Our Views

Social Stock Exchange – A big thumbs up to SEBI!

Social Stock Exchange (SSE) is a new idea which originates from the requirement of transparency. As we all know, public scrutiny is the best way to bring in the transparency, and capital markets are known to provide a transparent platform with direct public scrutiny. There are significant differences between a listed corporate and an unlisted corporate in terms of public disclosures, governance, oversight, and perception. Unlike the listed commercial enterprises, not enough information is available in the public domain about for-profit social enterprises or non-profit organisations (Social Enterprises) in the country which today form a large segment of the ecosystem. There may be investors interested in contributing to social enterprises but lack of knowledge about these enterprises often dissuades the flow of funding.

With this background, SEBI in its last Board Meeting has come up with quite a creative and constructive thought of creating a SSE which will operate like any other stock exchange or bond exchange. Relevant securities of Social Enterprises (SEs) will be listed on a dedicated exchange and those can be traded by public. It would be a new investment avenue for socially conscious investors. The interesting part is that the listed SEs will have to make appropriate initial and continuous financial and social impact disclosures so that investors are aware of their activities. The SEs raising resources from the capital markets will have to register themselves with the SSE and there will be defined governance norms. There will be mandatory audit requirement of social impact for SEs raising funds/ registered on SSE.

SSE is likely to be a separate segment on the existing stock exchange. SEs eligible to participate in SSE, will be entities having social intent and social impact as their primary goals. Those enterprises will have to be engaged in one of the eligible social activities. Eligible enterprises may be able to raise funds through issuance of the equity shares which are like non dividend bearing equity capital. Companies incorporated under section 8 of the Companies Act do not pay dividend. Other products could be zero-coupon zero principal bonds, social/ development impact funds or mutual funds.

Though the eligibility criteria for SEs is not yet notified, as per SEBI's technical committee report, it should be a SE which is involved in one of 15 broad eligible activities based on schedule VII of the Companies Act, 2013. Additionally, corporate foundations, political or religious organisations/ activities professional or trade associations, infrastructure, and housing companies (except affordable housing) will not be permitted on SSE.

While we await the detailed guideline on listing and trading of these securities from SEBI, I assume there will be a normal public offering via offering circular and listing and trading process for the securities. This will provide a liquidity platform to the investor. As an investor, I can just donate/ invest my return on the investment. Which means I buy 5 years zero coupon bond which will get redeemed at the end of 5th year. I can sell those in the market and someone else can hold it as their contribution.

From an investor's perspective, in my view, there could be 3 possible opportunities. One could be like making a donation or grant without expecting anything in return – either for the principal or interest on it. Second could be an investment with no dividend or interest returns but with an upside on capital and assured liquidity. In this situation one could look to get the principal back either on maturity or at traded value. Or one could even opt to reinvest the contribution in another social cause. The third option could be to expect relatively lower returns given the social impact of the project. Of course, the structure of these instruments will have to be detailed out based on the objectives of both – the potential investors and the SEs.

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These are very initial days for this concept. As we go along and see it evolve, there will be many things to be sorted out. For example, most of these non-profit organisations run as a trust or charitable trust - would they be required to convert into a company? If yes, then how would the taxation laws work? What happens to the trust securities – some of these trust also own various other investments which could be very valuable? Is there any social rating process to differentiate different enterprises in the same way as an investor differentiates a AAA v/s AA bonds? What will be the applicable laws in case of borrowing, default, bankruptcy etc.?

This is a great concept which will bring in the much needed creative financing support to this segment. As a corollary, it will bring transparency and public scrutiny in the sector. And of course, it will bring in liquidity to the investment. While there are several grey area and matters to be clarified, I do think this is a fantastic thought and deserves a big thumbs up for SEBI.

https://economictimes.indiatimes.com/markets/stocks/news/sebis-new-idea-of-social-stock-exchange-throws-up-3-opportunities-for-investors/articleshow/86724663.cms

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