

FAQs on Social Stock Exchange

Background

Social stock exchanges (“SSEs”) have been designed as a platform for “responsible donations” in India. The concept was first initiated in India with the [2019-20 Budget Speech](#) of the Finance Minister, followed by the Working Group Report of SEBI dated 1st June, 2020 (“[WG Report](#)”) and Technical Group Report dated 6th May, 2021 (“[TG Report](#)”), and public comments thereon. On the basis of the WG Report and TG Report, SEBI in its meeting held on [28th September, 2021](#) approved a broad framework for establishment of SSEs in India (“[SSE Framework](#)”), and an updated status on the action matrix was also released in the meeting held on [February, 2022](#) and thereafter on [19th September, 2022](#). The concept of SSEs has been incorporated in the rulebook vide the notification of SEBI (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2022 (“[ICDR Amendment Regulations](#)”), SEBI (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2022 (“[LODR Amendment Regulations](#)”) and SEBI (Alternative Investment Fund)(Third Amendment) Regulations, 2022 (“[AIF Amendment Regulations](#)”), respectively. Further, the stock exchanges, [NSE](#) and [BSE](#) have also released FAQs on the subject covering various practical aspects (“[SE FAQs](#)”).

The concept was introduced in few other parts of the world, but most of them are currently non-existent. Further, the concept being quite new in the Indian parlance, we have tried to deal with the various practical aspects of the same through our comprehensive set of FAQs.

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Social Stock Exchange (SSE)

1. What is a Social Stock Exchange?

Clause (i) of Regulation 292A of the ICDR Regulations defines SSE as *“a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register Not for Profit Organizations and / or list the securities issued by Not for Profit Organizations in accordance with provisions of these regulations.”*

Therefore, an SSE is –

- a. A separate segment of a recognised stock exchange
- b. To register NPOs, or
- c. List securities issued by NPOs registered on the SSE segment

2. Is SSE a separate exchange or a segment within the existing exchanges?

Social Stock Exchange ('SSE') is a dedicated segment of an existing stock exchange, recognized by SEBI.

3. Which stock exchanges are currently permitted to create SSE as a separate segment?

As per the definition of SSE, only such stock exchanges that are having nation-wide trading terminals are permitted to create a separate segment for SSEs. Currently, only BSE and NSE are the two exchanges having nation-wide trading terminals. SEBI has granted its in-principle approval to both BSE and NSE on October 07, 2022 and December 19, 2022 respectively, to set up a separate segment of SSE on their existing platform.

Currently, SSE has been operationalised under both the NSE and the BSE. Few NPOs have been registered as a SE in both the stock exchanges, however, as on date, none of the registered NPOs have filed a fundraising document with the SSE to raise funds on the said platform.

4. What is the regulatory framework for SSEs?

SEBI *vide* its notification dated July 25, 2022 has amended SEBI ICDR Regulations, SEBI LODR Regulations and SEBI AIF Regulations to provide a comprehensive framework for SSEs.

Pursuant to the amendment, Chapter X-A has been inserted in ICDR Regulations, dealing with the registration of an entity as a Social Enterprise as well as issuance and listing of securities by a Social Enterprise for the purpose of raising funds. Chapter IX-A has been inserted in LODR Regulations dealing with the continuous disclosure requirements of a Social Enterprise. Further, in September, 2022, a framework for social stock exchanges

was notified by SEBI, providing additional criteria to be fulfilled by an entity to get registered as a Social Enterprise.

5. What is the objective behind the introduction of SSEs in India?

As announced by the Hon'ble Finance Minister in the budget speech for the FY 2019-20, the primary objective behind SSE is to create an electronic fundraising platform for social enterprises and voluntary organizations that are working with an objective of social welfare.

Social Enterprise

6. What is meant by a Social Enterprise (SE)?

A social enterprise (SE) would mean any entity with certain social objectives as its primary goal while operating in a strategic manner. The ICDR Amendment Regulations (clause (h) of Reg 292A) defines a social enterprise in a very narrow manner, and in reference with the eligibility conditions mentioned in the Regulations. Therefore, in order to understand the meaning of SE, mention may be made of international references available on the same.

The [OECD](#) defines social enterprise as *“any **private activity conducted in the public interest, organised with an entrepreneurial strategy, whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment.**”*

The [European Union](#) defines SE in the below manner -

“an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.”

Therefore, while profits may be earned as a part of the operations, the primary objective of these entities is to generate social impact in one or more forms.

7. What are the eligibility conditions for being identified as an SE?

The eligibility conditions for being identified as an SE is specified under Reg 292E of the ICDR Regulations. The primary eligibility criteria for an entity to be identified as SE is the existence of primacy of the “social” intent. There are various factors that establish the primacy of social intent of an entity (*see FAQ no. 8*).

8. **How can an SE establish the primacy of “social intent”?**

There are three cumulative conditions that establish the primacy of “social intent” of an entity -

- A. The entity shall be **engaged in one or more of the eligible activities** specified in clause (a) of sub-regulation (2) of regulation 292E of ICDR Regulations (*see FAQ no. 9*).
- B. The entity shall **target underserved or less privileged population segments** or regions recording lower performance in the development priorities of central or state governments.
- C. The entity shall demonstrate that **67% of its eligible activities** are being provided to targeted population by establishing one or more of the following three conditions:
 - 1) at least 67% of the immediately preceding 3-year average of **revenues** is earned from providing eligible activities to members of the target population; or
 - 2) 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; or
 - 3) 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**.

9. **Which activities are considered as “eligible activities” for an entity to be identified as SE?**

Clause (2) of Reg 292E of the ICDR Regulations specify a list of activities an SE shall be engaged into –

- 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

10. Whether “eligible activities” for a SE is synonymous to “eligible activities” under CSR?

The list of eligible activities or projects for Corporate Social Responsibility (CSR) obligations of a company is specified under Schedule VII of the Companies Act, 2013. While there are similarities, eligible activities for an SE are wider in scope than activities eligible for CSR.

A comparative table is presented below:

Eligible activity for a SE	Corresponding activity under Schedule VII
Eradicating hunger, poverty, malnutrition and inequality	Eradicating hunger, poverty and malnutrition
Promoting health care including mental healthcare, sanitation and making available safe drinking water	promoting health care including preventive health care and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.
Promoting education, employability and livelihoods	promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects

promoting gender equality, empowerment of women and LGBTQIA+ communities;	promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation	ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga
protection of national heritage, art and culture;	protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts;
training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports	training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports
supporting incubators of Social Enterprises	Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government
supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building	-
promoting livelihoods for rural and urban poor including enhancing income of small	rural development projects

and marginal farmers and workers in the non-farm sector	
slum area development, affordable housing and other interventions to build sustainable and resilient cities	slum area development
disaster management, including relief, rehabilitation and reconstruction activities	disaster management, including relief, rehabilitation and reconstruction activities
promotion of financial inclusion	-
facilitating access to land and property assets for disadvantaged communities	-
bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection	-
promoting welfare of migrants and displaced persons	-

11. What is the meaning of the term ‘target population’ for the activities of an SE?

In general terms, ‘target population’ would mean an entire set of units sharing similar characteristics and identified as an intended group of audience. In the context of a SE, the eligible ‘target population’ as specified in clause (b) of sub-regulation (2) of regulation 292E shall be *“underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state governments.”*

12. Which population segment can be referred to as “underserved or less privileged”?

Underserved or less privileged population segments would generally mean groups that have limited or no access to resources.

In the US, the [Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government](#) defines the term “underserved communities” as *“populations sharing a particular characteristic, as well as geographic communities, that have been systematically denied a full opportunity to participate in aspects of economic, social, and civic life, as exemplified by the list in the preceding definition of “equity.”*

The Technical Group in its report provided that these may include but not limited to members belonging to SC, ST and OBC, people with special needs, elderly persons, children, at-risk adolescents, migrants and displaced persons. Reports of various government agencies can also be referred for determining the underserved part of the population for whose benefits, the activities of a SE shall be targeted.

13. Are there any identified regions currently recording lower performance in the development priorities of central or state governments?

The Govt of India, in 2018, had identified 112 most under-developed districts across the country under its [Aspirational Districts Programme](#) (ADP). A list along with performance of these districts can be accessed at public domain portal named [“Champions of Change”](#).

A [July 2020 Report](#) of the Ministry of Agriculture & Farmers Welfare also sets out a list prioritising the various districts for development planning in India. Current performance may be traced and on the basis of which an SE may identify the lower development regions.

14. What percentage of activities of an SE is required to be in the form of “eligible activities” in order to qualify as a SE?

At least 67% of the activities of the SE, as per the average of immediately preceding 3 years, shall be qualifying as “eligible activities” to “target population” in order to be identified as a SE.

15. How can an SE establish the provision of eligible activities to target population?

The ICDR Regulations specify three parameters to establish that the SE have at least 67% of its activities, qualifying as eligible activities to the target population. The same can be established through one or more of the following, being, (i) revenues, (ii) expenditure, (iii) total customer base and/or total number of beneficiaries.

16. What is the meaning of ‘beneficiaries’ for a SE?

In literal terms, the term “beneficiary” would mean the recipient of benefits arising out of something. In the context of a SE, the term ‘beneficiaries’ and ‘customer base’ have been used interchangeably, which implies that all those who are availing the services/benefit of the activities of the SE may be considered its beneficiaries. The term ‘beneficiaries’ have been used in a wider sense, and should mean to include all those people who are getting benefitted from the activities of the SE. In a general ecosystem, this may include the suppliers, workers, customers, intermediaries etc.

For example, an SE engages a team of rural artisans to prepare craftwork for putting the same into exhibitions. In this case, the beneficiaries would ideally include the rural artisans, the organisers of the exhibitions as well as the visitors/ attendees of the

exhibition. Out of the total beneficiaries, if at least 67% of the same are the ones belonging to the “target population” (*refer FAQ no. 11*), on an average over a period of immediately preceding 3 years, the condition for primacy of social intent stands satisfied.

17. Whether the terms ‘members of the target population’ and ‘beneficiaries’ are the same?

No, both the above-mentioned terms do not mean the same thing. While the term ‘beneficiaries’ would include all those who are availing the benefits of the services, being provided by a SE, ‘members of the target population’ will include only those beneficiaries that belong to the permitted population segment, that is, underprivileged section of the population.

Difference between the two is significant for an SE because, to comply with third condition of clause (c) of sub-regulation (2) of regulation 292E, out of its total beneficiaries/ customers, at least 67% shall belong to the targeted population of the society, i.e., underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state governments.”

18. What are the categories of SE?

SEs have been categorized into two broad types, being for-profit social enterprises (FPSEs) (*refer FAQ no. 27*) and not-for-profit organizations (NPOs) (*refer FAQ no. 31*).

19. Which entities are not eligible to be identified as SEs?

Corporate foundations, political or religious organizations or activities, professional or trade associations, infrastructure and housing companies, except affordable housing, shall not be eligible to be identified as a SE.

The exclusions are generally based on the nature of activities or the target groups the entity caters to. For example, political and/ or religious activities are not covered under the list of eligible activities, and therefore, covered under the exclusions. For professional and trade associations, the intent is to benefit a particular target segment, being the persons belonging to the same profession or trade.

Similarly, for infrastructure and housing companies, the primary intent is “economic” and not “social”, hence, such companies, except for affordable housing companies are excluded.

20. What is the meaning of corporate foundation?

Corporate foundation is not a defined term, and hence, one may consider various dimensions where the presence of one or more corporates may give a foundation the identity of a corporate foundation.

However, in the context of an SSE, one may refer to the Working Group Report that specifies the list of ineligible entities to include *“Corporate foundations, that are **primarily funded by a parent corporate entity or a group of corporate entities.**”*

The SE FAQs also specify that a foundation becomes ineligible to register as a SE if majority (>50%) of the funding for the NPO is coming from the said corporate or the corporate has a controlling interest in the NPO.

Therefore, dependence on one or more corporate entities for the funding received by a foundation, will result in the identification of the same as a “corporate foundation”.

21. Whether a foundation receiving funds from the promoters of a corporate instead of from the corporate entity itself will be classified as a “corporate foundation”?

As clarified by the SE FAQs, an NPO, even though settled by the promoters of a body corporate, will not be eligible as an SE, if the same is dependent on the body corporate for more than 50% of its funding.

Therefore, a foundation receiving the majority of its grants as a part of sponsorship by an individual who is ultimately related to a specific body corporate in the capacity of a promoter may result into giving it the nature of corporate foundation, and therefore, rendering the same ineligible by becoming a ‘corporate foundation’.

22. What is the intent behind excluding a corporate foundation from registration as an SE?

The primary objective behind the concept of SSE is to ensure that the SEs have access to and can raise public funds for the creation of the desired social impact.

However, in case of corporate foundations, a constant source of funding is already in place. Therefore, the intent behind an SSE platform will fall short if it also allows corporate foundations to register and raise public funds even after having a stable source of contributions. Considering this, corporate foundations have been excluded from being eligible as an SE to be registered on the SSE.

23. X Ltd sets up a public charitable trust in the name of X Foundation for the purpose of carrying out its CSR activities. X Foundation receives around 20% of the total grants from X Ltd, and the remaining 80% from other group companies of X Ltd. Is the Foundation eligible to be registered as a SE?

In the aforesaid case, the trust is settled by a corporate as its CSR wing, and 100% of the funding is received from one or more of the companies forming part of the same group. Therefore, the aforesaid would implicitly be categorized as a corporate foundation.

24. Would it make a difference if the Foundation is settled by Mr. X, the promoter of X Ltd, with other facts remaining the same?

The same would still fall within the meaning of "corporate foundation" as clarified by the SE FAQs.

25. Consider a case where Mr. Z has settled a public charitable trust. Mr. Z is also a promoter of Z Textiles Ltd. As per the funding pattern of the Trust for the last 3 years, the Trust does not receive grants from either Mr. Z or Z Textiles Ltd. Will the Trust be considered a corporate foundation?

Going by the intent of excluding a corporate foundation, as well as the SE FAQs, the Trust in the instant case does not seem to be a corporate foundation in the context of SSE. While the Trust is settled by an individual who is also a promoter of a company, the donations received by the Trust are majorly from the larger public.

26. Whether a trust receiving grants solely out of the CSR budget of companies be eligible to be registered on the SSE?

Identification of a trust as a corporate foundation is a subjective matter, and depends on the facts and circumstances of each case. Unlike the case given above, when the Trust has certain specific sources of income which are regular and repetitive and includes a company or its promoter as the contributor, there is a high probability of calling it a corporate foundation. However, in the instant case, the Trust is receiving 100% of its grants out of the CSR budget of companies, which are neither related nor is reliability on the continuous funding from these sources. Therefore, in our view, such trust should still be eligible for registration on SSE.

For Profit Social Enterprise (FPSE)

27. Which entities are classified as an FPSE?

Clause (c) of Regulation 292A of ICDR Regulations define FPSE as follows:

*“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.**”*

From the above definition, it is clear that for an entity to be classified as an FPSE, following conditions must be cumulatively satisfied:

1. the entity must be incorporated in the form of a company or a body corporate (except Section 8 Companies); and
2. the entity must be operating to earn profit from its activities; and

3. the entity must be a SE in terms of Regulation 292E of ICDR Regulations (*refer FAQ no. 6*)

28. Can an FPSE raise funds through the SSE?

An FPSE cannot raise funds through the SSE, since there are various modes of fundraising already available to an FPSE. The FPSE can raise funds by way of issuance of equity instruments on the Main Board, SME Platform or Innovators Growth Platform.

29. What is the difference between a listed for-profit entity and an FPSE?

The difference between a listed for-profit entity and an FPSE is the primacy of “social intent” alongside profit-earning. To enforce accountability, an FPSE is required to comply with the additional disclosure conditions as applicable to a SE in terms of Chapter IX-A of the Listing Regulations, along with other applicable chapters on the basis of type of securities issued.

Resultantly, the scrips of the FPSE is listed and traded on the conventional segments of the stock exchange, as applicable, along with an identifier that the same is an FPSE.

30. Can an unlisted company register with SSE as a FPSE?

At present, an unlisted company cannot register as a FPSE. Only such companies that have listed one or more of its securities on the applicable segment of the stock exchange can get their scrips identified as that of a FPSE.

Not for Profit Organizations (NPOs)

31. Which entities are classified as an NPO?

An NPO is defined under clause (e) of Reg 292A of the ICDR Regulations as “*a Social Enterprise which is any of the following entities:*”

(i) a charitable trust registered under the Indian Trusts Act, 1882 (2 of 1882);

(ii) a charitable trust registered under the public trust statute of the relevant state;

(iii) a charitable society registered under the Societies Registration Act, 1860 (21 of 1860);

(iv) a company incorporated under section 8 of the Companies Act, 2013 (18 of 2013);

(v) any other entity as may be specified by the Board;”

For the purpose of the aforesaid, Board shall mean SEBI. No other category of entity has been specified by SEBI till date to be included under the meaning of NPO.

32. Can a private trust be considered as an NPO if the same is not operating for profit?

No, in the context of SSE, only those organizations whose beneficiary group is public at large is considered as an eligible NPO.

33. Why is a section 8 company considered as an NPO while the same operates for profit?

A section 8 company is a company established under section 8 of the Companies Act, 2013 and operates for profit like any other company. However, in view of the charitable nature of the company, there are various restrictions on the utilisation of the profits generated by the section 8 company, and the same is strictly required to be ploughed back on the objects for which the company has been formed. Further, the accumulated surplus¹ of a section 8 company cannot be distributed to its shareholders at any stage.

Therefore, a section 8 company cannot commit financial returns to the shareholders, and hence it would be difficult for the same to raise capital from the conventional segments of the stock exchange.

34. What services does an SSE facilitate for an NPO?

An NPO can avail the SSE for –

- i. Registration with the SSE, and
- ii. Raising funds through the SSE

35. What are the benefits of an NPO in getting registered with the SSE?

Registration with SSE is expected to provide the desired visibility to the NPO so as to facilitate mobilisation of funds for the creation of the desired impact. It can act as a matchmaking platform or an information repository thereby facilitating a common ground between the NPOs and the funders.

Getting registered on SSE

36. Who can seek registration with SSE?

Only an NPO qualifying as an SE can seek registration on SSE. An FPSE, although not registered on SSE, can get its scrips identified as that of an FPSE.

¹ You may read our article on [Utilisation of accumulated surplus by section 8 companies](#)

37. Are there any minimum requirements to be fulfilled by an NPO seeking registration on SSE, alongside being a SE?

Sub-regulation (2) of Regulation 292F of the ICDR Regulations state that the minimum requirements for registration of an NPO on SSE shall be specified by SEBI. In addition to the same, the SSE may also specify additional eligibility requirements for the registration of an NPO.

In accordance with the same, the SEBI *vide* its circular dated September 16, 2022 notified the Framework on Social Stock Exchange (“SSE Framework”), which specifies minimum requirements for registration on the SSE. These requirements are as follows:

Broad Parameter	Indicator	Details
Legal Requirements		
Entity is registered as an NPO	Registration certificate valid at least for next 12 months at the time of seeking registration with SSE	Entities must be registered in India as one of the forms as provided under clause (e) of Regulation 292A of ICDR Regulations
Ownership and control	Governing document (MoA & AoA/ Trust Deed/ Bye-laws/ Constitution)	Disclose if NPO is owned and/ or controlled by government or private
Exemption under Income Tax Act, 1961 (‘IT Act’)	Registration Certificate under section 12A/ 12AA/ 12AB of IT Act	Valid PAN Card
Age of the NPO	Registration certificate	Minimum 3 years
Deduction under IT Act	Valid 80G registration under IT Act	Entity to ensure whether tax deduction is available or not to investors
Eligible to be SE	Requirements with Regulation 292E of ICDR Regulations	Compliance shall be met with the prescribed conditions
Minimum Fund Flows		
Annual spending in the past FY	Receipts or Payments from Audited accounts/ Fund Flow Statement	Must be at least Rs. 50 lakhs

Funding in the past FY	Receipts from Audited accounts/ Fund Flow Statement	Must be at least Rs. 10 lakhs
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In addition to the minimum requirements specified by SEBI, the SSEs require an NPO to be registered on the NGO Darpan portal, as an additional eligibility requirement for the NPO.

38. Which SEs are ineligible to be registered on the SSE?

Regulation 292H of the ICDR Regulations provides certain conditions that render an SE ineligible to get registered on the SSE. The conditions are listed below –

- a. any of its promoters, promoter group or directors or selling shareholders or trustees are debarred from accessing the securities market by the Board;
- b. any of the promoters or directors or trustees of the Social Enterprise is a promoter or director of any other company or Social Enterprise which has been debarred from accessing the securities market by the Board;
- c. the Social Enterprise or any of its promoters or directors or trustees is a wilful defaulter or a fraudulent borrower;
- d. any of its promoters or directors or trustees is a fugitive economic offender;
- e. the Social Enterprise or any of its promoters or directors or trustees has been debarred from carrying out its activities or raising funds by the Ministry of Home Affairs or any other ministry of the Central Government or State Government or Charitable Commissioner or any other statutory body.

39. What is the procedure of getting registered on the SSE?

Both the SSEs, [NSE](#) and [BSE](#) have released a registration checklist listing down the requirements of getting registered on the SSE. Having said that, the steps/ procedure for getting registered on the SSE broadly involves the following –

- d. Approval of the governing body of the NPO for registration on the SSE
- e. Obtaining confirmation from the statutory auditor of the NPO or any social auditor with respect to fulfilment of the conditions pertaining to the financials and tax related matters
- f. Filing application with stock exchange along with declaration with respect to fulfilment of eligibility conditions along with the requisite documents;
- g. Execution of SSE registration agreement on receiving approval from the SSE.

40. Which documents are required to be submitted along with application for registration on the SSE?

An indicative list of the documents required to be submitted to the SSEs along with application for registration are as follows –

- Registration certificate of the NPO
- Governing document of the NPO
- Registration Certificate under section 12A/12AA/12AB and section 80G under Income Tax Act, 1961.
- Last three financial years' Audited financial statements of the NPO along with fund flow statement

Raising funds through SSE

41. Who are eligible to raise funds through SSE?

Only those entities, who are registered with SSE (*refer FAQ no. 36*) are eligible to raise funds through the issuance and listing of securities on the SSE.

42. How can an FPSE raise funds through SSE?

For an FPSE, the conventional modes of fund raising being in existence, the same are not allowed to raise funds through SSE. Clause (b) of Reg 292G of the ICDR Regulations specify the following modes of fundraising for an FPSE –

- (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

Additional modes of fund raising have not been specified yet, and an FPSE shall raise funds like any other listed entity, with an identification of the scrip as that of an FPSE.

43. How can an NPO raise funds through SSE?

The SSE provides a platform for the NPOs to raise funds in the form of “responsible donations”. Clause (a) of Reg 292G of the ICDR Regulations specifies the following means through which an NPO can raise funds on the SSE –

- a. issuance of Zero Coupon Zero Principal Instruments (ZCZPIs);
- b. donations through Mutual Fund schemes as specified by the Board;
- c. any other means as specified by the Board from time to time.

SEBI has not specified any additional means of fundraising as on date², however, the Technical Group Report suggests various instruments such as equity shares for a Section 8 company, Development Impact Bonds (DIBs), Social Impact Funds (SIFs) etc as eligible modes of fundraising by SEs.

² As on 12th June, 2023

44. Can an NPO, registered on the SSE, continue to raise funding outside the SSE?

Yes, there is no restriction on an NPO registered with SSE, on raising funds outside the SSE.

45. Is it mandatory for an NPO registered with SSE, to access SSE for raising funds?

No, an NPO is permitted to register on the SSE without listing its fundraising instruments as well.

46. Is there any restriction on the co-mingling of funds raised on the SSE with other funds received by the NPO?

Yes, Reg 91F(2) of the Listing Regulations require NPOs raising funds on the SSE to keep the unutilised amount raised on the SSE in a separate bank account, and prohibits co-mingling of the same with the other funds.

47. Whether intermediaries such as merchant bankers are required for the purpose of raising funds on the SSE?

No, such intermediaries are not mandatorily required for the purpose of raising funds through SSE. The NPO can directly submit the fund raising documents and take care of other compliance requirements.

Zero Coupon Zero Principal Instruments (ZCZPIs)

48. What are Zero Coupon Zero Principal Instruments?

ZCZPI is an instrument that can be issued by an NPO for raising funds on the SSE. It has been recognised as “securities” in terms of Securities Contracts (Regulation) Act, 1956 *vide* a [MoF notification dated 15th July, 2022](#).

ZCZPI is a defined term under the ICDR Regulations as “*an instrument issued by a Not-for-Profit Organisation which shall be registered with Social Stock Exchange segment of a recognised Stock Exchange in accordance with the regulations made by the Securities and Exchange Board of India.*”

As the name suggests, the ZCZPIs does neither offer any “coupons” during the tenure, nor the “principal repayment” on redemption. Therefore, these are purely donations, with no financial returns attached to the same.

49. Who are the eligible issuers of ZCZPIs?

ZCZPIs can be issued only by the NPOs registered with the SSEs.

50. What are the minimum listing conditions relating to issuance of ZCZP Instruments?

Minimum listing conditions as specified in Regulation 292N of ICDR Regulations are as follows:

1. Minimum issue size shall be Rs. 1 crore;
2. Minimum application size by each investor shall be Rs. 2 lakh;
3. Minimum subscription requirement shall be 75% of the issue size
4. ZCZPIs shall be issued on dematerialised form.
5. ZCZPIs shall have a specific tenure

51. What happens if the ZCZPIs are not fully subscribed?

There is a minimum subscription requirement of 75% of the issue size, on the failure of which refund is required to be made. However, where the subscription is greater than 75% but less than 100%, the same is to be treated in accordance with the disclosures made in the fund raising document.

The NPO, at the time of filing fund raising document, shall ensure the following disclosures -

- (a) manner of raising balance capital in case of such under subscription between 75% and 100%;
- (b) possible impact on achieving the social objective(s) in case such under subscription is not arranged.

52. Are there any restrictions on the end-use of funds raised through ZCZPIs?

Yes, funds raised through ZCZPIs can be used only for the projects or activities specified under Reg 292E of the ICDR Regulations (*refer FAQ no. 9*).

53. What are the permitted modes of issuance of ZCZPIs?

ZCZPIs can be issued both by way of a public offer or a private placement offer.

54. What is the procedure for public issuance of ZCZPIs?

The procedure for public issue of ZCZPIs is prescribed under Reg 292K of the ICDR Regulations. This broadly involves the following steps –

- a. Filing draft offer document with SSE along with an application for in-principle approval
- b. Public comment on offer documents for at least 21 days by hosting the same on the website of the NPO as well as the SSE
- c. Observations from the SSE within 30 days from receiving all clarifications from the NPO
- d. Filing of final offer document with SSE incorporating the observations of the SSE

- e. Other conditions such as activation of ISINs, agreement with depositories etc apply.

55. Whether there is a validity period of the observations raised by the SSE on the draft fund raising document?

Yes, the observations on the draft documents are required to be incorporated and circulated as final fund raising documents within six months from the receipt of observations from SSE, as specified in the SE FAQs.

56. What is the procedure for private placement of ZCZPIs?

The procedure for private placement of ZCZPIs is similar to that of public issuance of ZCZPIs. The only difference is that unlike public issue, in case of private placement of ZCZPIs, the offer is restricted to an identified group of prospective investors.

57. What are the contents of fund raising document filed with SSE?

The contents of fundraising document have been broadly provided for under the SSE Framework. Further, the SSEs are authorised to specify the details to be incorporated in the fund raising document.

The following minimum disclosures are required to be ensured in the fund raising document such as vision, target segment, strategy, governance, management, operations, finance, compliance, credibility, social impact, risks etc.

Apart from the minimum requirements laid down by the SSE Framework, the SSEs require NPOs to provide details in accordance with the SEBI (Issue & Listing of Non-Convertible Securities) Regulations, 2021, as per the applicable Schedule on the basis of the manner of issuance.

58. Who are eligible investors for ZCZPIs?

Only institutional and non-institutional investors are allowed to invest in ZCZPIs. The same is currently not accessible to retail investors for investments.

59. Can foreign investors invest in ZCZPIs?

Foreign investors are currently not permitted to invest in ZCZPIs, as clarified by the SE FAQs.

60. What is the motivation for an investor to invest in ZCZPIs?

ZCZPIs does not offer any financial returns, rather, the principal investments are also not repaid to the investors. Therefore, these are in the nature of “donation” only, and therefore, the expectation of a ZCZPI investor is limited to the “social returns”, a ZCZPI

commits to provide. ZCZPIs offer transparency to the investors, thereby, differentiating the same from unstructured donations.

61. Can ZCZPIs be traded freely on the SSEs?

The SE FAQs provide that ZCZPIs shall not be available for trading on the secondary markets, however, the same is transferable to legal heirs.

62. When does the listing of a ZCZPI terminate?

ZCZPIs are issued for a tenure equal to the tenure of the project for which the funds have been issued. The listing of such instruments terminates on the happening of either of the following as specified under Reg 292P of the ICDR Regulations, that is –

- the object for which the funds were raised has been achieved and a certificate to this effect is submitted to the SSE; or
- the tenure to achieve object for which the funds were raised has expired.

63. What is the difference between a ZCZPI and a plain vanilla/ conventional bond?

Basis of difference	Plain vanilla/ conventional bond	ZCZP Instrument
Purpose of issuance	Commercial/ business purposes	Social/ charitable purposes
Investors	Any investor can invest including retail investors	Only institutional/ non-institutional investors. Retail investors not eligible
Listing segment	Debt segment within the Main Board on a stock exchange	SSE segment of a stock exchange
Eligible issuers	Any company incorporated under CA, 13	Only NPOs registered with SSE
Return on investment	Financial returns in the form of coupons	No return on investment except for creation of social impact
Principal repayment	Principal amount gets repaid at redemption/ maturity	No repayment of principal amount at termination

Continuous Disclosure Requirements

64. Which obligations are applicable to a SE identified/ registered with the SSE?

Ch IXA of the Listing Regulations specifies the obligations of a SE. The same is applicable to both a FPSE having designated securities listed on the applicable segment of the stock exchange as well as an NPO registered on the SSE.

65. Are the obligations applicable even if an NPO has not raised funds on the SSE?

Ch IX A of the Listing Regulations are applicable on all SEs registered with the SSE irrespective of whether the same is accessing funds from the platform or not.

66. Which disclosures are applicable on an NPO on an annual basis?

An NPO registered with the SSE is required to comply with the following disclosure norms on an annual basis –

- Annual disclosure within 60 days from the end of the FY. The contents of such disclosure have been specified by SEBI *vide* the SSE Framework, that broadly includes the following -
 - a. Disclosure on general aspects
 - b. Disclosure on governance aspects
 - c. Disclosure on financial aspects
 - d. Other additional disclosures as may be specified by the SSE.
- Disclosure of the “social impact” created by the NPO in an Annual Impact Report, duly audited by a social auditor, within 90 days from the end of the FY.

The contents and guidance on reporting has been prescribed under the SSE Framework.

67. Are there any additional disclosure requirements for NPOs that have raised funds on SSE?

In addition to the disclosures applicable on registered NPOs (*refer FAQ no. 66*), the NPOs that have raised funds on the SSE are required to report, on a quarterly basis, a statement on utilisation of funds within 45 days from the end of quarter, specifying –

- category-wise amount of monies raised;
- category-wise amount of monies utilised;
- balance amount remaining unutilised

68. What are the disclosures applicable on FPSEs?

An FPSE is required to comply with the disclosure requirements as per the applicable segments of stock exchange. In addition to the same, the FPSE is also required to disclose the “social impact” created, on an annual basis, through the Annual Impact Report, duly audited by a social auditor.

69. Are there any event-based compliances applicable on SE?

A SE is required to disclose any event that may have a material impact on the planned achievement of outputs or outcomes as soon as reasonably possible but not later than seven days or within such period as may be specified by SEBI, from the occurrence of the event. Such disclosures shall also be made simultaneously on the website of the SE.

For the said purpose, the SE is also required to take the following actions –

- a. Frame a policy on determination of materiality duly approved by the board or management of the SE.
- b. authorize one or more of its Key Managerial Personnel (KMP) for the purpose of determining materiality of an event or information and for the purpose of making disclosures to the SSE/ stock exchange,
- c. Disclose the said policy and names of authorised KMPs to the SSE or the stock exchange
- d. Provide updates on a regular basis along with relevant explanations in respect of the disclosures

70. What can be considered as a “material event” for a SE?

The Listing Regulations currently does not provide guidance on what will be considered a “material event” for a SE. We have attempted to put an indicative list of events that may have a material impact on the planned achievement of outputs or outcomes –

- a. Change in key members of the governing body
- b. Disruption in operations of the SE due to natural calamity (earthquake, flood, fire etc.), force majeure or events such as strikes, lockouts etc.
- c. Litigation(s) / dispute(s) / regulatory action(s) etc
- d. Withdrawal, surrender, cancellation or suspension of key licenses or regulatory approvals.

71. Is it mandatory for a SE to have a website?

While the same is not an explicit requirement under the Regulations, however, a SE is required to disclose on its website, all material events and information disclosed on the SSE/ stock exchanges. Therefore, it seems that it is mandatory for a SE to have a website.

72. Who shall constitute a KMP for the purpose of a SE?

KMP is defined under Reg 2(1)(o) of the Listing Regulations, with reference to Section 2(51) of the Companies Act, 2013. While FPSEs may draw reference from the same, the same is not applicable to NPOs, other than a section 8 company.

Section 2(54) of the Companies Act, 2013 defines KMP as –

"key managerial personnel", in relation to a company, means—

(i) the Chief Executive Officer or the managing director or the manager;

(ii) the company secretary;

(iii) the whole-time director;

(iv) the Chief Financial Officer;

(v) such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and

(vi) such other officer as may be prescribed."

An NPO is not required to appoint personnel in the aforesaid categories. Having said that, the term KMP may be interpreted in a wider sense to mean such personnel who are responsible for ensuring compliance with applicable laws, look after the finances of the NPO or are handling other important roles and positions in the NPO.

73. What are the consequences of non-compliance with the continuous listing requirements by the SEs?

On registration of a SE, the same assumes the nature of a listed entity, and accordingly, SEBI reserves the power to initiate enforcement actions such as issuance of administrative warning, imposing penalties under Chapter VIA of the SEBI Act, or action u/s 11 of the SEBI Act for debarment and/ or penalty, as also clarified by the SE FAQs.

Accounting and Taxation

74. How will the investments in ZCZPIs be accounted for in the books of investors?

For the investors, investment in ZCZPIs are as good as donations. Accordingly, the same should be accounted for as an "expenditure" in the books of the investor and routed through the profit & loss statement of the investor for the year in which such investment is made.

75. Can a company covered by the provisions of CSR, book the investments in ZCZPIs as its CSR expenditure?

The same is neither explicitly permitted nor prohibited under the current compliance universe. Investment in ZCZPIs are made for utilisation of funds towards a specific project/ activity, undertaken in a time-bound manner, with no financial benefits accruing to the investor. Considering the said elements, investments in ZCZPIs may be considered as CSR expenditure given the same is utilised for the activities eligible to be considered as CSR in terms of Schedule VII (*also refer FAQ no. 10*).

76. How will the ZCZPIs appear in the books of investee/ NPO?

Accounting for ZCZPIs is required to be done in the form of grants, and not loans, as clarified by the SE FAQs. Further, recently in June, 2023, the ICAI has released a revised Technical Guide on Accounting for NPOs³, which may be referred to. The ZCZPIs shall be written off at the end of the tenure.

77. Are there any tax exemptions available to the ZCZPI investors?

The introduction of SSEs in India has not witnessed any changes in the Income Tax Act as of now. However, the Regulations require the NPOs to hold valid Section 12A and Section 80G registrations under the Income Tax Act. In view of this and considering that the activities NPOs are engaged in, tax exemptions may be availed by the investors.

78. Whether Securities Transaction Tax (STT) will be applicable on ZCZPIs?

Securities Transaction Tax (STT) shall not be applicable on ZCZPIs.

³ <https://resource.cdn.icai.org/74188asb60123.pdf>