



SOCIAL STOCK EXCHANGE

N by NGO Connect





Hon'ble FM in her Maiden Speech in 2019

- Take Capital Markets closer to the masses for social welfare objectives related to inclusive growth and financial inclusion.
- Propose to create an Electronic Fund-raising platform- a social stock exchange-under SEBI.
- Listing of Social Enterprises and Voluntary Organisations for raising funds like a mutual fund.



Visual Representation of Social Stock Exchange

The Social Stock Exchange (SSE) is a revolutionary platform designed to connect social enterprises with potential investors. It serves as a bridge between organizations working towards social causes and individuals or entities looking to support such initiatives financially. The SSE provides a structured and transparent mechanism for fundraising, allowing social enterprises to access capital markets and expand their impact.

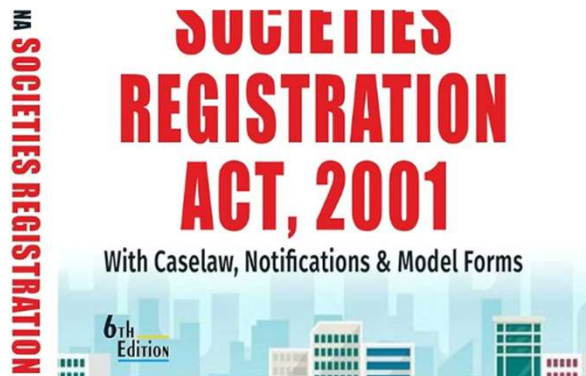
Key features of the SSE include:

- Listing of eligible social enterprises
- Various financial instruments for fundraising
- Regulatory framework to ensure transparency
- Mechanisms for impact assessment and reporting

By facilitating easier access to funds, the SSE aims to boost the growth and effectiveness of social sector organizations, ultimately contributing to positive social and environmental change on a larger scale.



Types of Voluntary Organisations



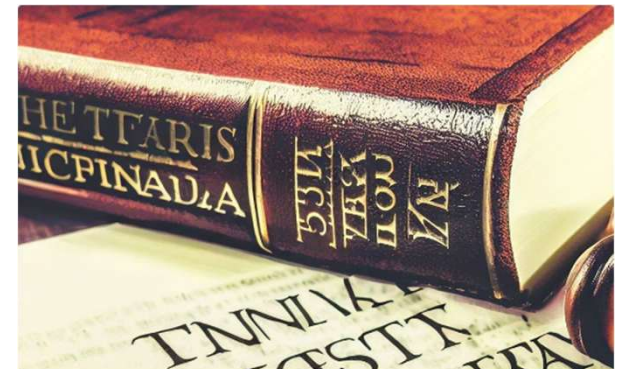
Society

Society (Society Registration Act)



Section 8

Section 8 (Companies Act)



Trust

Trust (Indian Trust Act)

Challenges Faced by NGOs

Trust and Information Issues

Lack of Trust (especially smaller NGOs)

Lack of Centralized Information on NGOs



Regulatory Complexities

Multiple Regulators (Like Registrar of Trust, Registrar of Society and Ministry of Corporate Affairs)

Lack of Institutional and Structured Funding



Legal and Financial Constraints

FCRA amendment (w.e.f. September 29, 2020)

-Prohibition to transfer foreign contributions to other person.

Mandatory CSR Contribution by Corporates



CPDC
Caribbean Policy Development Centre

WE ARE HIRING

FINANCIAL MANAGEMENT WORKSHOP FACILITATOR

Specific Objectives

- To deliver a three-day National Capacity Building Workshop on financial management in St. Vincent & the Grenadines
- Submit a workshop/evaluation report
- Formulate relevant training materials on financial management

APPLY NOW

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CSR Spending Over the Years

The Corporate Social Responsibility (CSR) spending in India has shown a consistent upward trend over the years, as evidenced by the data from the CSR Website of MCA Portal:

14,517

2015-16 Spending

Total Amount Spent on CSR (INR Cr.)

29,986

2022-23 Spending

Total Amount Spent on CSR (INR Cr.)

Financial Year	Total Amount Spent on CSR (INR Cr.)
2015-16	14,517
2016-17	14,344
2017-18	17,098
2018-19	20,150
2019-20	24,689
2020-21	26,210
2021-22	26,579
2022-23	29,986

Source: From CSR Website of MCA Portal



Overview of Social Stock Exchange

Social Stock Exchange (SSE) is a platform which brings together impactful investors/ philanthropist and Non-Profit Organizations (such as NGO/ Trust/ Sec. 8/ Societies) and For Profit Social Enterprises (FPEs) having social objectives.

The SSE aims to achieve the following key objectives:

1. Supporting the Flow of Funds and enabling fundraising structures;
2. Expand the Pool of Available Instruments and capital;
3. Inclusion of For-profit Social Enterprises;
4. Implement Minimum Standard of Governance and Financials;
5. Development of new Institutions i.e. Information Repositories (IRs), Social Auditors



Financial Instruments on SSE

Equity Shares for Section 8
Companies

Equity Shares in case of Section 8
Companies

Zero Coupon Zero Principal
Bonds

Issuance of Zero Coupon & Zero
Principal Bonds to be listed on SSE
**(this is currently prevalent in the
market).**

Performance-Based Instruments

Pay for Performance Instruments;

Impact Investment Vehicles

Social Venture Fund/ Development Impact Bonds;

Mutual Funds

Mutual Funds



Eligibility Criteria for Social Enterprises

- 1** **Predominance of Eligible Activities**
Eligible activities for demonstrating primacy of social impact:
- 2** **Annual Spending and Receipts**
Annual Spending : at least Rs. 50 Lacs for the past financial year and; Annual receipts of fund : Rs. 10 lacs for the past financial year
- 3** **Revenue**
At least 67% flow from Social Activities during last 3-years average.
- 4** **Expenditure**
At least 67% of expenses incurred on social activities during last 3-year average.
- 5** **Customer Base/Beneficiaries**
At least 67% of the immediately preceding 3-year average Members of the target population.



NITI Aayog

Companies Act 2013



Ineligible Organisations and Activities



Corporate foundations, that are primarily funded by a parent corporate entity or a group of corporate entities.



Political or religious organisations/ activities.



Professional or trade associations.



Infrastructure companies and housing companies (other than affordable housing companies).



Modes of issuance of Zero Coupon Zero Principal Instruments

PUBLIC ISSUE to Institutional & Non-Institutional Investors

PRIVATE PLACEMENT to Social Impact Funds registered under the SEBI (AIF) Regulations, 2012





Conditions for Issuance of Zero Coupon Zero Principal Instruments

Conditions for issuance of Zero Coupon Zero Principal instruments:

1. Minimum issue size: **Rs. 1 Crore (Now reduced to Rs. 50 lakhs)**
2. Minimum Application size: **Rs. 2 Lakh (Now, reduced to Rs. 10,000)**
3. Minimum subscription required: **75% of the issue size**



Disclosures Requirements



The disclosure requirements vary depending on the type of organization:

60

Days

NPOs Registered on SSE must submit Annual Disclosures within 60 days from the end of FY (format to be specified by SEBI)

7

Days

FPSEs registered with SSE must disclose events that may have a material impact within 7 days from the occurrence of such event

NPOs Registered on SSE

- Annual Disclosures: Within 60 days from the end of FY (format to be specified by SEBI)
- Quarterly Disclosures: Not applicable
- Event based disclosures: Not applicable

NPOs with its securities listed on SSE

- As applicable under Ch. IV/ V of LODR

FPSEs registered with SSE

- Annual Disclosures: As applicable under Ch. IV/ V of LODR
- Statement of utilization of the funds raised from the end of each quarter till such funds are utilized, in the manner:
- Category-wise amount of monies raised & utilized;
- Amount remaining unutilized
- Event based disclosures: Any event that may have a material impact on the planned achievement of outputs or outcomes and steps being taken by the Social Enterprise to address the same, **within 7 days from the occurrence of such event.**



Disclosures Requirements – Social Impact Audit

Particulars	NPOs Registered on SSE	NPOs with its securities listed on SSE	FPSEs registered with SSE
Annual Impact Report	Annual Impact Report audited by a Social Audit Firm employing Social Auditor, to SSE/ Stock Exchange (time period and format to be specified by SEBI)		

The table above outlines the disclosure requirements for social impact audits across different types of organizations registered or listed on the Social Stock Exchange (SSE). All entities, including NPOs Registered on SSE, NPOs with securities listed on SSE, and FPSEs registered with SSE, are required to submit an Annual Impact Report. This report must be audited by a Social Audit Firm that employs a Social Auditor. The report is to be submitted to the SSE or Stock Exchange, with SEBI specifying the time period and format for submission.

Why Registration

- 1 Light touch compliance
Light touch compliance under Trust Act and Societies Act;
- 2 Governance and Disclosure norms
Not well versed with the Governance and Disclosure norms;
- 3 Improve transparency
Improve the quality of transparency;
- 4 Cultural shift
Cultural shift in the concept of 'NPO's' ;
- 5 Disclosure Driven Fund Raising
Disclosure Driven Fund Raising System;
- 6 Signal social impact primacy
Signal the primacy of social impact;

This condition is a pre-requisite to listing of any NPO.

NPOs registered on the Social Stock Exchange do not need to be listed.



Mandatory Conditions for Registration of NPOs



Registration of Entity

Entities must be registered in India as:

- Public charitable trusts
- Societies
- Not for profit companies

Ownership and Control: name of trustee and members

Age of the NPO: At least 3 years



Income Tax

Register with IT as NPO Via PAN

Tax Exemption and Tax deduction

- Registration Certificate under 12A/12AA/12B for at least the next 12 months.
- Does not have a notice or ongoing scrutiny by Income Tax regarding any conditions for tax exemption under 12A/12AA/12AB
- Valid 80G registration under Income-Tax declaring whether tax deduction is available or not to investors.



Impact Assessment/ Social Audit

Financial Audit

Financial Audit is one of the key types of audits conducted in a social audit process. This audit focuses on examining the financial records and transactions of an organization to ensure accuracy and compliance with accounting standards.

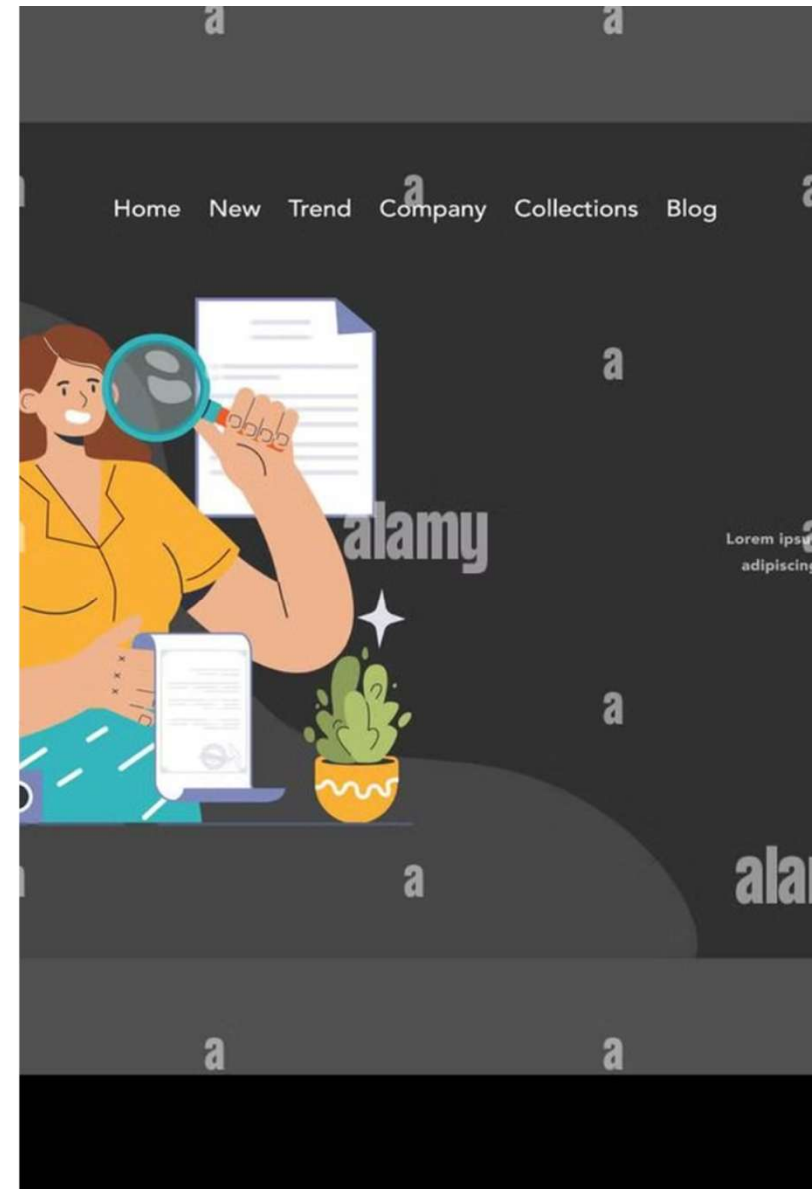
Non-Financial Audit

Non-Financial Audit is another crucial component of social audits. This type of audit evaluates non-financial aspects of an organization's operations, such as social impact, environmental performance, and governance practices.

Financial Auditor

The role of a Financial Auditor is essential in conducting social audits. To qualify as a financial auditor for social audits, individuals must complete the following requirements:

- Course of NISM
- Completion certificate



Social Audit Components

Social Audit has two components i.e. Financial and Non-Financial Audit;

For Non-Financial Audit, Auditor requires to complete the course to be conducted by National Institute of Securities Market (NISM);

Individual, Firm or Body Corporate with 6 years of experience in Social Sector may also perform non-financial audit;

ICAI shall frame Social Audit Standard, audit procedures, assurance report, separate code of conduct for SAs, etc.

ICAI shall create an SRO where auditor needs to be empanelled;



CSR and Regulatory Framework



CSR under Companies Act, 2013

- Allow investment in the securities of NPOs or fund-raising structure through intermediary as CSR Contribution;
- Allow CSR capital to be parked into an escrow account for a period of 3 years;
- Allow accelerator grant to an NPO up to 10% of the program cost (in case outcomes are exceeded) to be counted as CSR expenditure
- Provide that the board and management of the corporate providing CSR funds should not be related to the NPO to avoid conflict of interest.

SCRA

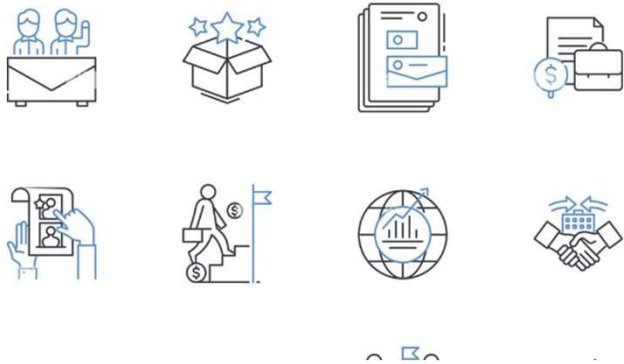
ZCZP Bonds be classified as a 'Security';

FCRA

Allow Foreign Entities to invest in SVF;



Taxation and Standards



Taxation Benefits

- Exempt from STT;
- Exempt from paying Capital Gain Tax;
- 100% tax exemption against the investment in the securities of NPO;
- 10% cap on Tax Deduction u/s 80G to be removed;
- Allow Corporates to deduct CSR expenditure as deductible expense;
- Allow Tax Deduction to Retail Investors subject to some limit;



Accounting, Quality Assurance or Control Standards

ICAI to develop and disseminate industry-specific sustainability accounting standards.



Unified Regulator for NGOs

Unified Regulator for NGOs listed/ registered with SSE



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