



Frequently Asked Questions

SSE webinar held on 5 August 2022



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Preamble

The background of these Frequently Asked Questions (FAQs) is to provide clarifications on queries following the webinar “Decoding Social Stock Exchange (SSE)” dated 5 August 2022. A number of queries were received seeking clarifications in the context of SSE – WHAT, WHY, WHO and HOW. Hence, a preliminary set of FAQs has been prepared so that a basic understanding of SSE could be shaped amongst the stakeholders.

It is to note that these FAQs are to be read in the light of notifications issued by SEBI pertaining to SSE. For any further clarifications, the notifications of SEBI should be referred and considered as final document.



Frequently Asked Questions on SSE and thereon

Questions	Reply
<p>What is Social Stock Exchange?</p>	<p>A social stock exchange is an electronic fund-raising platform that allows alternative fund raising structure to social enterprises (both not-for-profit and for-profit).</p> <p>For further clarifications, please refer to press release “Union Budget proposes creation of a social stock exchange- under the regulatory ambit of Securities and Exchange Board of India (SEBI) for listing social enterprises and voluntary organisations”</p>
<p>What is the rationale behind introducing SSE? What will be funded; the organisation as a whole or the specific projects of the organisation?</p>	<p>The genesis of the social stock exchange in India came up as part of budgetary speech by Hon’ble Finance Minister in 2019-20, with an intent of making capital markets accessible to the masses and meet developmental goals. The proposed SSE is to be established under the ambit of SEBI.</p> <p>SSE aims to attain the idea of a holistic one-stop dais where credible social enterprises are listed that have the systemic capacity in creating and reporting measurable social impact. The open-ended characterisation of social enterprise allows diversity of entities to become a part of the exchange and work coherently towards the achievement of development goals.</p> <p>A Social Stock Exchange allows the listing of a social enterprise (Non-Profit Organisation and For-profit enterprises) on stock exchanges that provides an alternative fund-raising structure. The entities would be registered on SSE platform and if they want, they can raise funds for their projects.</p> <p>For further clarification, please refer to document on “Working group on SSE” and “Technical group report on SSE”.</p>
<p>Who can get registered/listed on social stock exchange?</p>	<p>Any social enterprise (Non-Profit Organisation and For-profit enterprises) that establishes its primacy of social intent can get registered/listed on social stock exchange.</p> <p>For further clarification, please refer to document on “Framework for Social Stock Exchange” and SEBI notification dated 25 July 2022 on ‘Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022’.</p>

<p>What is a social enterprise?</p>	<p>For the purposes of these regulations, a Not for Profit Organisation (NPO) or a For Profit Social Enterprise (FPE), to be identified as a Social Enterprise, shall establish primacy of its social intent.</p> <p>The primacy of its social intent is established if SE meets following criteria:</p> <ol style="list-style-type: none"> 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 c. SE shall have at least 67% of its activities, qualifying as eligible activities to the target population. <p>Corporate foundations, political or religious organisations or activities, professional or trade associations, infrastructure and housing companies, except affordable housing, shall not be eligible to be identified as a SE.</p> <p>For further clarification, please refer to document on “Framework for Social Stock Exchange” and SEBI notification dated 25 July 2022 on ‘Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022’.</p>
<p>What is Not-for-Profit Organisation and For-Profit Enterprises?</p>	<p>In India, entities working for social causes can opt for legal forms from among a variety that is available such as Company (for-profit or section 8 company), Society, Trust, Partnership, etc.</p> <p>“Not for Profit Organisation” means a Social Enterprise which is any of the following entities:</p> <ol style="list-style-type: none"> a. a charitable trust registered under the Indian Trusts Act, 1882 (2 of 1882); b. a charitable trust registered under the public trust statute of the relevant state; c. a charitable society registered under the Societies Registration Act, 1860 (21 of 1860); d. a company incorporated under section 8 of the Companies Act, 2013 (18 of 2013); e. any other entity as may be specified by the Board; <p>“For Profit Social Enterprise” means a company or a body corporate operating for profit, which is a Social Enterprise for the purposes of these regulations and does not include a company incorporated under section 8 of the Companies Act, 2013.</p> <p>For further clarification, please refer to document on “Framework for Social Stock Exchange” and SEBI notification dated 25 July 2022 on Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022’.</p>

<p>What is a Fund Raising Document?</p>	<p>The fund raising document shall contain all material disclosures which are true and adequate to enable the applicants to take an informed decision.</p> <p>Without prejudice to the generality of above sub-regulation, the fund raising document shall contain disclosures as may be specified by the Board from time to time: provided that the Social Stock Exchange may specify additional disclosures in respect of the fund raising document.</p> <p>A “draft fund raising document” means the draft fund raising document filed with a Social Stock Exchange in relation to a public issue of Zero Coupon Zero Principal Instruments by a Not for Profit Organisation registered with the Social Stock Exchange.</p> <p>A “final fund raising document” means the final fund raising document filed with the Social Stock Exchange pursuant to incorporation of observations issued in respect of the draft fund raising document by the Social Stock Exchange.</p> <p>For further clarification, please refer to SEBI notification dated 25 July 2022 on ‘Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022’.</p>
<p>What are the means by which a social enterprise can raise funds at Social Stock Exchange?</p>	<p>A Social Enterprise may raise funds through following means: -</p> <p>a. a Not for Profit Organisation may raise funds on a Social Stock Exchange through:</p> <ul style="list-style-type: none"> i. issuance of Zero Coupon Zero Principal Instruments to institutional investors and/or non-institutional investors in accordance with the applicable provisions of this Chapter; ii. donations through Mutual Fund schemes as specified by the Board; iii. any other means as specified by the Board from time to time. <p>b. A For Profit Social Enterprise may raise funds through:</p> <ul style="list-style-type: none"> i. 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; ii. issuance of debt securities; iii. any other means as specified by the Board from time to time <p>For further clarification, please refer to SEBI notification dated 25 July 2022 on ‘Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022’.</p>

<p>What is Zero Coupon Zero Principal Instrument (ZCZP)?</p>	<p>Zero Coupon Zero Principal Instruments shall be issued only by a Not for Profit Organisation registered on a Social Stock Exchange. ZCZP instrument will have zero coupon rate and no principal amount shall be payable on maturity. Further, it can be issued only for a specified project or activity which falls under the list of eligible activities (eligible activities specified under regulation 292E of the regulations) and for specified project duration. ZCZP do not offer fixed interest/repayment returns but promises a social return to the funder.</p> <p>The minimum subscription required to be achieved shall be 75% of the funds proposed to be raised through the issuance of Zero Coupon Zero Principal Instruments.</p> <p>For further clarification, please refer to document “Technical Group Report on Social Stock Exchange” and SEBI notification dated 25 July 2022 on ‘Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022’.</p>
<p>What is the eligibility for issuance of Zero Coupon Zero Principal Instruments, and what are the conditions for issuance of the instrument?</p>	<p>The eligibility for issuance of Zero Coupon Zero Principal Instruments would be:</p> <ol style="list-style-type: none"> a. Zero Coupon Zero Principal Instruments shall be issued in dematerialised form only. b. The minimum issue size shall be rupees one crore. c. The minimum application size shall be rupees two lakhs. d. The minimum subscription required to be achieved shall be 75% of the funds proposed to be raised through issuance of Zero Coupon Zero Principal Instruments. e. In case of any under subscription, the Not for Profit Organisation shall, in the fund raising document, provide details on the following: <ol style="list-style-type: none"> i. manner of raising balance capital in case of such under subscription between 75% and 100%; ii. possible impact on achieving the social objective(s) in case such under subscription is not arranged: Provided that the funds shall be refunded in case the subscription is less than 75% of the issue size f. The Social Stock Exchange shall maintain the details of the allotment pursuant to issuance of Zero Coupon Zero Principal Instruments by a Not for Profit Organisation. g. The Social Stock Exchange shall specify the additional norms in respect of issue procedure including on agreements with depositories, banks, etc., ASBA related matters, duration for public issuance, allocation methodology and any other ancillary matter related to issue procedure. <p>For further clarification, please refer to SEBI notification dated 25 July 2022 on ‘Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022’.</p>

<p>What is the process for public issuance of Zero Coupon Zero Principal Instruments?</p>	<p>The process is as follows:</p> <ol style="list-style-type: none"> a. A Not for Profit Organisation 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: provided that Social Stock Exchange shall specify the details to be incorporated in the fund raising document: provided further that the Board shall specify the minimum disclosure requirements in respect of the fund raising document from time to time. b. The draft fund raising document shall be made available on the website of the Social Stock Exchange and the Not for Profit Organisation for a period of at least 21 days for public comments. c. The Social Stock Exchange shall provide its observation on the draft fund raising document to the Not for Profit Organisation, 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 Organisation, whichever is later. d. The Not for Profit Organisation 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. <p>For further clarification, please refer to SEBI notification dated 25 July 2022 on 'Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022'.</p>
<p>What is the process for private issuance of Zero Coupon Zero Principal Instruments?</p>	<p>The process is as follows:</p> <ol style="list-style-type: none"> a. The Not for Profit Organisation registered on a Social Stock Exchange may also make private issuance of Zero Coupon Zero Principal Instruments to Social Impact Fund(s) registered under the applicable provisions of the Securities and Exchange Board of India (Alternative Investment Funds) Regulations 2012. b. The provisions related to public issuance of Zero Coupon Zero Principal Instruments specified in this Chapter shall <i>mutatis mutandis</i> apply to private issuance of Zero Coupon Zero Principal Instruments to Social Impact Fund(s). <p>For further clarification, please refer to SEBI notification dated 25 July 2022 on 'Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022'.</p>

<p>What are the scenarios in which ZCZP instruments would be terminated from listing on SSE?</p>	<p>The following scenarios may lead to termination of ZCZP instruments of NPOs:</p> <ul style="list-style-type: none"> a. The objective for which the funds were raised has been achieved and a certificate to this effect is submitted to the Social Stock Exchange; or b. The tenure to achieve the objective for which the funds were raised as provided in the fund raising document has expired. <p>For further clarification, please refer to SEBI notification dated 25 July 2022 on 'Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022'</p>
<p>Who is Social Auditor?</p>	<p>A social auditor means an individual registered with a self-regulatory organisation under the Institute of Chartered Accountants of India or such other agency, as may be specified by the Board, who has qualified a certification programme conducted by National Institute of Securities Market and holds a valid certificate.</p> <p>For further clarification, please refer to SEBI notification dated 25 July 2022 on 'Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022'.</p>
<p>Who is social audit agency?</p>	<p>A social audit agency/firm means any entity which has employed Social Auditors and has a track record of minimum three years for conducting social impact assessment.</p> <p>For further clarification, please refer to SEBI notification dated 25 July 2022 on 'Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022'.</p>
<p>What is Capacity Building Fund? What is the purpose of such fund?</p>	<p>In order for SSE to be successful, all stakeholders shall be well-versed with the aims and objectives of the SSE, its functioning, and the opportunities for funding that it offers. Thus, there is a preposition for establishing Capacity Building Fund (CBF) with a corpus to be set at INR 100 Cr. The CBF is to be housed in NABARD as administrative fund. The fund to be utilised for improving the ability of all stakeholders to navigate SSE, its process, instruments etc. The fund could also be useful in hand-holding NPOs on aspects such as outcomes and impact assessment. It is proposed that the fund is to be registered under 80G, such that it is eligible to receive CSR donations.</p> <p>For further clarification, please refer to document "Technical Group Report on Social Stock Exchange".</p>

<p>Can funds deployed by corporates in Social Stock exchange be counted as CSR commitments?</p>	<p>There is a recommendation that funding of NPOs on SSE by companies should count towards CSR commitments. CSR funds should also be considered to act as outcome funder in case of Development Impact Bond structures. In this regard, there shall be a need to permit parking CSR capital in an escrow account for a period of three years i.e. until the project outcome of the NPOs is materialised. CSR capital, acting as an outcome funder, should also be permitted to grant to NPOs in DIB structure as an 'accelerator grant' – a grant to fund non- programme expenditure subject to 10% of the programme cost.</p> <p>Another preposition is that CSR funds should be permitted to contribute towards capacity building fund of SSE. Additionally, trading of excess CSR spends between companies have been proposed to be considered by MCA. Further, provisions have been made to allow corporates to deduct CSR expenditure that goes to the SSE from their taxable income.</p> <p>For further clarification, please refer to document on "Framework for Social Stock Exchange".</p>
<p>Will foreign companies be allowed to invest like FII's or FPI's? Would still there be FCRA requirement?</p>	<p>More clarity is to be sought regarding eligibility of foreign entities to invest in impact bonds (AIF-SVFs) as the donors will not be taking decisions/ will not have any discretion on deployment of their funds to specific NPOs. (To be read in-lines with section 8 of FCRA and rule 4 of FCRR).</p> <p>For further clarification, please refer to document on "Framework for Social Stock Exchange".</p>
<p>What will be the obligations (minimum value benchmark) for investors who would be interested to invest in listings of SSE?</p>	<p>Funding instruments and funding structures have been defined for different entities to be listed on SSE and the investors who would invest in them. For ZCZP instruments, the minimum issue size would be INR 1 Cr and the minimum application size would be INR 2 Lakhs.</p> <p>For further clarification, please refer to document "Framework for Social Stock Exchange".</p>
<p>Would there be any fees for registration of entities on SSE for initial listing and to remain listed? Would annual renewal be subject to a fee or some compliance or both?</p>	<p>Before raising any funds, organisations should mandatorily seek registration with a Social Stock Exchange. The minimum requirements for registration of organisations shall be specified by SEBI from time to time. However, no registration fees has been notified by SEBI till date. Further, no clarifications have been issued by SEBI with respect to annual renewal.</p> <p>For further clarification, please refer to document "Working Group Report on Social Stock Exchange".</p>

<p>What is the mechanism to ensure the credibility and authenticity of the social enterprises that intend to register themselves on SSE?</p>	<p>On SSE, NPOs have mandatory registration requirements encompassing legal and a set of minimum size as indicated by funds received/deployed. Sufficient regulatory guidelines under various SEBI Regulations exist for listing securities such as equity, debt issued by FPEs. Hence, FPEs would not have to undergo registration requirements.</p> <p>Both NPOs and FPEs need to comply with a set of minimum disclosure and reporting requirements to continue to remain listed/registered. These requirements can be broadly categorised into two, namely (a) Initial Disclosure requirements viz. disclosures on general, governance and financial aspects, and (b) Continuous Disclosure requirements viz. reporting on social impact on annual basis. Additionally, NPOs are required to report any event that would have material effect on achievement of outcomes within 7 days of the event.</p> <p>In the early days of SSE, the thresholds might have been kept at INR50 lakhs (annual spending) and INR10 lakhs (funds raised) so that NPOs who have the ability for compliance and scale of operations, are able to list their projects and would be giving confidence amongst investors.</p> <p>Going forward with the stringent registration and disclosure requirements for SSE, social enterprises would systematically inculcate procedures and systems that would streamline processes leading towards effective project management. This would help social enterprises in bridging the gap between vision and reality, and radiate confidence amongst investors.</p> <p>The provision of annual mandatory audit of social impact for social enterprises would set in motion path towards standardised and credible impact creation.</p> <p>For further clarification, please refer to document "Framework on SSE".</p>
<p>Would there be any legal/penal considerations, if the listed SE is not able to comply with requirements of SSE?</p>	<p>There is an indication of stringent listing, compliance and penalty provisions to prevent any misuse of SSE platform. More clarity needs to be sought.</p> <p>For further clarification, please refer to document "Technical Group Report on Social Stock Exchange".</p>

<p>What would be the "returns" expected from Social Stock Exchange?</p>	<p>SSE will contribute towards investment ecosystem by providing the enterprises with improved market access and visibility among investors using the SSE platform, giving them the opportunity to raise capital through impact investing, philanthropy, corporate social responsibility and government funding.</p> <p>First time retail investors will be allowed to avail a 100% tax exemption on their investments in the SSE MF structure, subject to an overall limit of INR1 lakh. Investors will also be exempted from paying Securities Transaction Tax and Capital Gains Tax on investments/ capital gains on SSE.</p> <p>A functional SSE provides a chance for non-governmental organisations to scale up social activities while also assuring a reasonably predictable funding stream with integrated accountability structures. The entities registered would be capacitated towards regulatory compliances, impact reporting frameworks and financial instruments under the ambit of capacity building fund.</p> <p>The outcome funders would benefit from funding useful projects to create impact at grassroots without the risk of backing ineffective solutions.</p> <p>For further clarification, please refer to document "Framework for Social Stock Exchange".</p>
<p>How does registering/ listing with SEBI but not raising funds be beneficial to entities?</p>	<p>The procedure of registering an entity with SSE is a crucial element Of the overall process. The registration with SSE provides a reasonable level of guarantee that the social enterprise enlisted on SSE will be able to achieve the envisioned objectives as well as demonstrate public accountability. This process will send a market signal, igniting confidence among impact investors for the SE.</p>
<p>How would SSE benefit from Investor-angle (tax benefits for SSE listed instruments)?</p>	<p>There is a proposition to provide certain tax incentives to investors on SSE. Section 80G benefits will be available to investors, allowing all investments in securities/instruments of NPOs listed on SSE to be tax deductible, and corporates will be able to deduct CSR expenditure from their taxable income, exempt investors from paying Securities Transaction Tax and Capital Gains Tax on investments/ capital gains on SSE, and other similar recommendations.</p> <p>For further clarification, please refer to the document "Framework for Social Stock Exchange".</p>

References

1. Document "Framework for Social Stock Exchange" can be accessed at https://www.sebi.gov.in/sebi_data/meetingfiles/oct-2021/1633606607609_1.pdf
2. Press release "Union Budget proposes creation of a social stock exchange- under the regulatory ambit of Securities and Exchange Board of India (SEBI) for listing social enterprises and voluntary organisations" can be accessed at <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1577396>
3. Document "Technical Group Report on Social Stock Exchange" can be accessed at https://www.sebi.gov.in/reports-and-statistics/reports/may-2021/technical-group-report-on-social-stock-exchange_50071.html
4. Document "Working Group Report on Social Stock Exchange" can be accessed at https://www.sebi.gov.in/reports-and-statistics/reports/jun-2020/report-of-the-working-group-on-social-stock-exchange_46751.html
5. SEBI notification dated 25 July 2022 on 'Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022' can be accessed at https://www.sebi.gov.in/legal/regulations/jul-2022/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-third-amendment-regulations-2022_61171.html



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