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Social Stock Exchange – Key Listing Requirements & Disclosure Obligations



Abstract

A Social Stock Exchange can be defined as an electronic fund raising platform functioning similar to the existing Stock Exchanges in India; namely Bombay Stock Exchange (BSE) & National Stock Exchange (NSE). Social Enterprises can list on the Social Stock Exchange to raise capital in the form of Equity or Debt or Units like a Mutual Fund for the realization of its Social Welfare Objectives.

This Article aims to present the broad contours of what is a Social Enterprise, the functioning of a Social Stock Exchange, the key requirements for Listing on a Social Stock Exchange and Disclosure Obligations post-listing.

Introduction

A Social Enterprise can be said to be a kind of an organization that aligns its social objectives with financial sustainability through commercial viability.

For an entity to be identified as a Social Enterprise, be it a 'For Profit' or 'Not for Profit' entity, it has to establish 'primacy of Social Intent'.

The criteria to establish 'primacy of Social Intent' largely mirrors the 17 Sustainable Development Goals as set out in the Sustainable Development Goals Report 2021 of the United Nations.

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.

Some of the Key features of a Social Enterprises include:

- Incorporated for a Social or Environment cause
- Has a revenue generating model where profits are earned through sale of Products or Services and such Revenue is invested back for a social cause.
- Operate like Companies and have Enterprise orientations.

Social Stock Exchanges – its Functions

A Social Stock Exchange is a separate segment of a recognized Stock Exchange (BSE/NSE in India) which is permitted to register, especially Not for Profit Organizations (NPOs), and to list their Securities as per the provisions of the various SEBI Regulations.

SSE, essentially, plays the role of a facilitator of Social Financing and creates a common platform for Social Enterprises, Donors and Investors to interact.

One of the main Objectives of a Social Stock Exchange is to “unlock a large pool of Social Capital and encourage blended finance structures so that traditional sources of Capital can partner with Social Capital in meeting the concerns and challenges of the society.”



Social Stock Exchanges – Eligibility requirements

A Social Enterprise, willing to raise funds through the Social Stock Exchange, has to meet the minimum eligibility norms, as set-out below:

1. Primacy of Social Intent to be established.

1. Activities of the SE should focus on the underserved or underprivileged populations of the society such as people with special needs, elderly persons, migrants, displaced individuals etc.

1. At least 67% of a SSE's activities to qualify as eligible activities to its target population. Three criteria has been established to monitor whether the SSE has at least 67% as eligible activities and these are given below:

1. **Revenue** - At least 67% of its immediately preceding 3 years average revenue to be from providing eligible activities to members of the target population.

1. **Expenses** - At least 67% of its immediately preceding 3 years average expenses of the SE has to be incurred for providing eligible activities to members of the target population.

1. **Beneficiaries** - At least 67% of the SE's beneficiaries in the immediately preceding 3 years' average constitute the members of the target population to whom the SE has provided eligible services.

The Primary function of a SSE is to act as a filtering mechanism ensuring that only those organizations that are able to demonstrate and report Social Intent are let-in to access the large pool of Social Funds. The Secondary function of such a SSE is to provide a set of frameworks, guidelines and code of conduct for such organizations aiming to attract Social Funds with Social Impact as its primary goal.

Similar to the existing Stock Exchanges, Social Stock Exchange too has prescribed a set of guidelines detailing the eligibility criteria to register, list, raise funds and disclose them appropriately.

In the next sections of this Article, we shall discuss on the Key Listing Guidelines and Disclosure requirements.

Social Stock Exchanges – Key Listing Guidelines

A Social Enterprise, be it For-Profit Enterprises (FPE) or Not-For-Profit Enterprises (NPE/NPO), which has plans to raise funds through the SSE route, has to place its offer documents in public domain. One of the key aspects to be disclosed in the documents is something called "Differentiators".

For an FPE, disclosing "Differentiators" are in addition to the disclosure to be made pursuant to SEBI (Issue of Capital and Disclosure Requirements) Regulations and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

For a NPO, providing audited Financial Statements for the previous 3 years and Social Impact Assessment Statements along with the "Differentiators" form part of the essential features of the Offer Document.

These Differentiators include:

Sl no.	Differentiator	Attribute
1	Vision	The SE's actions and programs are to be in line with the aims and objectives as stated in its Vision Statement.
2	Target	The SE has to identify its target population. The SE, to also state, how its interventions would be able to address the deficiencies' the beneficiaries face in their current state.
3	Strategy	Strategy to be formulated incorporating the way the mission or the target is structured to ensure alignment with its vision.
4	Governance	The SE has to disclose its organization structure, its composition, date of key meetings held etc
5.	Management	Disclosure regarding Key Managerial Personnel who are in charge of Programs, Fund-raising etc. Also to disclose whether staffs and volunteers have defined roles and responsibility, whether periodic performance assessments are carried out etc.
6	Operations	Location of its physical existence to be shared for visit purposes.
7	Finance & Compliances	Audited Financial Statements to be attached along with the offer documents
8	Credibility	Organization's credibility can be enhanced by offering proofs such as Registration Deed, IT PAN, 12A.12AA Registration Certificate etc.
9	Social Impact	Social Impact Assessment statements, Impact Scorecards etc.
10	Risks	Disclosure regarding the risks that the NPO/FPE has assessed and measures taken to mitigate the same. Also unintended consequences of the work of the NPO/FPE and its associated risks.

Having seen what are the Key Listing requirements for NPO and FPE, let us now, in the next section of this Article, delve into the Post-Listing Disclosure and Reporting norms.

Social Stock Exchanges – Post-Listing Disclosure and Reporting norms

Social Enterprises, both NPOs and FPEs, that get listed on the Social Stock Exchanges, are required to disclose Social Impact Reports covering aspects such as Primacy of Social Intent, Strategies and approaches formulated to achieve the same, Impact Scorecards etc.

Other Disclosure norms include:

1. The policy framed by the SE with respect to disclosing material events undertaken.
2. Annual Impact Report (AIR), audited by a Social Auditor shall be submitted to the SSE.
3. The AIR shall include both the qualitative and quantitative aspects of the impact generated by the SE.
4. The social/environmental challenge that the SE is addressing
5. The target members/segment of the SE.
6. The outcomes due to the interventions of the SE. This disclosure to also include positive and unintended negative outcomes.
7. The status of the challenge which the SE has embarked to address. This includes the status of the challenge at the start and end of the reporting period. This analysis helps existing funders and potential funders to understand the trajectory of the interventions of the SE on the targeted segment.
8. The measures taken by the SE to ensure sustainability of the project post wind-up of operations.
9. Material changes in the implementation model, if applicable.
10. The status of stakeholder feedback, if taken during the reporting period.
11. The metrics monitored in the Impact Scorecard and its trend, if applicable.
12. Stakeholder validation through measures such as feedback, surveys, questioners.

Apart from the above, in the case of listed NPOs, a statement of Utilization of Funds, as per Regulation 91F of the SEBI (Listing and Disclosure Requirements) Regulations, 2015, as amended from time to time, has to be submitted on a quarterly basis, disclosing the following:

1. Categories of amount of money raised
2. Categories of amount of money utilized
3. Remaining amount un-utilized

Conclusion

As at the end of March 2024, around 59 Social Enterprises have been listed on the Social Stock Exchange segment of the National Stock Exchange while around 38 Social Enterprises have been listed on the Bombay Stock Exchange.

Social Enterprises, listing on Social Stock Exchanges, while receiving benefits of Listing in the form of enhanced visibility and easier access to larger pools of funds, comes with its own share of obligations too.

Disclosures to the Exchange on timely basis are critical measures of how well governed and compliant a Social Enterprise is. Falling foul of these attracts penalties and adjudication proceedings. SEBI is empowered in terms of Section 15A of the SEBI Act, by virtue of which, the intermediary failing to furnish any document or report to SEBI or the one who files false or incorrect statements are liable to be penalized with a fine of not less than one lakh rupees and may be extended upto one lakh per day maximum of one crore rupees.

Thus, to conclude, while Social Stock Exchanges offer enhanced visibility to the Social Enterprises, it is vital to ensure timely compliances are made to ensure continuous support from Investors, Governments and the Beneficiaries.

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