhs

PROCEDURE FOR PUBLIC ISSUANCE OF ZERO COUPON ZERO PRINCIPAL INSTRUMENTS BY A NOT FOR PROFIT ORGANIZATION

- (1) A Not for Profit Organization shall file the draft fund raising document with the Social Stock Exchange where it is registered along with the fees as specified by the Social Stock Exchange and an application seeking in-principle approval for listing of its Zero Coupon Zero Principal Instruments on the Social Stock Exchange.
- (2) The draft fund raising document shall be made available on the website of the Social Stock Exchange and the Not for Profit Organization for a period of at least 21 days for public comments.
- (3) The Social Stock Exchange shall provide its observation on the draft fund raising document to the Not for Profit Organization, within 30 days from the filing of the draft fund raising document or receipt of clarification, if any, sought by the Social Stock Exchange from Not for Profit Organization, whichever is later.
- (4) The Not for Profit Organization shall incorporate the observations of the Social Stock Exchange in draft fund raising document and file the final fund raising document with the Social Stock Exchange prior to opening the issue.

BENEFITS OF LISTING ON SOCIAL STOCK EXCHANGE:

S.no	Benefits of Listing on SSE	Disadvantages of Not Listing on SSE
1	<i>Access to Funding:</i> SSEs provide a platform for social enterprises and impact investors to connect, facilitating access to funding for social enterprises	<i>Limited Funding Options:</i> Social enterprises that do not list on SSEs may find it difficult to attract impact investment, which can limit their growth and impact.
2	<i>Increased Visibility:</i> SSEs help raise awareness about social enterprises and their social impact, attracting socially conscious investors and consumers.	<i>Lack of Transparency:</i> Social enterprises that do not list on SSEs may not be as transparent about their social impact, which can affect their reputation and ability to attract funding.
3	<i>Credibility:</i> Listing on an SSE can lend credibility to social enterprises, indicating that they are committed to social impact and sustainable business practices	<i>Missed Opportunity:</i> Social enterprises that do not list on SSEs may miss out on networking opportunities with other social enterprises and impact investors.
4	<i>Regulation:</i> SSEs have certain regulatory requirements that help ensure social enterprises meet certain social impact standards.	<i>Limited Support:</i> Social enterprises that do not list on SSEs may miss out on the support and resources that SSEs provide to help them achieve their social impact goals.
5	<i>Tax benefits:</i> Investors will get Section 80 G benefits which allow all investments in securities/instruments of NPOs listed on SSE to be tax deductible, and corporates to deduct CSR expenditure from their taxable income, among other things Investment by companies will be considered as part of their Corporate Social Responsibility.	No such benefits available

SCOPE OF COMPANY SECRETARY IN SOCIAL STOCK EXCHANGE:

- (1) As per Regulation 91 E of SEBI (LODR) Regulations, a Social Enterprise, which is either registered with or has raised funds through a Social Stock Exchange or a Stock Exchange, as the case may be, shall be required to submit an ANNUAL IMPACT REPORT (AIR) to the Social Stock Exchange or the Stock Exchange in the format specified by the Board from time to time within 90 days from the end of Financial Year. *The annual impact report shall be audited by a Social Audit Firm employing Social Auditor.* The AIR shall capture the qualitative and quantitative aspects of the social impact generated by the entity and where applicable, the impact that is generated by the project or solution for which funds have been raised on SSE.
- (2) Listed NPO shall submit statement of utilisation of funds to SSE, as mandated under Regulation 91F of the LODR Regulations, within 45 days from the end of quarter.

Other roles of CS:

1. Ensuring that the company is compliant with all relevant laws and regulations pertaining to social and environmental impact reporting.
2. Coordinating with the company's management team and stakeholders to develop appropriate reporting frameworks and metrics that accurately capture the company's social and environmental impact.
3. Overseeing the preparation and submission of social and environmental impact reports to the social stock exchange.
4. Monitoring the company's ongoing compliance with its impact reporting obligations.
5. Providing advice and guidance to the company's board and management team on social and environmental impact reporting matters.

PRESERVATION OF RECORDS

The Social Auditors empanelled under IISA shall maintain and preserve the records and evidences collected in the course of Social Audit for a minimum period of eight (8) years from the date of the respective Social Impact Assessment Report.

SOCIAL AUDITING STANDARDS BY ICSI:

SSE provides a platform for trading of securities of Social Enterprise. Securities and Exchange Board of India (SEBI) with a view to improve visibility and knowledge, among stakeholders like investors, promoters, directors, officers of the Social Enterprise, regulators, government authorities, financial institutions, banks, creditors and common public, vide regulation 91E of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 introduced the concept of Social Audit.

ICSI takes this opportunity to introduce the ICSI - Social Audit Standards (ICSI SAS) formulated for the purpose of providing guidance to conduct Social Audit of a Social Enterprise engaged in any of the activities as enumerated under Regulation 292E(2) (a) of SEBI (Issue of Capital and Disclosure Requirements), Regulations, 2018. The Social Audit must be performed by a Social Auditor and must comply with certain standards. It involves performing procedures on the impact made by the Social Enterprise. These procedures are designed to identify impacts made by the Social Enterprise on target area during the reporting period.

Social Auditing standards as per ICSI SAS are:

1	Social Audit Standard on eradicating hunger, poverty, malnutrition and inequality (ICSI SAS-01)
2	Social Audit Standard on promoting health care including mental healthcare, sanitation and making available safe drinking water (ICSI SAS-02)
3	Social Audit Standard on promoting education, employability and livelihoods (ICSI SAS-03)
4	Social Audit Standard on promoting gender equality, empowerment of women and LGBTQIA+ communities (ICSI SAS-04)
5	Social Audit Standard on ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation (ICSI SAS-05)
6	Social Audit Standard on protection of national heritage, art and culture (ICSI SAS-06)
7	Social Audit Standard on training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports (ICSI SAS-07)
8	Social Audit Standard on supporting incubators of Social Enterprises (ICSI SAS-08)
9	Social Audit Standard on supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building (ICSI SAS-09)
10	Social Audit Standard on promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector (ICSI SAS-10)

11	Social Audit Standard on slum area development, affordable housing and other interventions to build sustainable and resilient cities (ICSI SAS-11)
12	Social Audit Standard on disaster management, including relief, rehabilitation and reconstruction activities (ICSI SAS-12)
13	Social Audit Standard on promotion of financial inclusion (ICSI SAS-13)
14	Social Audit Standard on facilitating access to land and property assets for disadvantaged communities (ICSI SAS-14)
15	Social Audit Standard on bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection (ICSI SAS-15)
16	Social Audit Standard on promoting welfare of migrants and displaced persons (ICSI SAS-16)

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