Social Stock Exchange (SSE)

Why in news?

The National Stock Exchange of India received the final approval from the markets regulator Securities and Exchange Board of India (SEBI) to set up a Social Stock Exchange (SSE).

What is a Social Stock Exchange?

- The SSE would function as a separate segment within the existing stock exchange and help social enterprises raise funds from the public through its mechanism.
- It would serve as a medium for enterprises to seek finance for their social initiatives, acquire visibility and provide increased transparency about fund mobilisation and utilisation.
- Retail investors can only invest in securities offered by for-profit social enterprises (FPSEs) under the Main Board.
- In all other cases, only institutional investors and non-institutional investors can invest in securities issued by SEs.

What about eligibility?

- **Social Intent –** Any non-profit organisation (NPO) or FPSEs that establishes the primacy of social intent would be recognised as a social enterprise.
- Those recognised will make it eligible to be registered on the SSE.
- **Dependent on Corporates –** NPOs that are dependent on corporates for more than 50% of its funding are considered ineligible.

How do NPOs raise money?

- **Zero Coupon Zero Principal (ZCZP) –** NPOs can raise money either through issuance of ZCZP instruments from private placement or public issue, or donations from mutual funds.
- ZCZP bonds differ from conventional bonds in the sense that it entails zero coupon and no principal payment at maturity.
- The minimum issue size is presently prescribed as Rs 1 crore and minimum application size for subscription at Rs 2 lakhs for ZCZP issuance.
- The NPO may choose to register on the SSE and not raise funds through it but via other means, however, they would have to make necessary disclosures about the same.

What about on completion of projects?

- **Development Impact Bonds –** It is another structured finance product available for NPOs.

- Upon the completion of a project and having delivered on pre-agreed social metrics at pre-agreed costs/rates, a grant is made to the NPO.
- The donor who makes the grant upon achieving the social metrics would be referred to as **Outcome Funders**.
- Since the payment above is on post facto basis, the NPOs would have to also raise money to finance their operations.
- This is done by a **Risk Funder** who alongside enabling the financing of operations on a pre-payment basis, also bears the associated risk with non-delivery of social metrics.

How do FPOs raise money?

- For-Profit Enterprises (FPEs) need not register with social stock exchanges before it raises funds through SSE.
- However, it must comply with all provisions of the ICDR Regulations when raising through the SSE.
- It can raise money through issue of **equity shares** to an **Alternative Investment Fund** including Social Impact Fund or issue of debt instruments.

What disclosures need to be made?

- **Annual impact report –** SEBI's regulations state that a social enterprise should submit an annual impact report in a prescribed format.
- The report must be audited by a social audit firm and has to be submitted within 90 days from the end of the financial year.
- **Money raised –** Listed NPOs, on a quarterly basis, are specifically required to furnish details about the money they have raised category-wise.

References

1. The Hindu | Combining social welfare and capital markets through SSE
2. News 18 | What Is Social Stock Exchange?