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Sub: Comments on Social Stock Exchange Report

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **REPORT SUBMITTED BY THE WORKING GROUP ON SOCIAL STOCK EXCHANGE.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 164,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The Report submitted by the Working Group on Social Stock Exchange is a far-reaching report on empowering and channelizing financial resources to the social sector. We support SEBI's efforts to ensure the viability gap funding for social sector is financed by the private sector as India's philanthropic ecosystem evolves. With regards to the above-mentioned working group report, we would like to add a few suggestions consistent with our objective to promote fair and transparent global capital markets and to advocate for stakeholder protection, which is the ultimate beneficiary in this case.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.
We offer our perspectives on some ideas in this report that we believe SEBI should bear in mind as it attempts to build a blueprint of a successful social stock exchange for our country. Its ultimate success will not only directly "touch" the lives of millions in our country but also can serve as an example to follow for other nations.

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C. Suggestions / Comments:

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Sr. No.	Recommendation in the Report to which the comment pertains	Suggestion/Comments	Rationale
1.	***2.4 The Idea of an SSE*** "SSE as a set of procedures that act as a filter"	The design of rules needs to be built around "beneficiary protection" and "impact-first" paradigm.	The Report puts faith on market forces to assess the impact potential of the NPOs/FPEs. But left on its own market forces may focus more on returns than impact
2.	***2.4 The Idea of an SSE*** "Rather, a declaration to intent to create social impact"	SEBI needs to consider the potential of "Social-Washing"[1] on the lines of "Greenwashing"[2] – a criticism that has been made against some of the green financing projects/corporates.	Self-Declaration can be a tricky mechanism to monitor, especially when the immediate term common minimum reporting standard recommended is not very "in-depth" in terms of measurement
3	***2.4 The Idea of an SSE*** "SEBI, in consultation with the existing specialist entities, should work out a mechanism for assessing credentials of the social impact dimensions self-declared by the FPEs."	"Feedback from Beneficiaries" should be made a mandatory part of such a framework	SSEs in other geographies have a common point of failure as identified (Dadush, 2015). Feedback from beneficiaries is often given a short shrift in the impact assessment criteria

[1] The process of exaggerating about how a company's products are environmentally sound. This misleads consumer in decision-making
[2] "Social-washing", exaggerates a product/entity which is for profit generation only, as socially-conscious and enabling social good. This can help them in fund raising via SSE when it is otherwise not eligible for. See #3 in Sources

4.	***3.1 Defining a social enterprise***	Concerns of "social-washing" is still strong in the absence of a proper "class definition". We fear entities not otherwise eligible for fund raising via SSE, might do so, by exaggerating the social benefits their actions bring. This exaggeration in ESG circles is commonly called to be "social washing"	As the Working Group report alludes but not clearly outlines, the idea of social enterprise has to be backed by substance over form.
5.	***3.3 A minimum reporting standard for FPEs and NPOs in India***	Annual Beneficiary feedback should form a key constituent of the standard of Social Impact Scorecard	The lack of feedback from ultimate beneficiaries can lead to prioritizing financial returns by investors over social impact
7.	***4.2 Funding Instruments***	Traditional form of funding may not work well enough. SEBI should be open to product innovation for fund raising in this exchange	Indian debt market is not deep enough to ensure easy fund raising via debt markets for a novel funding model like social enterprises
8.	***6.2 Smoothening Regulatory Wrinkles*** *On CSR regulations Subpoint 1,2*	We strongly support these proposals as it brings much needed flexibility in planning long term social projects	
9.	***6.2 Smoothening Regulatory Wrinkles*** *On CSR regulations Subpoint 3*	Enabling CSR credit trading is a welcome step. At the same time SEBI needs to ensure that intangibles like "beneficiary impact" is not diluted.	Such novel auction setups are welcome for fungible assets. However, trading of non-fungible assets can cause market failures.
10.	***6.2 Smoothening Regulatory Wrinkles*** *On FCRA*	We strongly support the recommendation.	We also suggest, as the sector matures, and our regulators gather more experience, they may explore relaxing restrictions further for foreign non-profits.
11	***6.2 Smoothening Regulatory Wrinkles*** *On AIF Regulations*	SEBI needs to provide more clarity in terms of who is an accredited investor when it comes to investing in SVFs. While currently there is no clear definition of "accredited investors", we believe such specialized exchanges should be limited to certain set of investors only and SEBI needs to explore the delineating such categories of investors more explicitly.	Investors apart from accredited investors may find the terms and methods of investing in NPOs hard to understand and thus should be allowed limited exposure to such vehicles. For CFA Society India recommendations on an appropriate accredited investors definition, refer pg7-8 of (IAIP, 2019)

Bibliography

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Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at advocacy@iaipirc.org.

Sincerely yours,
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