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REGULATORY

SEBI's Social Stock Exchange Reforms: Expanding Access for “Not for Profit” Organizations

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The Securities and Exchange Board of India has issued **Circular Reference No. HO/49/14/(10)2026-CFD-POD1/II/9380/2026** dated April 15, 2026, introducing consequential amendments to the regulatory architecture governing the Social Stock Exchange framework. This circular emerges from SEBI's sustained commitment to deepening social capital markets while preserving strong investor protection standards.

The circular is addressed to:

- All recognized stock exchanges
- Recognized depositories
- SEBI-registered merchant bankers and brokers
- Social enterprises
- Registered social impact funds
- Social impact assessment firms
- The three premier professional institutes of India

Regulatory Background and Consultation Process

The regulatory background traces to SEBI's foundational objective of establishing the **Social Stock Exchange** as a credible and accessible platform for social financing. Despite the SSE's conceptual promise, existing regulatory requirements had inadvertently constrained participation by Not for Profit Organizations (NPO), creating barriers to entry that undermined the very inclusivity the platform was designed to encourage.

Recognizing this structural tension, SEBI initiated a comprehensive review in active consultation with the **Social Stock Exchange Advisory Committee (SSEAC)**. This deliberative process was calibrated to identify measures that would stimulate greater NPO engagement with the SSE without compromising market integrity or diluting investor safeguards.

Principal Recommendations of the SSEAC

The SSEAC, after thorough examination, advanced **two principal recommendations**:

1. The first addressed the temporal flexibility afforded to NPOs upon initial registration on a Social Stock Exchange.
2. The second concerned the **minimum subscription threshold** for issuances of Zero Coupon Zero Principal Instruments, a specialized financial instrument uniquely suited to social sector fund raising.

Both recommendations were subsequently accepted by SEBI and given effect through partial modifications to *Master Circular No. HO/49/14/14(6)2025-CFD-PoD1/II/2771/2026* dated January 19, 2026.

Key Amendments to the Master Circular

Extended Registration Period for NPOs (Paragraph 1.1.2)

The first textual modification introduces a new **paragraph 1.1.2** immediately succeeding paragraph 1.1.1 of the Master Circular. Grounded in Clause (1) of Regulation 292F of the *SEBI ICDR Regulations*, this provision authorizes a Not for Profit Organization to register on a Social Stock Exchange while refraining from active fund raising through the platform for an initial period of **two years** from the date of registration.

The amendment introduces a critical extension mechanism whereby this initial two-year period may be further prolonged by **one additional year**, subject to the approval of the Social Stock Exchange. This effectively raises the maximum permissible non-fund-raising registration window from two years to three years.

The extended timeline affords NPOs invaluable breathing space to:

- Establish their governance frameworks
- Satisfy disclosure obligations
- Cultivate stakeholder relationships
- Build organizational readiness before accessing public capital markets

Reduced Minimum Subscription Threshold for ZCZP Issuances (Paragraph 1.4.5)

The second modification revises **paragraph 1.4.5** of the Master Circular, which prescribes the minimum subscription requirements for ZCZP issuances. The baseline requirement of **seventy-five percent** of the proposed fund raise remains intact as the default threshold.

However, a carefully crafted proviso introduces a **reduced minimum subscription requirement of fifty percent** for qualifying issuances. This reduction is not automatic or unconditional. It applies exclusively where the Social Stock Exchange, prior to granting in-principle approval for the partial fund raising, undertakes rigorous due diligence to satisfy itself that the funds raised can be deployed in a manner aligned with the disclosed objects of the issue.

The SSE must specifically determine that the underlying social project remains viable and meaningful even at the reduced subscription level, taking into account the various subscription scenarios disclosed in the Fund Raising Document. This **dual-threshold architecture** represents a nuanced regulatory balance between enabling capital access for socially beneficial projects and ensuring that partially funded initiatives retain operational and impact viability.

Disclosure Requirements for Under-Subscription (Paragraph 1.4.6)

The third modification revises **paragraph 1.4.6** of the Master Circular to address the contingency of under-subscription. The amended provision mandates that the NPO must disclose in its fund raising document two specific particulars:

1. The precise manner in which the balance capital shall be raised where the minimum subscription achieved is either seventy-five percent or fifty percent, as applicable.
2. The potential impact on the attainment of stated social objectives should the under-subscription remain unaddressed through alternative capital raising.

The provision further embeds an **investor protection clause** requiring refund of subscription monies where the applicable minimum threshold is not achieved. This ensures that subscriber capital is never exposed to projects lacking minimum financial viability.

Legal Authority and Effective Date

The circular derives its authority from **Section 11(1) of the Securities and Exchange Board of India Act, 1992**, read with Regulation 292F and Regulation 292K of the *ICDR Regulations*. The stated regulatory intent encompasses investor protection, market development, and securities market regulation. The modifications take **immediate effect** upon issuance.

Conclusion

The 2026 amendments to the SSE framework represent a **calibrated regulatory evolution** that expands NPO access to social capital markets while embedding proportionate safeguards. By extending the registration grace period and introducing a conditional reduced subscription threshold for ZCZP issuances, SEBI has demonstrated responsiveness to market feedback without compromising its core investor protection mandate.

The requirement of SSE due diligence for reduced-threshold offerings ensures that regulatory easing is matched with **enhanced gatekeeping**. These modifications are poised to catalyze greater NPO participation on the Social Stock Exchange, thereby advancing the broader policy objective of channeling private capital toward socially far-reaching outcomes.

For further details write to contact@indialaw.in

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