



Comments on the report submitted by the Technical Group on Social Stock Exchange

The Technical Group (TG) was constituted by SEBI on September 21, 2020 under the chairmanship of Dr. Harsh Kumar Bhanwala (ex-Chairman, NABARD). The Terms of Reference for the TG included developing framework for onboarding NPOs and FPEs on the SSE including defining for profit social investing/enterprises, prescribing disclosure requirements relating to financials, governance, operational performance and social impact. TG was also tasked to recommend on matters related to scope of work, eligibility criteria and regulation of social auditors

The TG has submitted its report and comments are sought from the public on the recommendations (at section 1.4 (a) to (k)) of the report in the following format:

Name of entity / person :			
Contact Number & Email Address :			
Sr. No.	Recommendation in the report to which the comment pertains (section 1.4 (a) to (k))	Suggestion/ Comments	Rationale

The comments may be sent by email to Smt. Yogita Jadhav, GM at (yogitag@sebi.gov.in), Shri Abhishek Rozatkar (abhishekr@sebi.gov.in) and Shri Rajesh Kumar Meena (rajeshm@sebi.gov.in) or by post to the following address no later than June 20, 2021. While sending email, kindly mention the subject as "Comments on TG-SSE Report":

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May 06, 2021

TECHNICAL GROUP REPORT ON SOCIAL STOCK EXCHANGE

Chairman's Note

I have great pleasure in presenting the “Technical Group Report on Social Stock Exchange”.

Social Stock Exchange (SSE) is a novel concept in India. The Working Group (WG) Report on Social Stock Exchange, released on June 01, 2020 had provided a form and content to the Hon'ble Finance Minister's vision. The WG report had made high level recommendations for SSE, which included participation of Non-profit organizations (NPOs) and For-profit enterprises (FPEs) on SSE subject to committing to minimum reporting requirements. The WG report also made recommendations outlining the modalities for creating a Social Stock Exchange that will serve as a platform for fundraising and, also incorporate a set of procedures by which social impact of NPOs and FPEs will be measured and reported.

This report seeks to put the dots and dashes to the high level recommendations made by the WG. The broad operational structure provided herein will go a long way in enabling SEBI to build robust and adequate framework to kick-start the Social Stock Exchange.

Taking the Working Group Report ahead this Technical Group (TG) deliberated at length on the various aspects such as determining what constitutes an eligible Social Enterprises for SSE through primacy of social impact, enabling on-boarding of social enterprises on SSE, and detailing their disclosure norms. The TG also deliberated on aspects related to ecosystem development, especially on Social Auditors. The TG has made certain recommendations for capacity building fund which will enable NGOs to navigate the SSE and its fund raising mechanisms. These concepts of Social Auditors and Capacity Building Fund are unique to fund raising for social enterprises in India, and would facilitate SSE in its activities. These recommendations complement the high level recommendations made by the WG.

As the Chairman of the Group, I gratefully acknowledge the commendable contribution of the members of the group and SEBI team who spared their valuable time and effort.

Dr. Harsh Kumar Bhanwala
Chairperson
Technical Group on SSE

Acknowledgements

The Technical Group expresses its gratitude to Shri Ajay Tyagi, Chairman, SEBI for constituting this group and providing guidance. The Technical Group also expresses gratitude to Shri S.K. Mohanty, Whole Time Member, SEBI.

The Technical Group would like to thank drafting team: Shri Varad Pande (Omidyar Network India), Shri Raahil Rai (Omidyar Network India), Shri Avishkar Naik (NSE), Ms. Rachana Bhusari (NSE) and SEBI officials, Smt Yogita Jadhav, General Manager; Shri Abhishek Rozatkar, Assistant General Manager and Shri Rajesh Kumar Meena, Manager.

The Technical Group would also like to acknowledge the special contributions of the convenors of the sub groups Shri Hemant Gupta, Shri Santhosh Jayram and Dr Sanjeev Singhal for taking lead in drafting and shaping the recommendations.

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1 Introduction

1.1 Constitution of the Technical Group

SEBI constituted a Technical Group (TG) under the Chairmanship of Dr. Harsh Kumar Bhanwala (Ex-Chairman, NABARD) on September 21, 2020. The other members¹ of the Technical Group are as follows:

- i. *Shri Ved Arya, Founder, Srijan and RCRC*
- ii. *Dr. R. Balasubramaniam, Founder & Chairman, Grassroots Research And Advocacy Movement (GRAAM)*
- iii. *Shri Matthew Cherian, Global Ambassador and Ex-Chief Executive, HelpAge India*
- iv. *Shri Mukund Chitale, President, Lok Manya Seva Sangh (SEBI Registered Investor Association)*
- v. *Shri Vikram Gandhi, Faculty, Harvard Business School; Founder, Asha Impact*
- vi. *Shri Hemant Gupta (BSE Representative)*
- vii. *Shri Santhosh Jayaram, Partner and Head, Sustainability and CSR Advisory, KPMG*
- viii. *Shri Shaji Krishnan V, Deputy Managing Director, NABARD*
- ix. *Ms. Roopa Kudva, Managing Director, Omidyar Network India*
Dr. Sanjeev Singhal, Chairman, Sustainability Reporting Standards Board, ICAI
- x. *Ms. Pushpa Aman Singh, CEO, GuideStar India*
- xi. *Ms. Ingrid Srinath, Founder Director, Centre for Social Impact and Philanthropy, Ashoka University*
- xii. *Ms. Priya Subbaraman (NSE Representative)*
- xiii. *Dr. Prasanna Tantri, Assistant Professor, ISB*
- xiv. *Shri Amarjeet Singh, Executive Director, SEBI*
- xv. *Shri Jeevan Sonparote, CGM, SEBI; Convener*

1.2 Terms of reference (ToR)

The broad terms of reference of the TG were to review and make recommendations on the following matters, in the context of the recommendations made by the Working Group on the Social Stock Exchange (SSE):

- i. Framework for on-boarding and regulating non-profit organizations (NPOs) and for-profit social enterprises (FPEs) on the SSE including defining for-profit social investing/enterprises
- ii. Standardizing reporting and disclosure requirements for NPOs and FPEs on the SSE including financial reporting, governance & operational performance and social impact.
- iii. Scope of work, eligibility criteria and regulation of social auditors, other intermediaries such as information repositories and, their necessary SROs.

¹ In alphabetical order of last names; members at (ii),(iv) and (xiii) inducted w.e.f. 07.10.2020

- iv. Further evolution and growth of social auditors

1.3 Process followed

In order to leverage on the vast and specific expertise of its members and to have focused deliberations on the subject matter, the TG agreed to work on the tasks mentioned in the ToR in three smaller sub-groups. Also, the entire TG met at regular intervals to assess progress and provide necessary inputs to each sub-group. The details and relevant tasks for each sub-group are provided below:

Sub-Group 1: Convened by Shri Hemant Gupta, the sub-group worked on defining social enterprises, framework for on-boarding of social enterprises, capacity building fund. The sub-group met on nine occasions. The other members of the sub-group are Dr. Harsh Kumar Bhanwala, Shri Ved Arya, Dr. R Balasubramaniam, Shri Matthew Cherian, Shri Shaji Krishnan, Ms. Roopa Kudva, Ms. Pushpa Aman Singh, and Ms. Priya Subbaraman.

Sub-Group 2: Convened by Shri Santhosh Jayaram, the sub-group worked on initial and continuous disclosure requirements for Social Enterprises. The sub-group also worked on developing taxonomy for social enterprises and disclosure norms for a few sectors. The sub-group met five times. The other members of the sub-group are Shri Harsh Kumar Bhanwala, Shri Ved Arya, Dr. R Balasubramaniam, Shri Mukund Chitale, Shri Shaji Krishnan, Ms. Roopa Kudva, Shri Hemant Gupta, Ms. Pushpa Aman Singh, Dr. Sanjeev Singhal, Ms. Ingrid Srinath and Dr. Prasanna Tantri.

Sub-Group 3: Convened by Dr. Sanjeev Singhal, the sub-group worked on scope and eligibility of Social Auditors and Information Repositories, as well as on financial disclosures by Social Enterprises. The sub-group met three times. The other members of the sub-group are Shri Harsh Kumar Bhanwala, Shri Matthew Cherian, Shri Mukund Chitale, Shri Santhosh Jayaram, Shri Shaji Krishnan, Ms. Pushpa Aman Singh and Ms. Priya Subbaraman. The group was also assisted by external experts CMA Sanjay Gupta, CA Durgesh Kabra, CA M P Vijay Kumar, and CA Kemisha Soni.

The TG met on 10 occasions. The TG had several interactions with various stakeholders to understand nuances of various fund raising instruments, including development impact bonds, concerns related to disclosures and current practiced norms. The technical group greatly benefitted from the deliberations with the stakeholders.

1.4 Key Recommendations

The key recommendation of the technical group were under the following broad heads

- a. **Eligibility of Social Enterprises (SE) for SSE, Primacy of Social Impact (Para 2.1 (a), (b) and (c)):** A social enterprise, For Profit Enterprise (FPE) and Not for Profit Organisation (NPO), to qualify on the Social Stock Exchange (SSE), should be able

to demonstrate that social intent and impact are its primary goals and that such intent is demonstrated through its focus on eligible social objectives for the underserved or less privileged populations or regions. The TG has proposed that a combination of three filters be used to establish the primacy of social impact objective of the social enterprise

- (i) 15 broad eligible activities based on Schedule VII of the Companies Act, 2013, Sustainable Development Goals and priority areas identified by Niti Aayog.
- (ii) Eligible activities of the SEs shall target underserved or less privileged population segments or regions recorded lower performance in the development priorities of national/state governments
- (iii) SE shall have at least 67% of its activities qualifying as eligible activities to the target population, to be established through one or more of the following:
 - a. Revenue b. Expenditure c. Customer base

Corporate foundations, political or religious organizations/ activities, professional or trade associations, infrastructure and housing companies (except affordable housing) will not be permitted on SSE

- b. Requirement of Registration for NPOs (Para 2.2.1):** In order to inculcate a cultural shift in NPOs to enable them to transition towards a disclosure driven fund raising system, as well to signal investor community about primacy of social impact, the TG recommends that NPOs be registered with SSE prior to raising funds through SSE. Registration criteria includes indicators such as validity of registration certificate, details of ownership and control, valid registration under Income Tax, minimum annual spending in past financial year, minimum funds raised in past financial year.
- c. Requirement for Listing of FPEs (Para 2.3.3):** TG observes that sufficient regulatory guidelines including eligibility criteria for listing of securities issued by FPEs exist under various SEBI Regulations. For FPEs, TG recommends that differentiators (same as those covered in 2.3.2) in addition to extant regulations, as per applicable segment such as main board, SME and IGP, shall be mandated for listing on SSE.
- d. Instruments available for NPOs (Para 2.3.1):** Modes available for fund raising for NPOs shall be Equity (section 8 co's.), ZCZP (this will have to be notified as a security under SCRA), Development Impact Bonds, Social Impact Fund (currently known as Social Venture Fund) with 100% Grants-in grants out provision, and donations by investors through Mutual Funds.

SEBI can encourage more Mutual Funds (MFs) to launch funds like HDFC Cancer Fund. Other means such as that followed by Quantum MF in association with

HelpYourNGO may also be explored.

- e. **Instruments available for FPEs (Para 2.3.1):** Modes available for fund raising for FPEs shall be Equity, Debt, Development Impact Bonds, and Social Venture Funds.
- f. **Offer document content for Social Enterprises (Para 2.3.2, 2.3.3):** The offer documents of the SEs for various modes of fund raising shall require disclosure of aspects called “differentiators”. The differentiators cover aspects such as vision, target segment, strategy, governance, management, operations, finance, compliance, credibility, social impact and risks. FPEs will also be required to provide information in the offer document currently applicable under various SEBI regulations.
- g. **Recasting Social Venture Funds (Para 2.4):** There is a need to encourage investors and philanthropists to participate in SVFs. Some of the changes that the TG has recommended include reducing minimum corpus size from Rs. 20 Cr to Rs. 5 Cr, reducing minimum subscription from Rs. 1 Cr to Rs. 2 lakh, allowing 100% grants, grants out under SVFs, allowing Corporates to invest CSR funds into SVFs with a 100% grants-in, grants out model, changing nomenclature of SVF to Social Impact Funds etc.
- h. **Capacity Building Fund (CBF) (Para 3.2):** The TG recommended that the size of the total fund of the corpus be Rs 100 Crores, to improve the ability of all stakeholders to navigate SSE, its process, instruments etc. The fund could also be useful in hand-holding NPOs (which are ready or almost ready for registration) on aspects such as outcomes and impact assessment. Exchanges shall leverage upon ISF for increasing awareness on the investor side of SSE.

CBF, to be housed in NABARD, as an administrative fund. Exchanges and other developmental agencies such as SIDBI shall also contribute. CSR funds should also be permitted to contribute towards CBF. CBF shall be governed through an advisory board comprising of representatives from developmental organizations, stock exchanges, philanthropic community and NPO community.

- i. **Social Auditors (Para 3.3.1):** To begin with only reputed firms/institutions having expertise in the area of social audit shall be allowed to carry out social audits. Such institutions will employ social auditors who have qualified certification course conducted by NISM. Social Auditors will be required to be empanelled with an SRO which is proposed to be under ICAI as a separate Sustainability Directorate. The governing body of SRO shall majorly comprise of members from social sector as well as members of ICAI/ Sustainability Reporting Standards Board. The functions of SRO include registration of SAs, laying down standards of professional conduct, suspension/ cancellation of membership of SAs on grounds set out by it etc. TG recommends that in order to facilitate the new Sustainability Directorate to carry out the aforementioned functions, necessary amendments, if required, may be made to

The Chartered Accountants Act, 1949.

The SRO shall prepare the criteria and list of firms/institutions for the first phase soon after the formation of SSE, and those firms/institutions shall register with the SRO.

The Sustainability Reporting Standards Board of the ICAI shall frame the Social Audit Standard covering aspects such as scope, engagement acceptance, basic principles, audit procedures, assurance report, documentation etc. ICAI shall also prescribe a separate Code of Conduct for SAs.

- j. Information Repositories (Para 3.3.2):** The TG deliberated and decided that since this is early days no regulatory intervention is required for the IR. Based on how their role shapes up at a later date, they can be subjected to appropriate checks and balances in the form of regulations governing their role, functions, structure and such other aspects as may be deemed appropriate.
- k. Disclosures on SSE (Para 4.2 and 4.3): Entities on SSE shall disclose Social Impact (for NPOs and FPEs) report on annual basis covering aspects such as strategic intent and planning, approach, impact score card etc.**
 - i. NPOs on SSE (either registered or listed)** will have to disclose on general, governance and financial aspects on an annual basis. The disclosures will include vision, mission, activities, scale of operations, board and management, related party transactions, remuneration policies, stakeholder redressal, balance sheet, income statement, program-wise fund utilization for the year, auditors report etc. NPOs shall be required to comply with Ind AS. Further, ICAI shall also update its Technical Guide on Accounting for NPOs issued earlier in 2009.

Apart from the annual disclosures, the NPO shall report within 07 days any event that might have a material impact on the planned achievement of their outputs or outcomes, to the exchange in which they are registered/listed. This disclosure will include details of the event, the potential impact and what the NPO is doing to overcome the impact.
 - ii. FPE listing equity/debt** shall in addition to social impact reporting requirement comply with the disclosure requirements as per the applicable segment such as main board, SME, IGP, etc.

2 Qualifying Criteria & Onboarding

2.1 Establishing the primacy of social impact

In India, entities working for social causes can opt for legal forms from among a variety that is available such as Company (for-profit or section 8 company), Society, Trust, Partnership et²c. Keeping this complexity in mind, the TG felt that there is a need to hold a high enough threshold for the activities of Social Enterprises (SE) for them to qualify on the Social Stock Exchange (SSE) without looking to create a separate legal entity for the present. The SE should be able to demonstrate that social intent and impact are its primary goals and that such intent is demonstrated through its focus on eligible social objectives for the underserved or less privileged populations or regions.

The TG therefore proposes a combination of three filters that are to be used to establish the primacy of social impact objective of the social enterprise. These are:

- (a) Eligible social objectives for the activities of the SE: The TG has drawn up a list of 15 broad areas of eligible social objectives for the activities that an SE can be engaged in.

List of eligible activities for demonstrating primacy of social impact

- i. Eradicating hunger, poverty malnutrition and inequality; promoting health care (including mental health) and sanitation; and making available safe drinking water
- ii. Promoting education, employability and livelihoods
- iii. Promoting gender equality, empowerment of women and LGBTQIA+ communities
- iv. Ensuring environmental sustainability, addressing climate change (mitigation and adaptation), forest and wildlife conservation
- v. Protection of national heritage, art and culture
- vi. Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports
- vii. Supporting incubators of social enterprises
- viii. Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building
- ix. Promoting livelihoods for rural and urban poor, including enhancing income of small and marginal farmers and workers in the non-farm sector
- x. Slum area development, affordable housing³, and other interventions to build sustainable and resilient cities
- xi. Disaster management⁴, including relief, rehabilitation and reconstruction

² The WG on SSE in its report defined a social enterprise as a class or category of enterprises that are engaging in the business of “creating positive social impact” by requiring such all SE to state an intent to create positive social impact, to describe the nature of the impact they wish to create, and to report the impact that they have created.”

³ As defined by the Ministry of Housing and Urban Affairs, Government of India

⁴ As defined by the United Nations Office of Disaster Risk Reduction (UNDRR)

activities

- xii. Promotion of financial inclusion
- xiii. Facilitating access to land and property assets for disadvantaged communities
- xiv. Bridging the digital divide⁵ in internet and mobile phone access, addressing issues of misinformation and data protection
- xv. Promoting welfare of migrants and displaced persons

The above list was drawn up using the items in Schedule VII of Companies Act 2013 as a foundation, and then further refinements were made based on the imperatives of the Sustainable Development Goals (SDGs) and the priority areas identified by Niti Aayog.

In these areas, the SE could either be delivering products, services, or programs or working on research, policy analysis and development, awareness building, governance or capacity building. The TG has also provided an indicative taxonomy of sub-areas under each area and the same is available at Annexure 1. While the TG has attempted to make this taxonomy as exhaustive as possible, it has recognized the possibility that the taxonomy may be missing certain existing sub-areas, or that new sub-areas can appear under any of the 15 broad areas..Therefore, based on experience gathered by the SSE, the taxonomy needs to be updated on a regular basis.

- (b) The target population segment or region: The eligible activities (that meet at least one of the 15 social objectives as modified from time to time) of the SE shall target underserved or less privileged population segments or regions that have recorded lower performance in the development priorities of national/state governments. These may include but are not limited to members belonging to Scheduled Castes (SC) and Scheduled Tribes (ST), Other Backwards Classes (OBC), people with special needs, the elderly, children, at-risk adolescents, migrants, and displaced persons.
- (c) Predominance of the eligible activity in overall work of the SE: It is not enough that an SE establish that the objectives for its activities pass the test for social intent/impact and that it is channeling these activities to members of a certain section of target population or region, but also that such activities form a significant portion of its overall activities as a matter of strategy. To establish this, the TG recommends that the SE shall have at least 67% of its activities qualifying as eligible activities to the target population. This it to be established through one or more of the following:
 - i. Revenue – At least 67% of the immediately preceeding 3-year average of the SE’s revenues comes from providing the eligible activities to members of the target population.
 - ii. Expenditure – At least 67% of the immediately preceeding 3-year average of the SE’s expenditure has been incurred for providing the eligible activities to members of the target population.
 - iii. Customer base/ beneficiaries – Members of the target population to whom the

⁵ As defined by the OECD

eligible activities have been provided constitute at least 67% of the immediately preceeding 3-year average of the SE's customer base/beneficiaries.

2.1.1 Declaration of primacy of social impact

Once the SE is able to establish the primacy of social impact through the three filters discussed above, it shall be eligible to qualify for on-boarding the SSE and access the SSE for fund-raising upon submitting a declaration in the following indicative format:

“We will produce [a mission-related benefit] for [families of target community/ communities/ partners], in one or more [locations] in under-served regions recording lower performance in [aspects] of national/ state priorities, within [a time period], by undertaking [activities] or [setting policies], through one or more [aspects of organizational structure and operation], through executing [a theory of change/impact] and adopting [a set of values] that we find compelling.⁶”

As part of the registration process, the SEs shall also make public disclosures and provide documentation for the past 3 years. This aspect is covered in detail in Chapter 4.

2.1.2 Ineligible organisations and activities

While the TG has laid out a clear set of guidelines to ascertain whether an SE is eligible to raise funds through the SSE, it also recognizes the need to state the kinds of objectives and activities and the kinds of entities that must necessarily fall outside the ambit of the SSE. Accordingly, the TG has recommended that the following shall not be eligible to raise funds using the SSE's mechanisms:

- i. Corporate foundations, that are primarily funded by a parent corporate entity or a group of corporate entities.
- ii. Political or religious organisations or activities.
- iii. Professional or trade associations.
- iv. Infrastructure companies and housing companies (other than affordable housing companies).

2.2 Key qualifying criteria for onboarding

The TG recommends that the first step to onboarding a SE is to establish the primacy of social impact. This has been discussed in the previous section. Once the SE has completed this step, then there is a distinction to be made between FPEs and NPOs. An NPO is required to register on any of the Social Stock Exchange, and thereafter, it may choose to list or not. However, an FPE can proceed directly for listing, provided it is a company registered under Companies Act 1956/2013 and complies with the requirements in terms of SEBI Regulations for issuance and listing of equity or debt securities.

2.2.1 On-boarding process for NPOs

⁶ As defined by the Fourth Sector Group, a global multi-stakeholder platform for collective leadership and action aimed at accelerating the development of a supportive ecosystem for the fourth sector.

NPOs unlike FPEs are not well-versed with rigours and discipline required for raising money through public. The TG has recommended a set of mandatory criteria that NPOs shall meet in order to register. Given the NPOs possess a variety of legal structures and are regulated by a variety of statutory bodies and legislative acts, registration serves a three-fold purpose. Firstly, it brings interested NPOs onto a common platform of legal requirements for the purposes of accessing the SSE. Secondly, it inculcates a cultural shift in NPOs and enables transition towards a disclosure driven fund raising system. Thirdly, it provides a means for NPOs (and especially, smaller NPOs) to signal the primacy of social impact and the quality of their governance, transparency even if they wish to not list any security at the present moment. That is, NPOs will be able to leverage the reputation value of being registered while raising funds, whether or not they choose to list, and this reputation value will derive from the registered NPOs satisfying the mandatory criteria, which also include annual reporting requirements, as described below.

The mandatory criteria for NPO registration are described in Table 2.1 below. Some of these criteria were also mentioned in the Annexure 2 of the Working Group report.

Table 2.1: Mandatory Qualification Criteria for NPO Registration Process

Broad Parameter	Indicator	Details
Legal Requirements		
Entity is legally registered as an NPO	Registration certificate valid at least for next 12 months	Entities must be registered in India as one of the below: a. Public charitable trusts with a deed registered with Charity Commissioner/ Sub-Registrar as applicable b. Societies under Societies Registration Act c. Not for profit companies under the Companies Act
Ownership and control	Governing document (MoA & AoA/ Trust Deed/ Bye-laws/ Constitution)	Disclose if NPO is owned and/or controlled by government or private.
Tax exempt under Income Tax Act	Registration Certificate under 12A/12AA/12AB under Income Tax	Valid 12A/12AA/12B for at least the next 12 months. Does not have a notice or ongoing scrutiny by Income Tax regarding any conditions for tax exemption under 12A/12AA/12AB.
Registration with Income Tax as an NPO	IT PAN	Valid IT PAN
Age of the	Registration certificate	Minimum 3 years

NPO		
Tax deduction under Income Tax	Valid 80G registration under Income-Tax.	Ensure registration declares whether tax deduction is available or not to investors.
Minimum Fund Flows		
Annual Spending in the past financial year	Receipts or Payments from Audited accounts/ Fund Flow Statement	Must be at least Rs. 50 lakhs
Funding in the past financial year	Receipts from Audited accounts/ Fund Flow Statement	Must be at least Rs. 10 lakhs

It is to be noted that in addition to the legal requirements, the mandatory qualifying criteria for registration include a set of minimum size as indicated by funds received/deployed. These exist to ensure that the NPO wishing to register has an adequate track-record of operations.

Since the validity of some of the qualification criteria are to be for a set period of time, the NPO, once registered, must ensure that upon expiry of any of the certificates or registrations in the list of requirements, it provides a new certificate or registration within a specified period of time to maintain its registration with the SSE.

The TG also recommends that registration shall impose certain minimum annual reporting requirements on NPOs, and that listing shall impose certain additional reporting requirements. These reporting requirements are described in detail in Ch. 4.

2.3 Key guidelines for listing

The final step in onboarding is listing securities. The guidelines covering both the nature of listable securities and the procedures for listing have been provided by the TG and are described in this section.

2.3.1 Nature of listable securities

The WG has recommended a host of securities that SEs can list. These instruments vary for NPOs and FPEs.

For FPEs, the nature of instruments is already well-established in the markets for listed conventional capital, namely debt and equity instruments of the standard form.

For a subset of NPOs, namely Section 8 Companies, equity remains a potential funding instrument, even if it assumes a different form relative to conventional equity (since no dividends are payable on Section 8 Company equity). However, for other NPOs, the instruments are either novel (such as the Zero Coupon Zero Principal bonds) or do not enjoy a substantial history of usage in Indian capital markets and therefore remain largely unfamiliar to NPOs (such as social venture funds). Also, depending on whether the fund-raising for the

NPO is at the project-level or the enterprise-level, the nature of the instrument and the issuer would vary.

A. The following list of securities/ mode of raising finance for NPOs is illustrative:

- i. Equity: This is possible for an NPO registered as a Section 8 Company. The Section 8 Company wishing to list equity shall need to show its track record through social performance of past projects/activities undertaken by them as well as through differentiators (detailed below) that will allow investors to gain greater insight into the company's activities.
- ii. Zero Coupon Zero Principal (ZCZP) bonds: These are bonds that have a zero coupon and no principal payment at maturity. These will be issued by an NPO for specific social development projects/activities, and such an NPO shall need to show expertise in the targeted areas through social performance of past projects/activities undertaken by them in the same area as well as through differentiators (detailed below) that will allow investors to gain greater insight into the NPO's activities. While ZCZP can be listed, their trading potential shall be limited.

It is observed that ZCZP bonds differ from conventional bonds. A conventional bond provides a fixed interest/repayment on the funds raised through the various contractual arrangements. ZCZP do not offer such returns but promises a social return to the funder. Such a promise carries some probability of being defaulted upon, insofar as the NPO may not deliver the social impact that it promised to create.

It is essential to recognize that the funder's sense of fulfilment or disappointment has to do with the creation of social impact instead of any financial return, and that if the funder is disappointed, then the NPO is liable to lose the funder's trust and therefore its donations in the future. So, the essential quality of an asset or a security as a promise that can on occasion be defaulted upon, and the default event having consequences for the defaulter's ability to raise funds in the future, is retained in the case of ZCZP.

Since the current definition of security under SCRA doesn't consider social returns, the TG endorses WG recommendation of including ZCZP as a security in SCRA

- iii. Social Impact Funds (or SIFs; these are Social Venture Funds, or SVFs, actually, but it is proposed that SVFs be renamed – see the next Section 2.4): These will typically be issued in 2 types 100% grant-in/grant-out model or 25% grant-in /grant out model by an Alternative Investment Fund (Category I).

The issuer (AIF) wishing to raise funds for NPOs shall need to show expertise of the NPOs involved in the targeted area through social performance of past projects undertaken by them in the same area as well as through differentiators (detailed below). NPOs while reducing its issue expenses compared to a ZCZP will be able to raise funds through SIFs.

It is noteworthy that while the units of SIFs can be listed, their trading potential in case of 100% grant-in/grant-out shall be limited.

- iv. **Mutual Funds (MFs):** Mutual funds are a mechanism for pooling of funds by issuing units to the investors and donors, and investing these funds in securities such as shares and debentures in accordance with the objectives as disclosed by the offer document. The mechanism is in the form of a trust, which has a sponsor, trustees, asset management company (AMC) and custodian. MFs are listed on stock exchanges and its units can be traded on the exchanges where they are listed. There are two means through which an NPO can receive grants through existing MFs.
- a) Through AMC: The returns on the the scheme can be donated directly to an NPO chosen by the AMC.

Example: HDFC Cancer Fund

The HDFC Charity Fund for Cancer Cure was started with the principal objective of providing financial aid for treatment of needy cancer patients. The project provides financial aid up to Rs. 5 lakhs per patient. The project has transformed the lives of over 7,400 underprivileged cancer patients across the country, many of whom completed their treatment and returned to productive life again. The Fund works as follows: HDFC AMC solicits funds from social-minded investors who wish to donate returns made on their money, either partially or fully, to provide financial assistance to cancer patients. The funds are then invested in conventional assets, predominantly debt securities, and the interest income arising from these investments are given to the Indian Cancer Society (ICS). Being closed-ended with a tenure of 3 years, the Fund returns the principal back to the investors every 3 years and raises a fresh round of capital. The shareholders receive a tax benefit under 80G of Income Tax Act to the extent of the dividends foregone by them every year subject to prescribed limits.

b) Through Intermediary:

The units may be redeemed at a specified time and the proceeds shall be donated to an NPO vetted and monitored by an intermediary.

Example: Quantum Mutual Fund's SMILE facility

The SMILE facility enables an Investor, on the basis of his consent, to contribute some percentage of his/her Investment with Quantum Mutual Fund towards a charitable cause to any NGOs (maximum two) which are registered, vetted and monitored by "HelpYourNGO" Foundation (HYNGO). Investors can contribute 10% from the holding of investor under the folio tagged for SMILE at the end of each year ended September 30 and shall be made by way of automatic redemption of units.

Contribution through MFs allows retail investors to donate to NPOs which have undergone certain scrutiny either by the AMC or by an intermediary. Since, the option to donate lies with the investor, SEBI may consider enabling contribution to causes

through MFs for more schemes.

- v. Development Impact Bonds (DIBs): These are structured finance products where upon completion of a project that meets pre-agreed social metrics at pre-agreed costs/rates, the service provider (who would be an NPO or FPE) of the project receives grants from the donor, who is called the “outcomes funder”. Since the outcomes funder provides funding on a post facto basis, a “risk funder” provides the financing to the service provider to fund the operations on a pre-payment basis, and also undertakes the risk of non-delivery of social metrics by the service provider. The risk funder is compensated through a small return if the social metrics are delivered.

DIBs are governed by tight legal contracts and have strong governance structures in place on reporting, impact measurement etc, but are currently able to access a limited set of institutional donors and investors. DIBs can be listed for individual projects, or for a pool of projects in a particular area, and the listing can be for just risk funding (debt capital) or for outcomes funding (grant funding) or both. DIBs can also be subsumed with the SVF/ SIF structure. SSE can pre-qualify a few evaluators for DIBs (by sector) or set out some conditions to be qualified by a DIB evaluator. An alternate form of DIBs – Impact linked debt – can also be considered for listing on SSE.

DIBs on SSE can bring in new money sources to credible NPOs who are willing to follow disclosure norms. Further, with CSR acting as outcome funder, will reduce complexity of CSR donation for smaller companies. DIBs also present an opportunity to channelize risk investors need to fund credible social projects.

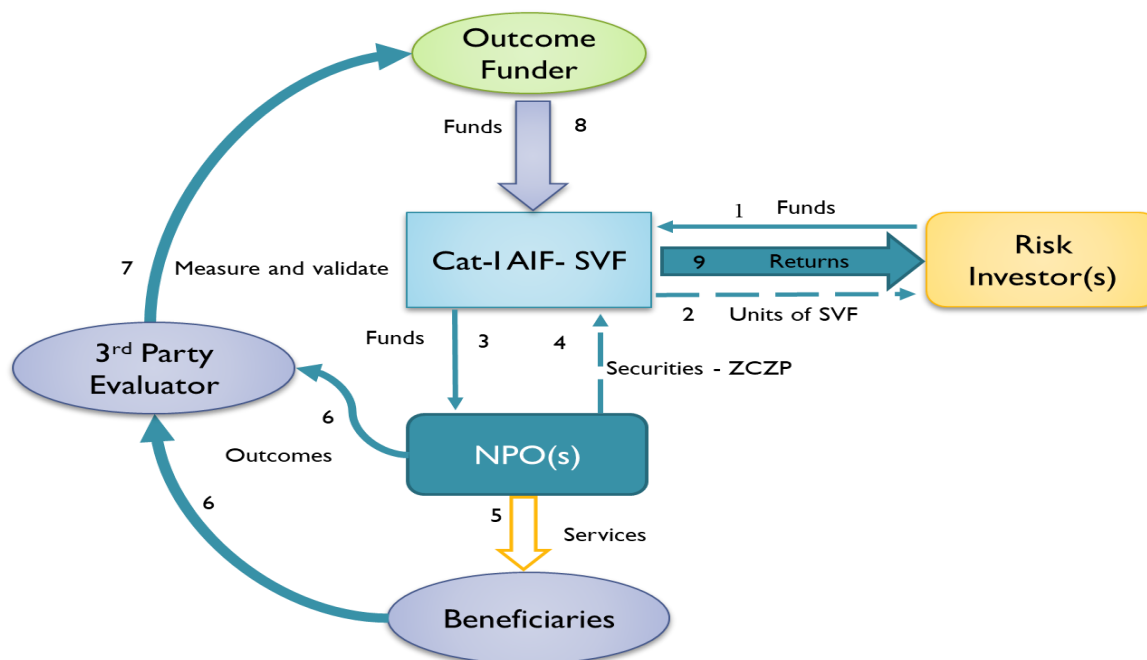
Globally DIBs are seeing increasing traction. As per Brookings report⁷ on “What is the size and scope of the impact bonds market?” it is observed that 194 impact bonds have been issued so far across 33 countries. Most of these bonds have been issued in developed markets (177 in UK and US). The total capital deployed in impact bonds exceeds USD 420 million. There are success stories in India as well⁸.

Since, such structures promote more transparency and standardisation of impact reporting. If they can access the SSE platform, they have a fair chance in attracting the retail donor and investor community. A promotional push from SEBI will help.

Figure 2.1: An illustrative structure of a typical DIB envisaged in SSE.

⁷ https://www.brookings.edu/wp-content/uploads/2020/09/Impact_Bonds-Brief_1-FINAL-1.pdf

⁸ Such as Girl child education, Quality Education and Utkrisht



The key partners in a DIB structure are as follows:

Outcome Funder: Typically an outcome funder could be CSR, Foundations, Retail Investors or Government who desire to fund development outcomes creating impact at grassroots without the risk of backing ineffective solution. Hence, an outcome funder commits to repaying principal and returns if targets are met.

Risk Investor: These investors provide the upfront capital for desired outcomes and carry the risks of achieving outcomes. Risk investors introduce market discipline and commitment to disclosure norms for NPOs.

3rd Party Evaluator: These are external organizations having expertise in designing assessment, lay outcome paraterers, measure and evaluating outcomes and impact against the targets set.

Intermediary (Project Manager/ AIF-SVF in SSE): These entities are specialists in result based financing aimed to solving pressing issues. They are responsible for aligning all partners together.

Connecting DIBs with SSE

Currently, in terms of SEBI AIF Regulations, an SVF is required to invest in unlisted securities of social ventures. Accordingly, SVFs presently are investing only in FPEs. Since, NPOs (other than section 8 companies) cannot issue any securities, there is a need to ensure that ZCZP is permitted as a security so as to ensure that DIBs are implementable in SSEs.

Annexure 2 captures more details about DIBs.

B. The following list of securities/ mode of raising finance for FPEs is illustrative:

- i. **Equity/Debt:** The FPE wishing to list equity or debt needs to show its track record through social performance that will allow investors to gain greater insight into the FPE's activities. The extant regulations for listing of equity or debt shall also need to be followed. In case of equity, the segment of listing shall also need to be considered, i.e. Startup/Innovators Growth Platform (IGP), Small and Medium Enterprises (SME) or main boards.
- ii. **Social Impact Fund (SIF)/Development Impact Bonds:** These will typically be issued by an aggregator for a specific target area. The issuer wishing to list such instruments shall need to show the impact areas and other relevant metrics such as impact expected and the expertise of the aggregator and other stakeholders in managing such projects.

The TG's recommendations for operationalizing some of the above securities are presented in Table 2.2 below:

Table 2.2: Operationalizing the listable securities

Instrument/ Means of Fund raising	Comments
For NPOs	
1. Social Impact Funds	Enabling 100% grants-in grants-out vehicles is the key priority to kick off the SSE. This is a low-risk instrument as investors expect only "social returns", and no return of capital is expected. The TG recommends that necessary changes be made to SEBI'S AIF regulations to accommodate this. See section 2.4 for more details.
2. Development Impact Bonds (DIBs)	Globally DIBs are seeing increasing traction. There are success stories in India as well. A promotional push from SEBI will help.
3. Mutual Funds	SEBI can encourage more MFs to launch funds like HDFC Cancer Fund. Other means such as that followed by Quantum MF in association with HelpYourNGO may also be explored.
4. Zero Coupon Zero Principal bonds	The TG recommends that the necessary amendments be made to include ZCZP bonds in the definition of Securities.
For FPEs	
1. Equity	All requirements in place.
2. Social Impact Funds	Despite SEBI AIF guidelines enabling SVFs, traction has been low. Some tweaks in regulations are suggested in

As recommended by the WG, SSE shall be a separate segment under the existing stock exchanges. NPOs which have registered or raised money through various means will be clearly visible on such segment. However, FPEs are permitted to list its securities on main board or on SME or IGP, depending on what fits best. It is recommended that such FPEs may be identified clearly as For Profit Social Enterprise (FPSE) by the Stock Exchange as a company distinct from conventional commercial enterprises.

Once the FPE or NPO has decided the security it wishes to list, then it will need to comply with the listing requirements applicable for those securities. These listing requirements are in the nature of pre-listing and post-listing requirements. The latter, which take the form of disclosure and reporting requirements, are covered in detail in Chapter 4.

2.3.2 Listing guidelines for NPOs

As part of the pre-listing process, the NPO shall provide audited financial statements for the previous 3 years and social impact statements (see Chapter 4). Additionally, the TG recommends that the offer documents for SEs provide the details under the following heads, called “differentiators”.

Sr. No.	Differentiator	Details
1	Vision	Organisation’s activities and programmes are in line with aims and objects stated in its constitution
2	Target Segment	Organisation has defined its target segment and reach to accomplish its planned activities. Clear identification and understanding of the target segment (those affected by the problem and how are they affected) The SE must disclose how its approach intends to improve Inclusion for its customers / recipients
3	Strategy	Strategy formulation towards accomplishing vision, should take into account capabilities and learning from challenges.
4	Governance	Organisation has a governing body and details of its highest governing body, composition, dates of board meetings held(key items covered).
5	Management	Details of key managerial staff such as those in charge of Programmes, Fundraising, MarCom, Finance, HR. Organisation discloses whether it provides letters to staff and volunteers defining roles and responsibilities, has a periodic performance appraisal process etc.
6	Operations	The organisation has a physical existence, is operational and shares its address for visits.
7	Finance	Disclosure of financial statements in accordance with guidelines for NPOs issued by ICAI
8	Compliance	Organisation makes available, annual accounts duly audited for the latest three financial years and there are no material

Sr. No.	Differentiator	Details
		qualifications or material irregularities reported by its auditor. Compliances w.r.t. Income Tax, notices received etc.
9	Credibility	Documents such as Registration, Trust Deed/ MoA and AoA, Address Proof, IT PAN, 12A/12AA Certificate, FCRA certificate and returns, remuneration to governing members.
10	Social Impact	As per Annexure 9 (Strategic Intent and planning; Impact Scorecard)
11	Risks	Disclose (i) risks that the NPO sees to its work, and how it proposes to mitigate these (ii) unintended consequences that the NPO sees from its work, and how it proposes to mitigate these

The above categories will be used by potential funders/investors to differentiate between the various similar NPOs and securities being listed and to make informed investment decisions. For program-specific or project-specific listings, the NPO shall have to provide a greater level of detail in the listing document about its track record and impact created in the program target segment. The NPO will also be required to publicly display on its website all the information submitted as part of pre-listing and post-listing requirements.

An outline for offer documents of the SEs for various modes of fund raising is available at Annexure 3.

Further, the SSE shall manualize all procedures and workflows (e.g. for registration, listing, delisting, accounting, disclosures, etc.), laying out detailed roles and responsibilities for all stakeholders.

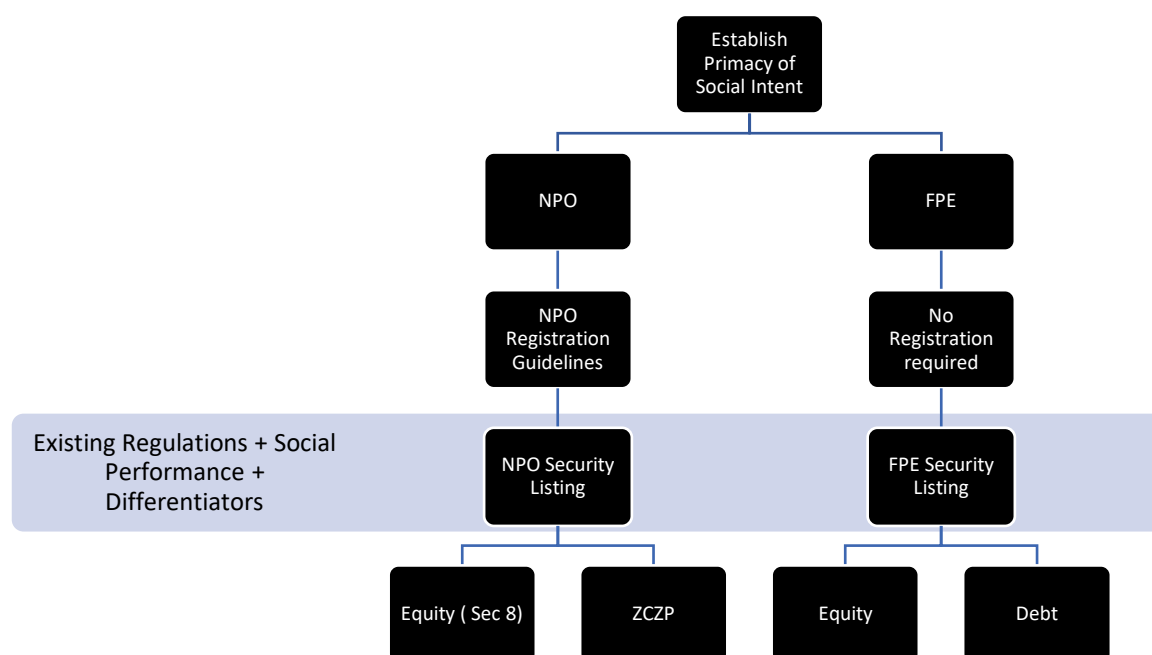
2.3.3 Listing guidelines for FPEs

TG observes that sufficient regulatory guidelines under various SEBI Regulations exist for listing securities such as equity, debt issued by FPEs. These SEBI Regulations also provide an eligibility criteria. In case of FPEs, the differentiators (same as those covered in 2.3.2 above) in will be in addition to requirements as mandated in SEBI Regulations in respect of raising funds through equity or debt.

FPEs shall list their securities on the appropriate existing boards. For example, debt securities shall be listed on the main boards, while equity securities shall be listed on the main boards, or on the SME or IGP, depending on what fits best. The extant regulations for listing shall also need to be followed depending on the chosen board. For example, if the FPE intends to issue its securities on IGP, then Chapter X of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 will apply.

FPEs shall be subject to disclosure requirements in terms of existing SEBI Regulations as well as on social impact which is covered in detail in Chapter 4.

Figure 2.2: Process flow for onboarding SEs



2.4 Recasting Social Venture Funds

A crucial part of ecosystem strengthening shall be the work of encouraging investors (both retail and institutional) and philanthropists to participate in SVFs, while setting and maintaining high standards for the quality of fund management.

To accomplish this, the TG proposes the following:

- i. Change the name from “Social Venture Funds” to “Social Impact Funds” to make explicit the intent of creating positive social impact.
- ii. In addition to existing SVF, a new form of SVF, exclusive for SSE, may be allowed to set up which will be based on 100% grants-in, grants-out model.
- iii. Reduce minimum corpus from Rs. 20 crores to Rs. 5 crores (similar to angel funds under AIF).
- iv. Set minimum subscription amounts of Rs. 1 crore for institutions and Rs. 2 lacs for individuals.
- v. Remove the reference to “muted” returns in the definition of SVFs since the SE has to establish primacy of the social impact goal to be eligible .
- vi. Changes in Income Tax regulations and seeking clarifications on FCRA, as suggested by the WG in its report at Chapter 6, for consideration by the relevant authorities.
- vii. Allow Corporates to invest CSR funds into SIFs with a 100% grants-in, grants out model

3 Building an Enabling Ecosystem

3.1 Ecosystem is a pre-requisite

TG believes that a novel undertaking as the SSE cannot commence without adequate preparation as well as precaution. This is what the ecosystem recommendations aim to accomplish. There are three aspects which are taken up in turn: the necessity of a capacity building fund⁹, the role of social auditors and other intermediaries (like information repositories), and the recasting of Social Venture Funds (SVFs) to encourage greater participation by funders and investors.

3.2 Capacity building fund (CBF)

While, Investor Services Fund (ISF) of the exchanges may be leveraged upon for investor awareness and education in the social stock exchange, the TG is especially concerned with the ability of NPOs to navigate the SSE and its processes, instruments, and other stakeholders. In order for SSE to be successful, all stakeholders shall be well-versed with the aims and objectives of the SSE, its functioning, and the opportunities for funding that it offers. Further, each stakeholder shall understand its own role as well as the roles of other stakeholders who are participating in the SSE, such as fundraising NPOs and FPEs, investors and funders, capacity builders, social auditors and information repositories, and administrators. There is also a need to hand-hold the NPOs and FPEs on the need and importance of accurately reporting on output, outcomes and impact

Therefore there is a felt need, as has also been recommended by the WG, of a Capacity Building Fund (CBF) from the very beginning of the launch of SSE.

To accomplish the above objectives, CBF could be housed in NABARD, as an administrative fund under it. Stock Exchanges too shall contribute towards such a fund. Other developmental agencies such as SIDBI, other financial institutions, and donors (CSRs) may also contribute towards such a fund. The size of the total fund of the corpus is envisaged to be Rs 100 Crores. Since, the fund will welcome donations, for such purposes, it will need to be registered under 80G. This is also essential so as to be eligible to receive Corporate Social Responsibility (CSR) donations (which will require changes to Section 135/Schedule VII of Companies Act 2013).

The fund's governance shall be through an Advisory Board. The proposed composition of the Advisory Board may be as follows:

- i. 2 representatives each from developmental organizations contributing to the fund corpus (organizations contributing at a minimum 25% of the targeted corpus)
- ii. 1 representative from each of the stock exchanges,
- iii. 1 representative from the philanthropic organizations
- iv. 2 members from the NPO community

⁹ As has also been recommended by the Working Group on SSE in its report dated June 01, 2020.

For the latter two categories of Advisors, a selection process will have to be worked out. NABARD shall provide secretarial services to the Advisory Board.

The focus of the CBF shall be to help NPOs to understand and appreciate the processes (e.g. registration, listing and disclosure requirements), instruments (e.g. DIBs, SIFs/SVFs), and other stakeholders (e.g. funders/investors and social auditors and information repositories). All of this capacity building shall happen through awareness programs that the CBF shall design and then execute as deemed fit including by outsourcing. In these programs, NPOs (including smaller, emerging ones) that are “ready or almost ready for registration” shall learn about:

- i. The SSE, its components, instruments, stakeholders, the qualifying criteria, the disclosure requirements, etc.
- ii. Strategy planning
- iii. Effective and efficient use of funds
- iv. Fund-raising via the measurement of outcomes/impact and then the dissemination of this information through corporate communications
- v. Membership development (if relevant)
- vi. Technology adoption and improvement
- vii. The improvement of operations and systems, including via the on-boarding of external experts (e.g. technical personnel) and mentors
- viii. Capacity building for financial, MIS and reporting systems
- ix. Human resource development
- x. Succession planning

CBF programs shall benefit NPOs that meet the registration requirement of the SSE as well as NPOs which “*aspire to be registered with SSE*”.

NPOs which aspire to be registered with SSEs are defined to be those that are at least 2 years old, have undertaken a minimum of Rs. 25 lakhs annual spending during the past financial year and raised a minimum of Rs. 5 lakhs in donations and contributions during the past two financial years. These criteria for defining “*aspiring to be registered with SSE*” NPOs may be subject to change, if the qualifying criteria for NPOs to register on SSE changes.

Furthermore, the content created for these programs will be available in the public domain for all other NPOs (whether they are registered with the SSE or not) and also for FPEs and anybody else.

Notwithstanding the overall focus on NPOs, the priority of the CBF in the early days of its operation shall be to ensure that the SSE gains momentum through active participation by all stakeholders. Therefore, the CBF shall also design awareness programs to serve stakeholders other than NPOs – for example, programs that proactively engage funders and investors to raise awareness among them about the needs and challenges of the social sector, and about the opportunities to create social impact afforded by the SSE, and thereby galvanize their interest in both NPOs and FPEs.

CBF through various agencies such as NISM shall deliver programs free of cost, except where the programs are attended by FPEs as well, in which case the CBF may levy an appropriate fee as determined by the advisory board on such enterprises. It is also the responsibility of the CBF to work with the exchanges and merchant bankers to determine an affordable fee structure for registration and for listing on the SSE, so as to allow for as much inclusivity as possible. Still, the smaller, emerging NPOs may require a financial subsidy to help them pay such fees, and the stock exchanges shall each receive 5% of the fund for spending towards this purpose. This will be in the form of reimbursement of fees (upto specified amount) to the exchanges, based on actual listing of the NPOs and as determined by the Advisory Board. Smaller, emerging NPOs will also require financial assistance towards completing disclosures and other listing requirements.

The CBF's success shall be measured by 3 indicators:

- i. The number of NPOs or instruments listed on the SSE
- ii. The quantum of funds raised by listed NPOs
- iii. The number of investors participating in the SSE (whether for NPOs or FPEs)

A review may be undertaken to decide the future course of action for the CBF after 2 years.

3.3 Social auditors and information repositories

3.3.1 Social auditors

The TG envisions a social audit as having two components: a financial audit, and a non-financial audit. The latter component will include the audit of social impact. Given this definition of a social audit, it is therefore possible for two kinds of actors to perform social audits: financial auditors and non-financial auditors. Only financial auditors can perform financial audits but both financial auditors and non-financial auditors can perform non-financial audits provided they obtain the required qualifications and certifications. Therefore, the category of social auditors includes both financial auditors and non-financial auditors.

Eligibility

Financial auditors shall be Chartered Accountants (CAs) holding a certificate of practice from the Institute of Chartered Accountants of India (ICAI), and they can take on the responsibility of performing social audits (i.e., both financial and non-financial parts) provided they have attended a course at the National Institute of Securities Markets (NISM) and received a certificate of completion after successfully passing the course examination.

The course will cover the concepts and practice of CSR, and various topics drawn from the humanities and social sciences. The course content and the certification examination shall incorporate both qualitative and quantitative aspects while adhering to social sensitivity. In preparing the course and examination, NISM may collaborate with other reputed agencies with competence in this domain etc.

Individuals, firms or institutions that are not financial auditors and wish to perform non-financial audits shall also qualify through the NISM course. In addition, (if individuals) they shall themselves be, or (if firms or institutions) they shall employ:

- i. Post-graduates from universities recognized by the University Grants Commission

- (UGC) with a minimum of 3 years of experience in the development sector, or
- ii. Graduates from universities recognized by the UGC with a minimum of 6 years of experience in the development sector, or
- iii. Cost and management accountants, or any other persons with suitable accreditations with a minimum of 6 years of experience in the development sector.

In the initial phase, only reputed firms/institutions having expertise in the area of social audit shall be allowed to carry out social audits. The SRO shall prepare the criteria and list of firms/institutions for the first phase soon after the formation of SSE, and those firms/institutions shall register with the SRO.

SRO for Social Auditors

Over the past few years, ICAI has developed significant expertise in Sustainability related matters. It has also formed Sustainability Reporting Standards Board tasked with review the emerging trends globally and formulating Sustainability Accounting Standards. Further, considering the fact that ICAI has the core competence to regulate auditors, has necessary infrastructure and has been established under an Act of Parliament, therefore, the responsibility of SRO for Social Auditors could be assigned to ICAI, in the interim, by constituting a separate Sustainability Directorate for this purpose.

It is proposed that there should be twelve members in the Governing Body of the SRO with the following composition:

- i. members from thematic areas of the social sector.
- ii. members who are experts having cross sectoral experience in social sectors.
- iii. Central Council members of ICAI/ Sustainability Reporting Standards Board with relevant experience.

Further, separate disciplinary benches should also be constituted as part of the regulatory framework for maintaining high ethical and professional standards of registered SAs.

Functions of SRO

The SRO that will empanel SAs shall have the following major functions:

- i. Registration of SAs on fulfilling the prescribed requirements.
- ii. Laying down criteria/norms for empanelment of SAs, categorization of SA into various categories on fulfilment of required criteria/norms including but not limited to number of qualified social auditors in the firm, relevant experience, etc..
- iii. Laying down standards of professional conduct for registered SAs and monitoring their performance.
- iv. Safeguarding the rights and privileges of SAs who are its members.
- v. Suspending or canceling the membership of SAs who are its members, on the grounds set out in its bye-laws.
- vi. Publishing information about its functions, list of its members, performance of its members and such other information as may be specified by regulations.

TG recommends that in order to facilitate the new Sustainability Directorate to carry out the aforementioned functions, necessary amendments, if required, may be made to the The Chartered Accountants Act, 1949.

Empanellement of Social Auditors with SRO

All SAs shall be empanelled with a Self-Regulatory Organization (SRO). The empanelment process shall consider the following criteria:

- i. Experience of the individual/firm/institution in providing assurance of non financial information (with the individual/firm/institution's social sector experience carrying a higher positive weight in such consideration)
- ii. (in the case of firm/institution) Number of partners/employees meeting the criteria for being social auditor
- iii. (in the case of firm/institution) Number of partners/employees
- iv. Disciplinary cases/sanctions against the individual/firm/institution, which would carry a negative weight in such consideration.

The SRO can develop more parameters – e.g., something like a Comptroller & Auditor General point award system (see Annexure 6 for details on the C&AG system); the size, nature/complexity, and scale of operations of the fundees/projects; the possession of specific social sector expertise (e.g., nutrition, education, health, water & sanitation, energy conservation, environment and climate change) etc.

All of the empanelment criteria can evolve over a period of time. However, certain attributes shall be considered essential for SAs (individual/firm/institution, or simply “the firm”) to embody from the very outset:

- i. The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances. The nature of the policies and procedures developed by the firm to ensure quality control will depend on various factors such as its size, structure and operating characteristics.
- ii. The firm's system of quality control should include policies and procedures addressing each of the following elements:
 - a. Leadership responsibilities for quality within the firm – The firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's managing partners (or equivalent), to assume ultimate responsibility for the firm's system of quality control.
 - b. Ethical requirements – The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.
 - c. Acceptance and continuance of client relationships and specific engagements – The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue

relationships and engagements only where it has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity, is competent to perform the engagement and has the capabilities, time and resources to do so, and can comply with the ethical requirements.

- d. Human resources – The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.
 - e. Engagement performance – The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances.
 - f. Monitoring – The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.
- iii. The quality control policies and procedures should be documented and communicated to the firm's personnel. Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures.

Assurance Framework, Audit Standards, Code of Conduct for Social Auditors

SAs shall apply an assurance framework for both financial and non-financial audits. For financial audits, they shall apply the Engagement and Quality Control Standards issued by the Institute of Chartered Accountants of India (ICAI) which are performance benchmarks for CAs while performing auditing, review, assurance and related services engagements¹⁰.

For impact reporting, a Social Audit Standard to be issued by the Sustainability Reporting Standards Board of ICAI shall be applied. This proposed standard shall cover all aspects of assurance of impact reporting like scope, engagement acceptance, basic principles, audit procedures, assurance report, documentation, etc. (see Annexure 4 for more details).

A separate Code of Conduct for SAs is being developed based on international practices and Indian codes. It is proposed to be developed on the fundamental principles of integrity, objectivity, professional competence and due care, diligence and confidentiality (see

¹⁰ These standards have been converged with the internationally accepted auditing standards issued by International Auditing and Assurance Standards Board (IAASB) of International Federation of Accountants (IFAC).

Annexure 5 for more details).

3.3.2 Information Repositories (IRs)

Turning to IRs, these are also a very important category of participants in the SSE ecosystem. IRs currently function as aggregator of information on NGOs, and provide a searchable database in a comparable form. The TG deliberated and decided that since this is early days no regulatory intervention is required for the IR. Based on how their role shapes up, they at a later date can be subjected to appropriate checks and balances in the form of regulations governing their role, functions, structure and such other aspects as may be deemed appropriate.

4 Disclosures and Reporting

4.1 Standardization

To bring SEs wanting to access the SSE onto a common comparable platform, a regulatory approach is required in the form of standardised disclosures and reporting requirements. The objective behind standardized disclosures and reporting is to provide a balanced and reasonable representation of performance and progress of an SE registered/listed on the SSE.

Once the FPE or the NPO has listed its security and has clearly been demarcated by the exchange to be an SE (or once the NPO has registered on any of the exchanges but has chosen not to list any security), it needs to comply with a set of minimum disclosure and reporting requirements to continue to remain listed/registered. These requirements can be broadly categorised into two, namely (a) disclosures on general, governance and financial aspects, and (b) reporting on social impact. The reporting on social impact is applicable to FPEs and NPOs that have listed their securities, namely ZCZP bonds, and equity in the case of section 8 companies.

4.2 Disclosures on General, Governance and Financial aspects

The TG recommends that there be separate requirements for FPEs and NPOs given the differences in the nature of their legal form and accounting practices. Hence, disclosures on general, governance and financial aspects have been discussed separately for NPOs and FPEs in what follows.

However, on the aspect of financial disclosures, the TG recommends that for both FPEs and NPOs whose face value of post issue paid up capital shall be more than Rs. 25 crores, they must comply with Indian Accounting Standards (Ind AS), as notified under Section 133 of the Companies Act 2013. The remaining FPEs and NPOs (ie., other than those who have post issue paid up capital more than Rs.25 crores, and those with post issue paid up capital less than Rs.25 crores but complying with Ind AS) must comply with Accounting Standards issued by the ICAI. ICAI has also issued a “Technical Guide on Accounting for Not-for-Profit Organisations” in 2009 for standardising the accounting practices followed by diverse NPOs based on the accrual system of accounting. The TG therefore recommends that the same be updated by ICAI. Further, ICAI shall mandate that accounting standards compliance be verified by all of its members while giving assurance on financial statements of all NPOs.

4.2.1 For NPOs

The TG recommends that for all NPOs registered on SSE, whether they have chosen to list securities or not, there be a set of minimum standards for disclosures on general, governance and financial aspects which can be reviewed and enhanced over time. These are to be applicable to any form of NPO (Section 8 Company, Trust or Society) and are to be on an annual basis on the aspects described in Table 4.1 below.

Table 4.1 Annual disclosures for NPOs (listed/registered)

General	Vision, mission, activities, and scale of operations
Governance	Legal form, board and management, org-level risks and mitigation, related party transactions and other ethical concerns, remuneration policies, stakeholder redressal, compliance, and certifications
Financial	Balance sheet, income statement and cash statement, program-wise fund utilization for the year, auditor's report and auditor details

More details on these have been provided in Annexure 7, while Annexure 8 provides detailed guidance on how to comply with each of these requirements. If the NPO is a Section 8 Company, then the Section 134 (pertaining to financial statements) and other applicable provisions of The Companies Act 2013 read along with relevant rules will be applicable.

Apart from the annual disclosures, the organization shall report within 07 days any event that might have a material impact on the planned achievement of their outputs or outcomes, to the exchange in which they are registered/listed. This disclosure will include details of the event, the potential impact and what the NPO is doing to overcome the impact. Examples of such events can be exit of key executives, disturbances in the implementation locations, regulatory restrictions, stoppage of funds by key donors, and so on.

4.2.2 For FPEs

The FPE listing equity/debt shall in addition to social impact reporting requirement comply with the disclosure requirements as per the applicable segment such as main board, SME and IGP, etc.

4.3 Reporting on Social Impact

Apart from the disclosures on general, governance and financial aspects (which differ for NPOs and FPEs), both the FPE and the NPO, once they have their securities listed (or once the NPO has registered with an exchange but chooses not to list), will have to produce an Annual Impact Report (AIR)¹¹. This report is to capture the qualitative and quantitative aspects of the social impact generated by the entity, and where applicable, that generated by the project or solution the security is meant to fund. If the NPO is registered without listing any security, the AIR must cover the NPO's significant programs or projects during the year, and the methodology for determination of significance must be explained. Additionally, if there is a program covered under a listed security, it will qualify as a significant program.

For an SVF/SIF listing its units where the underlying recipients of funds are NPOs, the NPOs shall be registered with the SSE and the SVF/SIF must prepare an overall Impact Report for the fund covering all investee/grantee organizations where the fund is deployed. Similarly,

¹¹ The working group on SSE in its report dated June 01, 2020 had provided a broad outline at Annexure 2

for the FPE raising funds via an SVF, they must prepare an overall Annual Impact Report for the fund covering all investee/grantee organizations where the fund is deployed. The AIR should at a minimum, cover the aspects described in Table 4.2 below.

Table 4.2: Annual impact reporting requirements for all SEs

Strategic Intent and Planning	
1	What is the social or environmental challenge the organization and/or the instrument listed is addressing? Has this changed in the last year?
2	How is the organization attending to the challenge or planning to attend to the challenge? Has this changed in the last year?
3	Who is being impacted (target segment)? Has this changed in the last year?
4	What will be the outcomes of the solution/program? Disclosure should include positive and potential unintended negative outcomes.
Approach	
1	What is the baseline status / situation analysis / context description at the start of the project/program and at the end of the last reporting period?
2	What has been the past performance trend? (if relevant)
3	What is the solution implementation plan and the measures taken for sustainability of program outcomes? Has there been any material change in your implementation model in the last one year?
4	Please brief out alignment of solution to SDGs/national priorities/state priorities/developmental priorities.
5	How have you taken into consideration stakeholder feedback in this reporting period?
6	In the last year, what have you seen as the biggest risks to the achievement of the desired impact? How are these being mitigated?
Impact Score Card	
1	What are the metrics monitored and what has been the trend?
2	Briefly include narratives of impact on target segment(s) in the reporting period.
3	Beneficiary/Stakeholder Validation through surveys and other feedback mechanisms

Annexure 9 provides a detailed guidance on each element of the AIR and Annexure 10 provides some examples of indicators in the education sector as an illustration for the choice of indicators that can be used for building the Impact Score Card. NPOs and FPEs can also refer to various frameworks for measuring social impact provided in the report of the SEBI Working Group on Social Stock Exchange, 2020¹².

¹² Annexure 1: Measuring Social Impact – Frameworks & Challenges, Report of the SEBI Working Group on Social Stock Exchange, 2020

Annexure 1: Taxonomic classification of areas and sub-areas for social objectives

Below is an illustrative list of areas and sub-areas for taxonomic classification of social objectives. The scope of defining sub-areas is limitless and therefore broad terms have been included here.

#	Area	Sub-area
1	Eradicating hunger, poverty, malnutrition and inequality; promoting health care (including mental health) and sanitation; and making available safe drinking water	End hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round
		End all forms of malnutrition and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons
		Eradicating extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day
		Implement appropriate social protection systems and measures for all
		Build resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters
		Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
		Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies
		Reduction of Maternal Mortality Ratio
		End preventable deaths of newborns and children under 5 years of age
		End the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases
		Reduction in premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being
		Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol
		Reduction in deaths and injuries from road traffic accidents
		Ensure universal access to sexual and reproductive health-care services, including for family planning, information and education, and the integration of reproductive health into national strategies and programmes
		Attainment of universal health coverage, including financial risk

#	Area	Sub-area
		protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines
		Strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control
		Increase health financing and the recruitment, development, training and retention of the health workforce
		Achieving universal and equitable access to safe and affordable drinking water for all
		Achieving access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations
		Improving water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse
		Implementation of integrated water resources management at all levels
2	Promoting education, employability and livelihoods	Ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
		Ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education
		Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
		Increase in number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
		Ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy
		Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all
		Increasing workforce of qualified teachers
		Encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
		Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation

#	Area	Sub-area
		Provide access for small-scale artisanal fishers to marine resources and markets
		Reduce the proportion of youth not in employment, education or training
		Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers
		Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment
		Devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products
3	Promoting gender equality, empowerment of women and LGBTQIA+ communities	Ending all forms of discrimination against all women, girls and LGBTQIA+ communities everywhere
		Eliminate all forms of violence against all women, girls and LGBTQIA+ communities in the public and private spheres, including trafficking and sexual and other types of exploitation
		Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation
		Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family
		Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life
		Ensure universal access to sexual and reproductive health and reproductive rights
4	Ensuring sustainability, addressing climate change (mitigation and adaptation), forest and wildlife conservation	Substantially reduce waste generation through prevention, reduction, recycling and reuse
		Ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature
		Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning
		Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands
		Prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

#	Area	Sub-area
		Promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
		Combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world
		Ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development
		Reduce the degradation of natural habitats, halt the loss of biodiversity and protect and prevent the extinction of threatened species
5	Protection of national heritage, art and culture	Supporting initiatives in the fields of performing arts and cultural heritage. By encouraging and promoting young talent in pursuing the traditional arts and crafts, the Foundation aims to create a pool of artistic resources for the future.
		Supporting restoration of buildings and sites of historical importance and works of art
		Setting up public libraries
		Promotion and development of traditional and handicrafts
6	Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports	Contribution to activities promoting sports, trainings, academy institutionalization and other forms that promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports
7	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
		Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs)

#	Area	Sub-area
8	Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building	Provisioning of support to platforms that help non-profits mitigate institutional risks, adapt existing programmes and pivot their focus towards developmental works. The support shall include (but not limited to) designing strategy, strengthen the institutional resilience of organisation, capacity building (through trainings, workshops, mentorship, advisory support), exploring fund-raising strategies, and related activities
9	Promoting rural livelihoods including enhancing income of small and marginal farmers and workers in the non-farm sector	Double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers Ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality Maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified seed and plant banks at the national, regional and international levels, and promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment
10	Slum area development, affordable housing, and other interventions to build sustainable and resilient cities	Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums Provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons Promote solid and liquid waste management, by involving communities Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning Ensure universal access to affordable, reliable and modern energy services
	Disaster	Relief activities including but not limited to medical aid, food

#	Area	Sub-area
11	management, including relief, rehabilitation and reconstruction activities	supply and provisioning of clean drinking water during disasters
		Rehabilitation works including but not limited to programmes to assist resettlement and reintegration of refugees, internally displaced persons and ex-combatants
		Reconstruction activities including but not limited to infrastructure works (renovating as well as new construction), agricultural resource base, supply systems, capacity building of institutions/agencies, and related activities
12	Promotion of financial inclusion	Undertake reforms to give disadvantaged communities/sections (including but not limited to SCs, STs, OBCs, special needs, women, elderly, children, and at-risk adolescents)/regions equitable access to/ awareness and availability of affordable financial services.
13	Facilitating access to land and property assets for disadvantaged communities	Undertake reforms to ensure access and timely availability of financial services, and affordable and adequate credit facilities to disadvantaged communities/sections (including but not limited to SCs, STs, OBCs, special needs, women, elderly, children, and at-risk adolescents)
14	Bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection	Undertake reforms to reduce inequalities with regard to access to, use of, or impact of information and communication technologies (ICT) between individuals, households, businesses, or geographic areas, usually at different socioeconomic levels or other demographic categories
		Undertake activities that advocate or promote promises of neutrality and equality in data protections and privacy (data protection as right rather than a paid/luxury good) for disadvantaged communities
15	Promoting welfare of migrants and displaced persons	Undertake welfare activities for local migrants by providing opportunities and in turn reduce the economic inequalities.

Annexure 2: Development Impact Bonds and the Social Stock Exchange

DIB is a structured finance product involving three parties namely the service provider (which is the social enterprise who implements chosen development programs to impact target beneficiaries), the outcomes funder (the provider of grants) and the risk funder/investor (who funds the program and receives an additional return over and above any return on capital provided, contingent upon the service provider meeting pre-set targets). The targets can typically be pre-agreed social metrics at pre-agreed costs/ rates but this does not preclude other sorts of targets. Key to the DIB design is the alignment on specific outcomes and metrics to be achieved, that are verifiable through measurement frameworks/methodologies that all parties can rely on (to be measured by an independent evaluator), and benchmarking and alignment on costs of the program. DIBs can be designed around one program and one service provider, or be structured as a pooling of different service providers on a similar set of programs. The motivations and roles of each of the parties is provided below.

	Motivation	Role	Types of entities
Service provider	To access pooled and continuous funding, to achieve uninterrupted coordinated action on the ground	To implement programs to generate social impact for the target beneficiaries	NPO and/or FPEs
Outcome funder	To fund useful projects to create impact at grassroots without the risk of backing ineffective solutions	To pay the investor their principal amount with interest for funding the project upfront	CSR donors, foundations, retail investors, Government
Risk funder / investor	To get back the investment with interest (approx. 4-8%) if targets are met, or to lose a part of the amount if they are not met	To supply upfront capital for implementation and get paid by outcome funder	Entities with capital market expertise, discipline, who can bring the rigour of disclosure norms to social markets
Independent evaluator	To provide true unbiased measurement of social impact generated	To lay out the outcome parameters, measure and evaluate the impact against the targets set in contract	External organisations who have expertise in designing assessment and evaluating different outcomes
Intermediary or Program Manager	To solve social and environmental issues	To match interested partners, negotiate the terms of contract, and perform due diligence	Entities with result-based financing; can also be the Government

DIBs are apt for programs whose implementation models already have a proof of concept, and where the outcomes of choice have well-defined and measurable qualitative metrics / surrogates (as opposed to outcomes that are intangible). DIBs will not work well for projects that have no proven pilots in place already, or require significant innovation to implement. Similarly, it will not be suited to projects that have a multiplicity of variables or where outcomes cannot be linked to the inputs/interventions by the service provider or where the solution that needs implementing is not an intervention but a product or tool. The DIB route becomes economical for relatively large projects that need large investments. Service providers must also have the requisite ability to scale up to reasonably achieve the outcomes laid out, and be able to absorb the additional monitoring and oversight that comes with the

financial structuring involved in a DIB.

Prominent examples of DIBs in India and other jurisdictions

India is among the few nations that are in the forefront in terms of concerted activities towards the mainstreaming of DIBs. The cases of the Educate Girls DIB and the Utkrisht DIB were discussed in the report of the SEBI Working Group on Social Stock Exchange. The Quality Education DIB with a total value of USD 10 million focusses on improving literacy and numeracy of two lakh children in Rajasthan, Gujrat, and Delhi, and had multiple service providers such as KEF, Gyanshala and SARD. India is yet to see any examples where the Government steps in as an outcome funder, in which case these bonds would be referred to as social impact bonds (SIB)¹³.

The United Kingdom pioneered the social impact bond model and its Government had a central role to play in this¹⁴. Further, several outcome funds used to contract multiple impact bonds have been launched in the U.K., including the Innovation Fund, which supported 10 SIBs for education and employment for disadvantaged young people¹⁵. In USA, impact bonds are better known as Pay For Success (PFS) projects. Here too, federal support has been observed to play an important role. For instance, the Social Impact Partnerships to Pay for Results Act (SIPRA) was passed in 2018, and it aims to support outcome-based financing and provide funding from the Treasury for social impact partnerships, including PFS projects¹⁶.

How DIBs can benefit from the SSE in India

The SSE platform can support SEs (both NPOs and FPEs), large donors like CSR contributors and retail philanthropic donors by providing a scaled-up avenue to galvanise funding to credible social impact creating opportunities. Therefore, it can help DIBs access a greater spread of CSRs, donors and risk investors to attract funding for social outcomes. While the service provider (the SE) commits to reporting requirements on the SSE to signal credibility and performance, companies, particularly smaller companies trying to solve their CSR deployment strategy can rely on the SSE for less-complex ways to invest upto 100% of their funds.

A listing of DIBs on the SSE can enable showcasing of the programs enlisted under each DIB to a more diverse and larger set of funders, including by philanthropic retail contributors, as potential outcome funders. For example, a retail donor may be pitched with a proposition that a donation of INR 50,000 is to be paid only if two low-income/ low-skilled youth are placed in jobs with incomes of over INR 15,000.

With significant reporting and transparency in the DIB structure, it can help retail donors get

¹³ 'What is the size and scope of the Impact Bonds market?', Emily Gustafsson-Wright, Brookings 2020. https://www.brookings.edu/wp-content/uploads/2020/09/Impact_Bonds-Brief_1-FINAL-1.pdf

¹⁴ 'A study into the challenges and benefits of the Social Impact Bond commissioning process in the UK - Final Report', Ecorys, 2019.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957374/A_study_into_the_challenges_and_benefits_of_the_SIB_commissioning_process_Final_Report_V2.pdf

¹⁵ UK Government outcomes funds for impact bonds, Government Outcomes Lab, Blavatnik School of Government, <https://golab.bsg.ox.ac.uk/the-basics/outcomesfunds/outcomes-funds/>

¹⁶ 'What is the size and scope of the Impact Bonds market?', Emily Gustafsson-Wright, Brookings 2020. https://www.brookings.edu/wp-content/uploads/2020/09/Impact_Bonds-Brief_1-FINAL-1.pdf

over their apprehensions of donating to fraudulent or ineffective service providers, and make the donation only if the outcomes are achieved. It can help build a lot more trust for the retail philanthropy market which is estimated at over INR 35,000 cr. Also, through the infrastructure created by the SSE, retail donors can be issued online receipts, etc, rather than having to follow up with individual NPOs. In addition, DIBs can also enable retail investors to be impact investors by acting as risk investors and placing their money with selected service providers and earn a small return on their investment if the service providers deliver on results.

Annexure 3 Outline for the Offer document

OFFER DOCUMENT

I. For Profit Entities

As per Schedule VI of (Issue of Capital and Disclosure Requirements) Regulations, 2018

- a. Offer Document Requirements for Equity Listing shall be as per ICDR. Additional disclosures in the following areas will have to be highlighted

S. No.	Particulars	Additional topics under social impact reporting
I.	GENERAL	
	Summary of Offer Document	Envisioned impact in line with minimum reporting standards: Vision, Social & Environmental problem, who, how, risk and unintended consequences and mitigation Summary of Social impact scorecard
II.	RISK FACTORS	Risks associated with achieving impact as desired
III.	INTRODUCTION	
IV.	ABOUT OUR COMPANY	
	Our Business	Impact thesis: Vision, Social & Environmental problem, who, how, risk and unintended consequences and mitigation
	Our Management	Aligned to the SEBI report: Highest governing body
V.	FINANCIAL INFORMATION	
	Impact discussion	IMPACT INFORMATION Social impact scorecard, reporting and frequency in the management discussion and analysis
VI.	LEGAL AND OTHER INFORMATION	
	Other Regulatory and Statutory Disclosures	
VII.	OFFER INFORMATION	

VIII.	DESCRIPTION OF EQUITY SHARES AND ARTICLES OF ASSOCIATION	
IX.	OTHER INFORMATION	
	Material Contracts and Documents for Inspection	
	DECLARATION	

b. Offer Document Requirement for SVF (FPE)

We have built on the SEBI (Alternative Investment Fund Regulations), 2012 and typical contents of a private placement memorandum filed with SEBI to outline the offer document requirements.

Important Notice:

General disclaimer on risk and reliance placed on the document while evaluating investment. We can consider inclusion on risk of impact not being achieved

Table of Content

1. Directory

- Trust/Entity
- Trustees
- Investment Manager Details
- Fund Name
- Sponsors
- Auditors
- Legal Advisors
- Tax Advisors
- Social Auditor

2. Definitions

3. Offering Summary

- Provides a brief narrative of the aspects mentioned in S.No. 4 onwards + summary of the key terms:
- Narrative of fund type (SVF- FPE) , fund objective, target sectors, fund investment theme, market opportunity, fund management team, investment strategy, governance and reporting)
- Summary of key terms:
- Size of the Fund
- Fund Term
- Minimum Commitment
- Average Deal Size
- Targeted Return
- Drawdown Period
- Hurdle Rate
- Carried Interest
- Management Fee
- Mobilization fee

- Sponsor's contribution
- Investment Period
- Impact Taxonomy
- Summary of minimum reporting standards
- (Vision, Problem, what who how and risk)
- Social impact scorecard summary – metrics which will be considered

4. The opportunity

Narrative on the business opportunity and impact opportunity – the gap being filled in terms of the market players already existing, the value proposition/differentiating factor of this opportunity with inclusion of an articulation of the envisioned impact to address a social and environmental problem.

5. Investment Theme

Alignment with SDG

Target Geography and Segments

Theme discussion in terms of (a) Markets – sectors (b) stage – innovative/proof of concept or credible track record model (c) model tech enabled/ end thesis/outcome

Negative list/Exclusions where investments will not be made

6. Target Sectors: e.g. if they want to focus on entrepreneurship or technology advancement – sectors to be provided along with the rationale of the need as well as the ‘missing gap’ business + impact opportunity – healthcare, education, agriculture etc.

7. Target Investors:

Type of investors that can contribute

8. Investment Strategy

Instrument for deployment: Debt, grant, equity

Deal /pipeline sourcing strategy /service provider sourcing

Approach to sustainability

9. Investment Methodology

Investment Process – due diligence and management process for sourcing, due diligence process, investment /grant committee protocols and approvals, exit strategy (responsible exit mechanisms)

10. M&E Framework and Process

Social Impact Scorecard

Reporting to investors

11. Team

Profile of the team managing the funds

12. Track Record

Track record (consideration to both financial plus impact); disclosure on disciplinary actions, accreditations etc.

13. Deal Flow

First set of pipeline opportunities

14. Fund organization and Structure

Structure of the fund

15. Key Terms Risk Factors

Tax implications

16. Tax Aspects

17. Winding Up

Annexure 1: Investor Declaration

Annexure 2: Distribution Waterfall

II. Non-Profit Entities

a. Offer Document Requirements for SVF (Grants-in, Grants-out)

We have built on the SEBI (Alternative Investment Fund Regulations), 2012 and typical contents of a private placement memorandum filed with SEBI to outline the offer document requirements.

Important Notice:

General disclaimer on risk and reliance placed on the document while evaluating the opportunity with inclusion on potential risk of the envisioned impact not being achieved

Table of Content

1. Directory

- **Trust/Entity Name**
- **Trustees**
- **Fund Manager Details**
- **Fund Name**
- **Sponsor**
- **Auditors**
- **Legal Advisors**
- **Tax Advisors**
- **Social Auditor**

2. Definitions

3. Offering Summary

Provides a brief narrative of the aspects mentioned in S.No. 4 onwards + summary of the key terms:

Narrative of fund type (SVF- Grant in Grant Out) , fund objective, target sectors, fund investment theme, market opportunity, fund management team, investment strategy, governance and reporting)

Summary of key terms:

- *Size of the Fund*
- *Fund Term*
- *Minimum Commitment (from Grantor)*
- *Average Deal Size (Grant size)*
- *Drawdown Period*

- *Fee for outperformance of target impact essentially, disclosure of any additional charges /fees*
- *Management Fee*
- *Sponsor's contribution*
- *Investment Period*
- *Impact Taxonomy*
- *Summary of minimum reporting standards*
- *(Vision, Problem, what who how and risk)*
- *Social impact scorecard summary – metrics which will be considered*

4. The impact opportunity/thesis

Narrative on the impact opportunity – the problem statement, the gap being filled in terms of solution, the market players already existing, the value proposition/differentiating factor of this opportunity

5. Investment Theme

Alignment with SDG

Target Geography and Segments

Theme discussion in terms of (a) Markets – sectors (b) stage – innovative/proof of concept or credible track record model (c) model tech enabled/ end thesis/outcome

Negative list/Exclusions where grants will not be made

6. Target Sectors: e.g. Rationale of the sector need /sector thesis– healthcare, education, agriculture etc.

7. Target Investors:

Types of investors /grantors who can contribute

8. Funding Strategy

Instrument for deployment: full grant in- grant out

Deal /pipeline sourcing strategy /service provider sourcing

Approach to sustainability

Type of entities that will be provided funding: early stage non-profits /social enterprises which may have proof of concept or those with an evidence/track record

9. Funding Methodology

Funding Process Due diligence – from sourcing, to grant committee protocols and approvals and closure/exit

10. M&E Framework and Process

Social Impact Scorecard

Reporting to investors: format and frequency

11. Team

Profile of the team managing the funds

12. Track Record

Track record– including track record on impact plus disclosure on disciplinary actions, accreditations etc.

13. Deal Flow

First set of pipeline opportunities

14. Fund organization and Structure

Structure of the fund

15. Key Terms Risk Factors

Risk and risk mitigation

16. Tax Aspects

Tax implications

17. Winding Up**Annexure 1: Investor Declaration**

b. Offer Document Requirements for DIBs

Important Notice:

General disclaimer on risk and reliance placed on the document while evaluating investment as well as inclusion of a narrative on risk of impact not being achieved

Table of Content

1. Directory

- Trust/Entity
- Trustees
- Investment Manager Details (this will be the intermediary)
- Fund Name
- Sponsors
- Anchor Outcome Funder /Anchor Risk Investors
- Auditors
- Legal Advisors
- Tax Advisors
- Social Auditor (M&E evaluation agency for verification of the outcomes)

2. Definitions

3. Offering Summary

Provides a brief narrative of the aspects mentioned in S.No. 4 onwards + summary of the key terms:

Narrative of fund type, fund objective, target sectors, fund investment theme, market opportunity, fund management team, investment strategy, governance and reporting)

Summary of key terms:

- *Size of the Fund*
- *Fund Term*
- *Minimum Commitment*
- *Average Deal Size*
- *Targeted Return*
- *Drawdown Period*
- *Hurdle Rate*
- *Carried Interest*
- *Management Fee*
- *Mobilization fee*
- *Sponsor's contribution*
- *Investment Period*

- *Impact Taxonomy*
- *Summary of minimum reporting standards*
- *(Vision, Problem, what who how and risk)*
- *Social impact scorecard summary – metrics which will be considered*

4. Opportunity

Narrative on the business opportunity and impact opportunity – the gap being filled in terms of the market players already existing, the value proposition/differentiating factor of this opportunity with inclusion of an articulation of the envisioned impact to address a social and environmental problem.

5. Investment Theme

Alignment with SDG

Target Geography and Segments

Theme discussion in terms of (a) Markets – sectors (b) stage – innovative/proof of concept or credible track record model (c) model tech enabled/ end thesis/outcome

Negative list/Exclusions where investments will not be made

Target Sectors: e.g. if they want to focus on entrepreneurship or technology advancement – sectors to be provided along with the rationale of the need as well as the ‘missing gap’ business + impact opportunity – healthcare, education, agriculture etc.

6. Target Investors:

Type of investors that can contribute

7. Investment Strategy

Instrument for deployment: Debt and grant

Deal /pipeline sourcing strategy /service provider sourcing –

Approach to sustainability

8. Investment Methodology

Investment Process – due diligence and management process for sourcing, selection process, (important to articulate the impact and outcome due diligence as the returns of RI are linked to the ability of the service provider to achieve outcomes) investment /grant committee protocols and approvals

9. M&E Framework and Process

Target Setting and Pricing framework and guiding principles

Social Impact Scorecard

Reporting to investors

10. Team

Profile of the team managing the funds

11. Track Record

Track record (consideration to both financial plus impact); disclosure on disciplinary actions, accreditations etc.

12. Deal Flow

First set of pipeline opportunities - project pipeline and the past outcome metrics track record of the first set of service providers

13. Fund organization and Structure

Structure of the fund

14. Key Terms Risk Factors

Tax implications

15. Tax Aspects

16. Winding Up

Annexure 1: Investor Declaration

c. Offer Document Requirements for Mutual Funds

Scheme Information Document (SID) for a Mutual Fund:

S.NO.	CONTENTS OF A TYPICAL OFFER DOCUMENT	ADDITIONAL TOPICS COVERED IN HDFC CANCER CURE MF	OTHER ADDITIONAL ASPECTS RECOMMENDED
	Highlights/Summary of the Scheme <i>Illustrative aspects covered: name of the scheme, tenure of scheme/plan, investment objective</i>	Details of the scheme on directing proceeds for social impact: organization (NPO), purpose/theme % of contribution (dividend payout option), eligibility for tax deduction etc.	Alignment could be to the minimum reporting standard framework - Strategic Intent & Goal (What, Who and How) - General Information (Governance, Funding and legal/statutory)
I.	Introduction		
A.	Risk Factors –Standard risk factors, scheme specific risk factors, country risks		A narrative on the risk factors of the envisaged /articulated social impact not being attained Risks, Unintended Consequences and Mitigation
B.	Requirement of Minimum Investors in the Scheme		Consideration to debar certain investors from subscribing to the units such as those who are related or associated to the underlying non-profit which will receive the dividend or return.
C.	Special Considerations, if any		
D.	Definitions	1. Entity /NPO to whom the dividends/proceeds will be donated 2. Donor Impact Taxonomy	

E.	Abbreviations		
F.	Due diligence by the AMC		This is only a certificate by AMC on disclosures and legal requirements – but should it be extended to them also saying they have undertaken necessary due diligence of the underlying non-profits to whom the proceeds will be donated in line with the requirements of the non-profit being eligible for receiving funding from the SSE
		G. Profile of the entity /NPO to whom the proceeds are being donated - Vision - Mission - Major activities - Achievements - Board of Trustees	- aligned to Section 1 and Section 3 of the minimum reporting standards
		H. Rationale for launch of the Scheme - Impact thesis - Use of proceeds Controls in fund utilization process	Aligned to Section 2 of the minimum reporting standards
II.	Information about the Scheme		
A.	Type of the Scheme		
B.	Investment Objective of the Scheme		
C.	How will the Scheme allocate its assets?		
D.	Where will the Scheme invest?		
E.	What are the investment strategies?		
F.	Risk Control		
	Portfolio Turnover		
	Investment by the AMC		

	in the Scheme		
G.	Fundamental Attributes		
H.	How will the Scheme Benchmark its Performance?		Currently only includes financial performance; once these instruments do have an uptake we can consider benchmarking impact performance at a later stage?
I.	Who managed the Scheme?		Representation of a person from a social impact background to be a part of the AMC team
J.	What are the Investment Restrictions?		
K.	How has the Scheme Performed?		
L.	Additional Disclosures		
III.	UNITS AND OFFER		
	- Half yearly Disclosures		Consideration to be disclosure on the impact performance: indicators that will be reported upon: frequency to be decided (can consider annual); format aligned to the minimum reporting standard
	- Half Yearly Results		
	- Annual Report		
	- Associate Transactions		
	- Taxation		
	- Investor Services		
	A. Computation of NAV		
		B. Eligibility for claiming deduction under section 80G of Income Tax Act, 1961	

IV.	FEES AND EXPENSES		
	New Fund Offer (NFO) Expenses		
	Annual Scheme Recurring Expenses		
	Transaction Charges		
	Load Structure		
	Waiver of Load for Direct Applications		
V.	RIGHTS OF UNIT HOLDERS		
VI.	PENALTIES & PENDING LITIGATIONS		
	OFFICIAL POINTS OF ACCEPTANCE		

d. Offer Document Requirements for Zero Coupon Zero Principal Bonds

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	Additional Considerations for the SSE
Section I: General	
Disclaimer	
Presentation of Financial, Industry & Other Information	
Forward Looking Statements	
Section II: Risk Factors	Inclusion of risk of impact not being achieved; Risks, Unintended Consequences
Section III: Introduction	
General Information	Consider Section 3 information – ‘general information to be published’ in this section
Capital Structure	
Statement of Tax benefits available to the debenture holders	Bond holder – 12A registration
Objects of the Issue	Discussion on impact envisioned and use of proceeds (incl Impact Taxonomy)
Section IV: About our Company /Organization	
Industry Overview	Sector Overview
Our Business	Our Programme Interventions
History and certain other corporate matters	
Our management	To be aligned to ‘Highest Governing Body’
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Section V: Financial Information	
Financial Statements	Align to legal and statutory filings/reports
Summary of significant differences between Indian GAAP and Ind AS	
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Annexure 4: Draft standard of assurance of impact reporting by SA

OBJECTIVE

1. This standard provides framework for assurance of impact reporting by social auditors, and sets out requirements and processes for providing reasonable assurance stating that nothing has come to the practitioner's attention that causes the practitioner to believe that the impact report prepared by an organisation for a specified period is materially misstated.

Social auditors are experts/ consultants consisting of accredited persons/agencies meeting the eligibility criteria as specified by the social stock exchange.

2. A social auditor is not expected to reduce the engagement risk to zero. This is because there are inherent limitations attached to the procedures which a practitioner may perform in relation to issuance of a report or certificate, as the case may be. The inherent limitations arise from:

- the nature of impact reporting;
- the use of selective testing;
- the inherent limitations of internal controls;
- the fact that much of the evidence available to the practitioner is persuasive rather than conclusive;
- the use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence;
- in some cases, the characteristics of the underlying subject matter when evaluated or measured against the criteria ; and
- the need for the engagement to be conducted within a reasonable period of time and at a reasonable cost.

3. The roles played by the responsible party, the measurer or evaluator, and the engaging party can vary. The management and governance structures vary by jurisdiction and by entity, reflecting influences such as, different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible to specify for all engagements, the person(s) with whom the practitioner is to inquire of, request representations from, or otherwise communicate with in all circumstances. In some cases, for example, when the appropriate party(ies) is(are) only part of a complete legal entity, identifying the appropriate management personnel or those charged with governance with whom to communicate, will require the exercise of professional judgment to determine which person(s) have the appropriate responsibilities for, and knowledge of, the matters concerned.

IMPACT REPORT

4. Impact by an organisation of its activities should be seen at two levels – direct impact on the target community and the systemic impact or sector wide impact (called variously by different frameworks) and secondly, impact in terms of reach, depth and inclusion. It would be useful to also take note of the strategic intent and goals (why and what), and of the operational or business model of the organization (how) while ensuring impact report of the organisation's work around acceptable metrics.
5. Impact report, as prepared by the management of the audited organisation, will include qualitative performance indicators and, where feasible, quantitative performance measures with the disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. To illustrate, Impact report may include following information:
 - What is the environmental or Social Challenge the organization or the instrument listed is addressing?
 - Who will/is be impacted? Coverage should include positive and negative impact?
 - What is the baseline status at the start of the project?
 - How the organization is planning to attend to the challenge or attending to the challenge?
 - What are the potential risks and how it will be mitigated?
 - For on-going projects what has been the past performance trend?
 - What are the output metrics used to track the project and what has been the trend?
 - What is the change from the baseline status?
 - How is it ensured that the right metrics are monitored?
 - What are the outcome/impact metrics and what is their trend?
 - What is the stakeholder feedback?
 - How is it ensured that the outcomes are sustainable?
6. Impact reports may be based upon the Activities mentioned under Annexure 1 of this report.

Further, Impact Report includes Impact indicators which reflect the tangible outcomes of the values which could be measured, and are derived from the social values of the program/ department/ unit being audited, which are reflected in their mission statements or program objectives. Community feedback, beneficiary expectations and satisfaction and other indicators are many times identified through stakeholder consultation.

AGREEING ON THE TERMS OF THE ENGAGEMENT

7. Social auditor should agree the terms of the engagement with the engaging party. The agreed terms of the engagement should be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation. It is in the interests of both, the engaging party and the social auditor, that he/ she communicates in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings.

The terms of engagement, at a minimum, should include the following:

- a. the objective and scope of engagement;
- b. the responsibilities of the social auditor;
- c. the responsibilities of engaging party;
- d. the responsibilities of the responsible party (if different from the engaging party);
- e. identification of the suitable criteria to be used;
- f. identification of the subject matter including reference to the law or regulation or the contracts;
- g. unrestricted access to whatever records, documentation and other information requested in connection with the engagement;
- h. the fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist;
- i. reference to the expected form and content of report to be issued by the practitioner; and
- j. a statement that there may be circumstances in which a report may differ from its expected form and content.

The agreed terms of engagement can also include other general terms of engagement so long as those terms are not inconsistent with the applicable laws and regulations. The form and content of the written agreement or contract will vary with the engagement circumstances.

ENGAGEMENT ACCEPTANCE AND CONTINUANCE

8. Social auditor needs to be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and assurance engagements have been followed, and should accept or continue an assurance engagement only when:
 - a. There is no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
 - b. The practitioner is satisfied that those persons who are to perform the engagement collectively (the engagement team) have the appropriate competence and capabilities; and
 - c. The basis upon which the engagement is to be performed has been agreed, through:

- i. Establishing that the preconditions for an assurance engagement are present; and
- ii. Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner's reporting responsibilities.
- iii. If the social auditor obtains information that would have caused the social auditor to decline the engagement had that information been available earlier, the social auditor should take necessary action promptly. In case of a firm, the social auditor (i.e., the engagement partner) should communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

PRE-CONDITIONS FOR THE ASSURANCE ENGAGEMENT

9. In order to establish whether the preconditions for an assurance engagement are present, the social auditor should, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), determine whether:
 - a. The roles and responsibilities of the appropriate parties are suitable in the circumstances; and
 - b. The engagement exhibits all of the following characteristics:
 - i. The underlying subject matter is appropriate;
 - ii. The criteria that the social auditor expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances, including that these exhibit the following characteristics:
 - a. Relevance
 - b. Completeness
 - c. Reliability
 - d. Neutrality
 - e. Understandability
 - iii. The criteria that the social auditor expects to be applied in the preparation of the subject matter information will be available to the intended users;
 - iv. The social auditor expects to be able to obtain the evidence needed to support the opinion/ conclusion, and to be able to obtain a meaningful level of assurance. ‘
10. If the preconditions for an assurance engagement are not present, the social auditor should discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the social auditor would be well advised not to accept the engagement as an assurance engagement, unless required by law or regulation to do so.

PROFESSIONAL SKEPTICISM, PROFESSIONAL JUDGMENT, AND ASSURANCE SKILLS AND TECHNIQUES

11. The social auditor would need to plan and perform an engagement with professional skepticism, recognizing that circumstances may exist that may cause the subject matter information to be materiality misstated. The social auditor needs to exercise professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures. The social auditor should also apply assurance skills and techniques as part of an iterative, systematic engagement process.

PLANNING

12. The social auditor should plan the engagement so that it will be performed in an effective manner, including setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned procedures that are required to be carried out in order to achieve the objective of the engagement.
13. The social auditor should determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in paragraph 11. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the social auditor should discuss the matter with the appropriate party(ies), and determine:
 - Whether the matter can be resolved to the social auditor's satisfaction;
 - Whether it is appropriate to continue with the engagement; and
 - Whether and, if so, how to communicate the matter in the assurance report.
14. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, the social auditor would need to consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the social auditor continues with the engagement, the social auditor should express a qualified or adverse opinion/conclusion, or disclaimer of opinion/conclusion, as appropriate in the circumstances.

MATERIALITY

15. The social auditor would consider materiality when:
 - Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and
 - Evaluating whether the subject matter information is free from material misstatement.
16. Professional judgments about materiality are made in light of surrounding circumstances, and is also based on the information needs of intended users. The applicable criteria may discuss the concept of materiality in the context of the preparation and presentation of the subject matter information and thereby provide a frame of reference for the social auditor in considering materiality for the engagement.

The social auditor's consideration of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the social auditor to assume that intended users:

Have a reasonable knowledge of the underlying subject matter, and a willingness to study the subject matter information with reasonable diligence;

Understand that the subject matter information is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;

Understand any inherent uncertainties involved in the measuring or evaluating the underlying subject matter; and

Make reasonable decisions on the basis of the subject matter information taken as a whole.

17. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the social auditor's professional judgment. Qualitative factors may include such things as:

- i. The number of persons or entities affected by the subject matter.
- ii. The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components, such as a report that includes numerous performance indicators.
- iii. The wording chosen with respect to subject matter information that is expressed in narrative form.
- iv. The characteristics of the presentation adopted for the subject matter information when the applicable criteria allow for variations in that presentation.
- v. The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.
- vi. Whether a misstatement affects compliance with law or regulation.
- vii. In the case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current subject matter information or is likely to affect future subject matter information.
- viii. Whether a misstatement is the result of an intentional act or is unintentional.
- ix. Whether a misstatement is significant having regard to the social auditor's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.
- x. Whether a misstatement relates to the relationship between the responsible party, the measurer or evaluator, or the engaging party or their relationship with other parties.
- xi. When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.

- xii. When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
- xiii. When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.

18. Quantitative factors relate to the magnitude of misstatements relative to reported amounts for those aspects of the subject matter information, if any, that are:

Expressed numerically; or

Otherwise related to numerical values (for example, the number of observed deviations from a control may be a relevant quantitative factor when the subject matter information is a statement that the control is effective).

19. When quantitative factors are applicable, planning the engagement solely to detect individually material misstatements overlooks the fact that the aggregate of uncorrected and undetected individually immaterial misstatements may cause the subject matter information to be materially misstated. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.

UNDERSTANDING THE UNDERLYING SUBJECT MATTER AND OTHER ENGAGEMENT CIRCUMSTANCES

20. The social auditor should make inquiries of the appropriate party(ies) regarding:

Whether they have knowledge of any actual, suspected or alleged intentional misstatement or non-compliance with laws and regulations affecting the subject matter information; and

Whether the responsible party has used any experts in the preparation of the subject matter information.

This would provide a basis for designing and performing procedures to address the areas identified and to obtain assurance to support the conclusion.

OBTAINING EVIDENCE **RISK CONSIDERATION AND RESPONSES TO RISKS**

21. When designing and performing procedures, the practitioner would also need to consider the relevance and reliability of the information to be used as evidence. If:

Evidence obtained from one source is inconsistent with that obtained from another; or

The social auditor has doubts about the reliability of information to be used as an evidence,

the social auditor should determine what changes or additions to the procedures are necessary to resolve the matter, and should consider the effect of the matter, if any, on other aspects of the engagement.

The social auditor should accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial and determine the effect of the misstatement on the assurance report.

WORK PERFORMED BY A SOCIAL AUDITOR'S EXPERT

22. When the work of a social auditor's expert is to be used, the social auditor should also:

Evaluate whether the social auditor's expert has the necessary competence, capabilities and objectivity for the social auditors purposes. In the case of a social auditor's external expert, the evaluation of objectivity should include inquiry regarding interests and relationships that may create a threat to that expert's objectivity;

Obtain a sufficient understanding of the field of expertise of the social auditor's expert;
Agree with the social auditor's expert on the nature, scope and objectives of that expert's work;
and

Evaluate the adequacy of the social auditor's expert's work for the social auditor's purposes.

WRITTEN REPRESENTATIONS

23. The social auditor should request from the appropriate party(ies) a written representation:

That it has provided the social auditor with all information of which the appropriate party(ies) is aware that is relevant to the engagement.

Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.

If, in addition to required representations, the social auditor determines that it is necessary to obtain one or more written representations to support other evidence relevant to the subject matter information, the social auditor should request such other written representations.

24. When written representations relate to matters that are material to the subject matter information, the social auditor should:

Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and

Consider whether those making the representations can be expected to be well-informed on the

particular matters.

The date of the written representations should be as near as practicable to, but not after, the date of the assurance report.

DESCRIPTION OF APPLICABLE CRITERIA

25. The social auditor would need to evaluate whether the subject matter information adequately refers to or describes the applicable criteria. The description of the applicable criteria advises intended users of the framework on which the subject matter information is based, and is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the subject matter information.
26. A description that the subject matter information is prepared in accordance with particular applicable criteria is appropriate only if the subject matter information complies with all relevant requirements of those applicable criteria that are effective. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, “the subject matter information is in substantial compliance with the requirements of XYZ”) is not an adequate description as it may mislead users of the subject matter information.

FORMING THE ASSURANCE OPINION/CONCLUSION

27. The social auditor should evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence. The social auditor should consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria. If the practitioner is unable to obtain necessary further evidence, the social auditor should consider the implications for the social auditor’s opinion/conclusion.
28. The social auditor should form an opinion/a conclusion about whether the subject matter information is free of material misstatement. In forming that opinion/conclusion, the social auditor should consider the conclusion regarding the sufficiency and appropriateness of evidence obtained and an evaluation of whether uncorrected misstatements are material, individually or in the aggregate.
29. Evidence is necessary to support the social auditor’s opinion/conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources, such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect its relevance to the current engagement) or the quality control procedures for client acceptance and

continuance.

Evidence may come from sources inside and outside the appropriate party(ies). Also, information that may be used as evidence may have been prepared by an expert employed or engaged by the appropriate party(ies). Evidence comprises both information that supports and corroborates aspects of the subject matter information, and any information that contradicts aspects of the subject matter information. In addition, in some cases, the absence of information (for example, refusal by the appropriate party(ies) to provide a requested representation) is used by the social auditor, and therefore, also constitutes evidence. Most of the social auditor's work in forming the assurance opinion/conclusion consists of obtaining and evaluating evidence.

30. If the social auditor is unable to obtain sufficient appropriate evidence, a scope limitation exists and the social auditor should express a qualified opinion/conclusion or disclaim an opinion/conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate.

PREPARING THE ASSURANCE REPORT

31. The assurance report should be in writing and should contain a clear expression of the social auditor's opinion/conclusion about the subject matter information. Where the subject matter information is made up of a number of aspects, separate opinions/conclusions may be provided on each aspect.

The social auditor's opinion/conclusion should be clearly separated from information or explanations that are not intended to affect the social auditor's opinion/conclusion, including any Emphasis of Matter, Other Matter, findings related to particular aspects of the engagements, recommendations or additional information included in the assurance report. The wording used should make it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the social auditor's opinion/conclusion.

In some cases, the social auditor also may be required to communicate instances of non-compliance to appropriate oversight bodies and funding agencies.

32. Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the practitioner shall not report orally without providing a written assurance report.
33. This Standard does not require a standardized format for reporting on all assurance engagements. Instead, it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The social auditor may use headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.

34. The social auditor may choose a “short form” or “long form” style of reporting to facilitate effective communication to the intended users. “Short-form” reports ordinarily include only the basic elements. “Long-form” reports include other information and explanations that are not intended to affect the social auditor’s conclusion. In addition to the basic elements, long-form reports may describe in detail the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the social auditor and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. The social auditor may find it helpful to consider the significance of providing such information to the information needs of the intended users. Further, additional information should be clearly separated from the social auditor’s conclusion and phrased in such a manner so as make it clear that it is not intended to detract from that conclusion.

ASSURANCE REPORT CONTENT

35. In order to assert compliance with this Standard, among other things, the assurance report should include at a minimum the following basic elements:

A title that clearly indicates the report is an independent assurance report. An appropriate title helps to identify the nature of the assurance report, and to distinguish it from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner. In case, the applicable law or regulation or the contractual arrangement entered by the entity specifies a title or phrases to identify the assurance report, the social auditor may use the title or phrases so prescribed.

An addressee. An addressee identifies the party or parties to whom the assurance report is directed. The assurance report is ordinarily addressed to the engaging party, but in some cases there may be other intended users.

An identification or description of the level of assurance obtained by the practitioner, the subject matter information and, when appropriate, the underlying subject matter. When the social auditor’s conclusion is phrased in terms of a statement made by the appropriate party, that statement should accompany the assurance report, be reproduced in the assurance report or be referenced therein to a source that is available to the intended users. Identification and description of the subject matter information and, when appropriate, the underlying subject matter may include, for example:

The point in time or period of time to which the measurement or evaluation of the underlying subject matter relates.

Where applicable, the name of the responsible party or component of the responsible party to which the underlying subject matter relates.

An explanation of those characteristics of the underlying subject matter or the subject matter information of which the intended users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the underlying subject matter

against the applicable criteria, or the persuasiveness of available evidence. For example:

- ✓ The degree to which the subject matter information is qualitative versus quantitative, objective versus subjective, or historical versus prospective.
- ✓ Changes in the underlying subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next

Identification of the applicable criteria. The assurance report identifies the applicable criteria against which the underlying subject matter was measured or evaluated so that the intended users can understand the basis for the social auditor's opinion/conclusion. The assurance report may include the applicable criteria, or refer to them if they are included in the subject matter information or if they are otherwise available from a readily accessible source. It may be relevant in the circumstances, to disclose:

The source of the applicable criteria, and whether or not the applicable criteria are embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the underlying subject matter (and if they are not, a description of why they are considered suitable).

Measurement or evaluation methods used when the applicable criteria allows for choice between a number of methods.

Any significant interpretations made in applying the applicable criteria in the engagement circumstances.

Whether there have been any changes in the measurement or evaluation methods used.

Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria. While in some cases, inherent limitations can be expected to be well-understood by the intended users of an assurance report, in other cases it may be appropriate to make explicit reference to them in the assurance report. For example, in an assurance report related to the effectiveness of internal control, it may be appropriate to note that the historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose. In some cases the applicable criteria used to measure or evaluate the underlying subject matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular applicable criteria designed for regulatory purposes. To avoid misunderstandings, the social auditor alerts readers of the assurance report to this fact and that therefore, the subject matter information may not be suitable for another purpose. In addition to the alert as required in the preceding paragraph, the social auditor may consider it appropriate to indicate that the assurance report is intended solely for specific users.

Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not itself indicate that a legal responsibility is owed by the social auditor in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the social auditor's responsibilities. Identifying relative responsibilities informs the intended users that the responsible party is responsible for the underlying subject matter, that the measurer or evaluator is responsible for the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the social auditor's role is to independently express an opinion/conclusion about the subject matter information.

A statement that the engagement was performed in accordance with this Standard.

A statement that the firm, of which the practitioner is a partner has applied SQC, Quality Control for Firms that Perform Social Audits.

A statement that the practitioner complies with the independence and other ethical requirements of the Code of Ethics applicable to social auditor issued by the Social Stock Exchange. The following is an illustration of a statement in the assurance report regarding compliance with ethical requirements: "We conducted our engagement in accordance with the "Assurance Standard on Impact Reporting by Social Auditor" issued by the Social Stock Exchange. This Standard requires that we comply with the ethical requirements of the Code of Ethics issued by the Social Stock Exchange".

An informative summary of the work performed as the basis for the social auditor's opinion/conclusion. In an assurance engagement, an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the social auditor's opinion/conclusion. It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the social auditor's opinion/conclusion. In most cases, this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.

The practitioner's opinion/conclusion -

When appropriate, the opinion/conclusion should inform the intended users of the context in which the social auditor's opinion/conclusion is to be read. It may be appropriate to inform the intended users of the context in which the social auditor's opinion/conclusion is to be read when the assurance report includes an explanation of particular characteristics of the underlying subject matter of which the intended users should be aware. The social auditor's opinion/conclusion may, for example, include wording such as: "This opinion/conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report."

The conclusion should be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the social auditor's attention to cause the social auditor to believe that the subject matter information is materially misstated. Examples of conclusions expressed in a form appropriate for such an assurance engagement include:

- When expressed in terms of the underlying subject matter and the applicable criteria, "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that [the entity] has not complied, in all material respects, with XYZ law."
- When expressed in terms of the subject matter information and the applicable criteria, "Based on the procedures performed and evidence obtained, we are not aware of any material amendments that need to be made to the assessment of key performance indicators for them to be in accordance with XYZ criteria."; or
- When expressed in terms of a statement made by the appropriate party, "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that [the entity] has complied with XYZ law, is not, in all material respects, fairly stated."

The opinion/conclusion should be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances and need to be phrased in terms of:

The underlying subject matter and the applicable criteria;

The subject matter information and the applicable criteria; or

A statement made by the appropriate party.

Forms of expression which may be useful for underlying subject matters include, for example, one, or a combination of, the following:

- For compliance engagements—"in compliance with" or "in accordance with."
- For engagements when the applicable criteria describe a process or methodology for the preparation or presentation of the subject matter information—"properly prepared."
- For engagement when the principles of fair presentation are embodied in the applicable criteria—"fairly stated."

When the practitioner expresses a modified opinion/conclusion, the assurance report should contain:

A section that provides a description of the matter(s) giving rise to the modification;
and

A section that contains the practitioner's modified opinion/conclusion

The social auditor's signature - The assurance report is signed by the social auditor in his personal name. Where a Firm is appointed to carry out the engagement, the report is signed in the personal name of the social auditor and in the name of the audit firm. The partner/proprietor signing the assurance report also needs to mention the membership number assigned by the professional institute of which he is a member or the SRO, as the case may be. They also include the registration number of the Firm, wherever applicable, as allotted by professional institute of which he is a member or the SRO, as the case may be, in the assurance reports signed by them.

The date of the assurance report. The assurance report should be dated no earlier than the date on which the social auditor has obtained the evidence on which the social auditor's opinion/conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information. The place of signature.

OTHER COMMUNICATION RESPONSIBILITIES

36. The social auditor should consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the social auditor that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others.

DOCUMENTATION

37. The social auditor should prepare on a timely basis engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced social auditor, having no previous connection with the engagement, to understand:

The nature, timing and extent of the procedures performed to comply with the Standard and applicable legal and regulatory requirements;

The results of the procedures performed, and the evidence obtained; and

Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

38. If the social auditor identifies information that is inconsistent with the social auditor's final opinion/conclusion regarding a significant matter, the social auditor should document how the social auditor addressed the inconsistency.
39. The social auditor should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. Standards should be set that requires establishment of policies and procedures for the timely completion of the assembly of engagement files. An appropriate time limit within which to complete the assembly of

the final engagement file is ordinarily not more than 60 days after the date of the assurance report.

40. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new opinion/conclusions. Changes may, however, be made to the documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the social auditor has obtained, discussed and agreed with the engagement team before the date of the assurance report.

41. After the assembly of the final engagement file has been completed, the social auditor should not delete or discard engagement documentation of any nature before the end of its retention period. The retention period for assurance engagements ordinarily is seven years from the date of assurance report.

42. If the social auditor finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed the social auditor should, regardless of the nature of the amendments or additions, document:

The specific reasons for making the amendments or additions; and

When, and by whom, they were made and reviewed.

Glossary of Terms Used in the Standard

For purposes of this Standard, the following terms have the meanings attributed below.

1. **Assurance engagement**—An engagement in which a social auditor aims to obtain sufficient appropriate evidence in order to express an opinion/conclusion, designed to enhance the degree of confidence of the intended users, other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).
2. **Assurance skills and techniques**—Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by a social auditor that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation. Assurance skill and techniques

include:

- Application of professional skepticism and professional judgment;
- Planning and performing an assurance engagement,
- including obtaining and evaluating evidence;
- Understanding information systems and the role and limitations of internal control;
- Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures;
- Applying procedures as appropriate to the engagement (which may include inquiry, inspection, re-calculation, re-performance, observation, confirmation, and analytical procedures); and
- Systematic documentation practices and assurance report writing skills.

3. **Criteria**—The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different measurement or evaluation. For example, a measurer or evaluator might select, as one of the criteria for the underlying subject matter of customer satisfaction, the number of customer complaints resolved to the acknowledged satisfaction of the customer; another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase.
4. **Engagement risk** — The risk that the social auditor expresses an inappropriate conclusion when the subject matter information is materially misstated.
5. **Engagement team** — All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
6. **Evidence** — Information used by the social auditor in arriving at the social auditor’s conclusion. Evidence includes both, information contained in relevant information systems, if any, and other information.
7. **Intended users** — The individual(s) or organization(s), or group(s) thereof that the social auditor expects will use the assurance report. In some cases there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly, where a

large number of people have access to it. In such cases, particularly where possible, users are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the social auditor and the responsible party or engaging party, or by law or regulation.

In some cases, intended users (for example, funding agency and regulators) impose a requirement on, or request the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, a statement alerting readers to this fact may be included. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report.

8. **Professional judgment** — The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
9. **Professional skepticism** — An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.
10. **Risk of material misstatement** — The risk that the subject matter information is materially misstated prior to the engagement.

Subject matter information — The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter. In some cases, the subject matter information may be a statement that evaluates an aspect of a process, or of performance or compliance, in relation to the criteria. For example, “ABC’s governance structure conformed with XYZ criteria during the period ...”

Annexure 5: Draft code of conduct for SAs

Introduction

The Constitution of India declares India to be a sovereign, socialist, secular, democratic and republic.

With the aim of development of socialist structure of the nation, the Government has endeavoured, among other measures, to establish social enterprises in place. These Social enterprises play a significant role in accelerating enhancement in financial, social and environmental welfare. Social enterprises' primary purpose is to develop, encourage and make the social change in the society. These may be structured in many different forms, e.g., Non-profit organizations (NPOs), which include companies incorporated under Section 8 of Companies Act, 2013, trusts and societies; and For-profit Social Enterprises (FPEs), which create social impact as part of their businesses and can be in corporate form, partnership or sole-proprietorship firm.

Most of the Social Enterprises receive the capital funding through diversified sources, for instance philanthropy, Corporate Social Responsibility, impact investors or individual donors.

There has been a boom of Non-profit sector enterprises (NPOs) across India, but there is lack of uniformity in the functioning of this sector, which affects the confidence of various stakeholders in the sector. Against this background, the concept of Information Repository (IR) will be helpful, which has been created with the objective of keeping the data of NPOs in electronic form to bring about efficiency, transparency and cost reduction in the issuance and maintenance of Information of NPOs.

Objective:-

Social Audit

Among the wide range of funding options available to the Social Enterprises, the need of alternative fund-raising structure has been proposed by the Government through listing of social enterprises and voluntary organizations with a social welfare objective, in Social Stock Exchange (SSE) which will come under the regulatory framework of Securities and Exchange Board of India (SEBI).

In addition, Social Stock Exchange (SSE) will aim at mitigating the economic damage caused by Covid-19 pandemic and this will need Social capital to rebuild the livelihoods of the people affected due to pandemic. Social Stock Exchange will aim at addressing the pressing problem, as it will unlock the large pools of social capital and enabling commercial capital to partner with Social capital.

Social Stock Exchange (SSE) will recognize For-profit social enterprise (FPEs) and non-profit social enterprises (NPOs) differently, as they operate in different ways with different financial needs. Yet, common minimum standards for reporting have been proposed for all enterprises under the Social Stock Exchange. These standards will require the enterprises to report on **social impact, governance, and financials**.

Social enterprises, whether FPEs or NPOs, that seek to raise funds through Social Stock Exchange (SSE), need to report under minimum reporting standard. This reporting requirement will help the

stakeholders of the report to capture the performance of these organization and to check whether they are genuinely working towards creating social impact.

Reporting requirement by the social enterprises will require verification by an independent person, who will conduct independent verification of the reporting i.e. social audit. The Social audit will have two parts – Financial audit, part related to conducting financial audit, and Non-financial audit, that will consist prelisting and post listing governance and compliance related work and post listing assurance on Impact reporting done by the entities registered on Social Stock Exchange (SSE). Impact reporting will also include Management Discussion & Analysis.

Social Audit refers to an independent examination aimed towards improvement of an organization's social and ethical performance. A Social Audit helps to minimize the inconsistencies between vision and reality, as also between efficiency and effectiveness.

Reporting on social impact will help the donors while decision-making, as this will create uniformity in impact reporting. Social auditor will also need to possess impact evaluation capabilities.

The Social Auditors are expected to comply with high ethical and professional standards, so that they are able to ensure public confidence, as well as the confidence of all other stakeholders. The trust, confidence, and reliability on the reporting of the Social Auditors is indispensable.

Information Repository

The Objective of Information repository is to create and maintain database of reliable, accurate and timely information, in electronic form, so that it can provide investors transparent and comparable information.

In this context, The objective of this Code of Conduct is to assist and guide the Social Auditors in discharging their obligations and responsibilities. It sets out the minimum requirement for social auditors to follow in order to maintain and promote the trust of various stakeholders, including the general public, in their services.

Social Auditors shall take reasonable care and diligence while discharging their duties respectively.

This Code of conduct is in addition to the regulations prescribed by the Social Stock Exchanges, or any other regulatory body, which have jurisdiction over them.

1. Applicability

This *Code of Conduct for Social Auditors* ("Code of Conduct") is applicable on Social Auditors, who are functioning under the regulatory framework of Social Stock Exchange.

2. Definitions

- a) 'Code of Conduct' means the Code of Conduct for Social Auditors;

- b) 'Relative' with reference to a Social Auditor refers to a person who is the spouse, parent, child or sibling;
- c) 'Social Audit' refers to the part relating to financial audit, and the part relating to non-financial audit of the Report pertaining to Social Enterprises governed by Securities and Exchange Board of India (SEBI);
- d) 'Social Auditor' or 'SA' refers to the person or firm or institution who is appointed for the purpose of Social Audit of a Social Enterprise governed by SEBI. It includes, for the part relating to financial audit, a person who is a member of the Institute of Chartered Accountants of India (ICAI), holding Certificate of Practice (COP); and for the part relating to non-financial Audit, a person who is post graduate from a university recognised by UGC with 3 years' experience in development sector or a graduate from a university recognised by UGC with 6 years' experience in development sector, or a chartered accountant, company secretary, cost accountant or any other accredited person/ agency meeting the eligibility criteria as specified;
- e) 'Information Repository' or 'IR' refers to a person who collects, keeps and provides database in electronic form for Non-Profit Organizations (NPOs).

3. Fundamental Principles for Social Auditors

3.1 Integrity

Integrity is the core value of a Code of Conduct. The integrity of social auditor establishes trust, and thus provides the basis for reliance on their judgment or on their function. A SA should comply with the principle of integrity, which requires him to be straightforward and honest in all professional and business relationships. In order to sustain public confidence, the conduct of SA should be above suspicion and reproach.

Integrity is measured in terms of what is right and just. Integrity requires to observe both the form and the spirit of ethical standards and apply absolute honesty in carrying out their work and in handling the resources. Integrity implies fair dealing and truthfulness.

A SA should not knowingly be associated with reports, returns, communications or other information:-

where he believes that the information contains a materially false or misleading statement; or contains statements or information provided negligently; or

omits or obscures required information where such omission or obscurity would be misleading.

3.2 Objectivity

A SA should comply with the principle of objectivity, which requires him not to compromise

professional or business judgment because of bias, conflict of interest or undue influence of others.

3.3 Confidentiality

A SA should comply with the principle of confidentiality, which requires him to respect the confidentiality of information acquired as a result of professional and employment relationships. He should:-

- a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or a relative ;
- b) Maintain confidentiality of information disclosed by a prospective client;
- c) Not disclose confidential information acquired as a result of professional relationship without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- d) Not use confidential information acquired as a result of professional relationships for the personal advantage or for the advantage of a third party;
- e) Not use or disclose any confidential information, either acquired or received as a result of a professional relationship, after that relationship has ended; and
- f) Take reasonable steps to ensure that personnel under his control, and individuals from whom advice and assistance are obtained, respect his duty of confidentiality.

Confidentiality serves the public interest because it facilitates the free flow of information from the client to the Social Auditor, with the knowledge that the information will not be disclosed to a third party.

Nevertheless, the following are circumstances where Social Auditor is, or may be required to disclose confidential information or when such disclosure might be appropriate:

Disclosure is required by law, for example:

- i. Production of documents or other provision of evidence in the course of legal proceedings; or
- ii. Disclosure to the appropriate public authorities of infringements of the law that come to light;

Disclosure is permitted by law and is authorized by the client; and

There is a professional duty or right to disclose, when not prohibited by law:

- i. To respond to an inquiry or investigation by a professional or regulatory body;
- ii. To protect the professional interests of the Auditor in legal proceedings; or
- iii. To comply with technical and professional standards or guidelines, including ethics requirements.

3.4 Professional Behaviour

A SA should comply with the principle of professional behaviour, which requires him to comply with relevant laws and regulations and avoid any conduct that he knows or should know might discredit him or his profession.

Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

A SA should be open-minded and mature. He should possess sound judgement, analytical skills and tenacity, and have the ability to handle situations in a pragmatic manner, to understand complex operations from a broad perspective, and to understand the role of individual units within the overall organisation.

3.5 Professional Competence and Due care

A SA should comply with the principle of professional competence and due care, which requires him to:

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) Act diligently and in accordance with applicable technical and professional standards.

Serving clients with professional competence requires the exercise of sound judgment in applying professional knowledge and skill.

Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a SA to develop and maintain the capabilities to perform competently within the professional environment.

Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

In complying with the principle of professional competence and due care, a SA Should take reasonable steps to ensure that those working in a professional capacity under his authority have appropriate training and supervision.

Where appropriate, a SA should make clients or other users of his professional services or activities, aware of the limitations inherent in the services or activities.

A social auditor should possess the following minimum competence :-

- a) To obtain and assess objective information fairly;
- b) Be vigilant of the physical surroundings and activities throughout the audit process;
- c) Have the ability to provide constructive feedback, and improvement opportunities;
- d) Remain truthful to the conclusion of the audit;
- e) Have the ability to lead and manage an audit effectively under challenging circumstances;
- f) Be knowledgeable of applicable professional requirements and standards;
- g) Have the ability to identify stakeholders with a focus on their specific roles and duties;

4. Documentation

A SA should make efforts to ensure that all communication to the stakeholders, whether in the form of notices, reports, updates, directions, or clarifications, is made well in advance and in a manner, which is simple, clear, and easily understood.

A SA should document developments relating to all activities undertaken by the implementing agency or by any other government departments and all conclusions regarding compliances, and the substance of any relevant discussions that support those conclusions.

5. Due diligence

The SA should, while discharging his duties exercise due diligence. Diligence encompasses the responsibility to act carefully and thoroughly. In discharging his function, the SA or IR is expected that he would exercise the duty honestly, reasonably and with alertness as it is proper to be expected.

6. Compliances with laws & Regulations

The SA should comply with the requirements of the prevailing laws, rules, regulations, and the professional standards applicable in discharging his duty.

In case of Social Audit

For the financial audit part of the Social Audit, the audit should be performed in accordance with “generally accepted procedure of audit applicable to the circumstances”. The ‘Engagement and Quality Control Standards’ issued by the Institute of Chartered Accountants of India (ICAI)’ are performance benchmark while performing audit service engagement. These standards have been issued with a view to securing compliance by the auditor for the proper discharge of their functions. Accordingly, while discharging their roles, it will be the duty of the auditors to ensure that these ‘Standards’ are being followed. These are the performance benchmark that should be applied.

For the non-financial audit part of the Social audit, the audit the audit should be perform in accordance with ‘Social Audit Standard’ which is yet to be issued by the Sustainability Reporting Standards Board of ICAI. This proposed standard would cover all aspects of assurance of impact reporting like, scope, engagement acceptance, basic principles, audit procedures, assurance report, documentation, etc. These standards need to be followed in proper discharging of the duties.

7. Pressure to breach the fundamental principles

A SA should not:

- a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
- b) Place pressure on others that the SA or IR knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

8. Presentation of Information

SA might require presentation of information. This information might assist stakeholders in understanding and evaluating aspects of the concerned organization’s state of affairs and in making decisions concerning the organization. Information may include financial and non-financial information that might be made public or used for other purposes.

When preparing or presenting information, the SA should:-

- a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- c) Exercise professional judgment to:
- d) Represent the facts accurately and completely in all material respects;
- e) Describe clearly the true nature of business transactions or activities; and
- f) Classify and record information in a timely and proper manner; and
- g) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.

Additional Requirements for Social Auditors

9. Independence

SA should be independent when performing the audit. Independence comprises:
Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an

individual to act with integrity, and exercise objectivity and professional skepticism.

Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that the Auditor's integrity, objectivity or professional skepticism has been compromised.

10. Gifts and Hospitality

A SA or his relative should not accept gifts or hospitality, since it may influence behavior of auditors or affect his independence as an auditor.

A SA or his relative should not offer gifts or hospitality or any other advantage to a public servant or any other person, intending to obtain or retain work.

11. Custody of Client Assets

A SA should not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.

12. Conflict of Interest

A conflict of interest creates threats to compliance with the principle of objectivity. Such threats might be created when:

A SA undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or

The interest of a SA with respect to a particular matter and the interests of a party for whom the SA undertakes a professional activity related to that matter are in conflict.

A SA should not allow a conflict of interest to compromise professional or business judgment.

13. Inquiring mind

An inquiring mind is prerequisite for better understanding of known facts and circumstances for conducting the audit. A SA is required to exercise professional skepticism, which refers to critical assessment of evidence available to him, objectivity, and good judgment –must have characteristics while performing social audit.

Having an inquiring mind involves:

- (a) Considering the source available, relevance of the source and sufficiency of information obtained, after taking into consideration the nature, scope and outputs of the social audit being undertaken; and

- (b) Being curious and alert to a need for further investigation or to take other action wherever necessary.

While considering the source, relevance and sufficiency of information obtained, the SA might consider, with other matters, whether:

- There is any new information available or there have been any changes in facts and circumstances of the existing information available;
- Any potentially relevant information might not be taken into consideration from the facts and circumstances known to the auditor.
- The information or its source is influenced by bias or self-interest.
- There is no relation between the known facts and circumstances and the accountant's expectations.
- The information available to the SA gives a reasonable basis to him to reach a conclusion.
- There are any other reasonable conclusions that may be reached from the information obtained.

14. Exercise of Professional Judgement

A SA should exercise professional judgment while providing the service. Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgment is required in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

15. Professional Skepticism

A SA is required to exercise professional skepticism when planning and performing audits.

While conducting audit, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:-

- Integrity requires to be straightforward and honest. The auditor complies with the principle of Integrity by:
 - a) Being straightforward and honest when raising concerns about a position taken by a client; and
 - b) Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action

in the circumstances.

- c) Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.

In doing so, the SA demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- Objectivity requires auditor not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others. For example, the auditor complies with the principle of objectivity by:
 - a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the professional or business judgment; and
 - b) Considering the impact of such circumstances and relationships on the judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's data.

In doing so, the auditor behaves in a manner that contributes to the exercise of professional skepticism.

- Professional competence and due care require the auditor to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the Auditor complies with the principle of professional competence and due care by:-

Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;

Designing and performing appropriate audit procedures; and

Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the auditor behaves in a manner that contributes to the exercise of professional skepticism.

16. Family and Personal Relationship

A person should not accept an engagement of Social Audit if he is in employment with the concerned organization. He should also not accept the engagement if any member of his immediate family:-

- a) Is a director or officer of the audit client;
- b) Is an employee in a position to exert significant influence over the preparation of the client's records or the financial statements on which the auditor will express an opinion; or

- c) Was in such position during any period covered by the engagement or the financial statements.

17. Business Relationship

A SA should not have a close business relationship with the client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the auditor, as applicable.

18. Knowledge and understanding of the client

The SA should obtain Knowledge and understanding of the client, its owners, management and those charged with governance and business activities for identifying issues like client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behaviour. He should obtain understanding of client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

19. Acting with Sufficient Expertise

The principle of professional competence and due care requires that a person should only undertake significant tasks for which the accountant has, or can obtain, sufficient training or experience.

The SA can obtain assistance or training from someone with the necessary expertise.

20. Bringing an information to the Notice of management

While conducting social audit if the SA observes certain facts or information, which should be brought to the information of Management for bringing an improvement or correction of a non-compliance, he should bring such facts or information to the knowledge of Management at the earliest.

Annexure 6: C&AG policy of empanelment of CA firms/LLPs and selection of auditors

Chartered Accountant firms (firms) and Limited Liability Partnerships (LLPs) in India with at least one full time ^[1] FCA (Partner/Sole Proprietor) can apply for empanelment with this office for the purpose of appointment of auditors of Companies as per Section 139 (5) and 139(7) of the Companies Act 2013 and of Statutory Corporations/Autonomous Bodies as per the provisions of their respective Acts.

The criteria for empanelment and selection of statutory auditors have been arrived at after due consultation with the Institute of Chartered Accountants of India.

All the empanelled firms/LLPs are awarded points. The point score is based upon the experience of the firm/LLP, number of Chartered Accountant (CA) partners and their association with the firm/LLP, number of CA employees, as detailed below:

S.No.	Criteria	Points	
1.	Experience of the firm/LLP	1 point for every calendar year - Maximum 15. Counted from the date of constitution of the firm/LLP with one full time FCA or date of joining of the firm/LLP by the existing partner having the longest association with the firm/LLP whichever is later. (Such date will be considered as Formation Date of the firm)	
2.	Points for full time CA partners (Only upto 20 full time CA partners in terms of their seniority as per their association with the firm/LLP)		
2(a)	Full time FCA Partners	5 points each	The first 5 full time CA partners will get the points mentioned in the adjacent column and remaining 15 full time CA partners will get half of these points
2(b)	Full time ACA Partners	3 points each	
2(c)	Points for association of full time CA partners with the same firm/LLP	3 points for each full time CA partner above 15 years.	

	(considered with reference to the Formation Date	2 points for each full time CA partner above 10 years.	
	or actual joining date of CA partner whichever is later)	1 point for each full time CA partner above 5 Years and upto 10 Years	
3.	Points for Qualifications of the full time CA Partners (Maximum ten points)		
3 (a)	1. DISA certification from ICAI		
	2. CISA certification from ISACA, USA	2 points each	One full time CA Partner will be awarded points for one qualification only. Maximum 5 full time CA partners will be awarded points
3 (b)	1. Certification in IND AS from ICAI 2. Certification in Forensic Accounting and Fraud Prevention from ICAI	1 point each	
4.	Points for full time CA Employees	One point each for 5 full time CA employees and half point each for remaining 15 full time CA Employees	
	(Only 20 full time CA employees will be awarded points)		
5.	Points for Qualifications of the full time CA Employees (Maximum five points)		
5(a)	1. DISA certification from ICAI		
	2. CISA certification from ISACA, USA	1 point each	One full time CA Employee will be awarded points for one qualification only. Maximum 5 full time CA employees will be awarded points
5(b)	1. Certification in IND AS from ICAI 2. Certification in Forensic Accounting and Fraud Prevention from ICAI	0.5 point each	

6.	Turnover of the firm/LLP from Audit Services only (as distinct from other activities e.g. consultancy)	Maximum 5 points
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Annexure 7: Annual disclosures for listed/registered NPOs

Disclosures on General aspects:

1	Name of the organization (legal and popular name)
2	Location of headquarters and location of operations
3	Vision / Mission / Purpose
4	Organizational goals, activities, products and services
5	Outreach of organization (Type and number of direct, indirect and institutional beneficiaries / stakeholders reached)
6	Scale of operations (Including Employee and Volunteer strength)
7	Details of top donors or investors of organisation - List of Top 5 donors or investors (budget wise)
8	Details of top 5 programs in disclosure period - List of Top 5 interventions/programs (budget wise)

Disclosures on Governance aspects:

1	Ownership and legal form
2	Governance Structure (outlines board and management committee structures, mandates, membership, charters, policies and internal controls)
3	Details of highest governing body including names of the members of the body
4	Executives with key responsibilities
5	Number of meetings by highest governing body and other committees formed by them along with attendance, and the process of performance review
6	Organisation level potential risks and mitigation plan.
7	Reporting of related party transactions.
8	Mechanisms for advice and concerns about ethics, along with conflict of interest and communicating other critical concerns
9	Remuneration Policies
10	Stakeholder concerns, process of grievance redressal and number of concerns raised and resolved
11	Compliance management process and statement of compliance from senior decision maker
12	Organisation registration certificate, and other licenses and certifications (12A, 80G, FCRA, GST, etc.)

Disclosures on Financial aspects:

1	Financial Statement (Balance Sheet, Income statement and Cash Statement). Also program wise fund utilization for the year
2	Auditors report and auditor details

Annexure 8: Guidance notes for listed/registered NPOs on general, governance and financial disclosures

General disclosures

1. Name of the organization (legal and popular name):

The reporting organization shall report on the legally registered name and also any popular names the organization is known by among stakeholders.

2. Location of headquarters and location of operations:

Headquarter refers to the address that the organization has used in registering with respective regulatory body and also the organizations administrative center, from which it is controlled or directed. In case the locations are different, it needs to be specified. Location of operations shall cover the name of the locations where the organization has significant operation. Significant shall be defined to the scope of this document.

3. Vision/Mission/ Purpose:

It is important to understand the intent behind the disclosure and respond accordingly. Purpose in this context is why the organization exists and explaining why the cause taken up by the organization matters. The Mission will explain how you are working in the context of the purpose and the Vision in the context of this disclosure will be about where the organization is headed and what will the organization achieve. It is possible that all organizations may not have all the 3 (Vision, mission and purpose) as a stated document.

4. Organizational goals, activities, Products and Services:

The reporting organization shall mention objectives of the overall organization or program listed. It shall also describe the organization activities, including any products and services which the organization provides.

5. Outreach of organization:

Organization to mention type and number of direct, indirect and institutional beneficiaries / stakeholders reached across different programs and geographies.

6. Scale of operations (Including Employee and Volunteer strength):

The scale of the operations shall be explained by net turn-over/annual budget/annual spent in last 3 years, number of beneficiaries, number of locations of operations and number of employees and volunteers. Total number of employees shall be disclosed separately as permanent employees, temporary employees and employees on contract. The nature and scale of activities performed by volunteers shall be disclosed. The organization shall disclose the scale of operations either at a national level or at a state or district level as may be useful for stakeholders.

7. Top donors or investors of organisation - List of Top 5 donors or investors (budget wise)

Sl. No.	Donor or Investor	Geography	Total program cost (INR)	Expenditure in current year (INR)	Cumulative expenditure (INR)	Total outreach (Direct, Indirect, Institutional)	SD Goal or target	Alignment with national/ state schemes or priority
1								
2								
..								

8. Details of top 5 programs in disclosure period - List of Top 5 interventions/programs (budget wise)

Sl. No.	SD Goal or target	Geography	Total program cost (INR)	Expenditure in current year (INR)	Cumulative expenditure (INR)	Total outreach (Direct, Indirect, Institutional)	Names of Donors or investors	Alignment with national/state schemes or priority
1								
2								
..								

Governance Disclosures

1. Ownership and legal form:

The organization shall explain the nature of ownership and the legal form on the entity specific to India operations.

2. Governance Structure:

The governance structure will start from the highest governance body, the committees / sub committees (standing/adhoc) under the highest governance body and the organization hierarchy for decision making. It outlines board and management committee structures, mandates, membership, charters, policies and internal controls.

3. Details of highest governing body including names of the members of the body:

The organization shall explain the role of the highest governance body, the competence available and the identification of the members including name. Also name and designation of the senior decision maker may be provided.

4. Executives with key responsibilities:

The disclosure will highlight the key executive positions and their role in the organization.

5. Number of meetings by highest governing body and other committees formed by them along with attendance, and the process of performance review:

The process to acquire the necessary information and data by the highest governance body to review the performance of the organization shall be explained. The disclosure shall also bring out the number of such meetings held by the highest governance body, during the course of the reporting period.

6. Organisation level potential risks and mitigation plan:
The organization to describe potential risks and mitigation plan addressing the same for organization and proposed program/solution.
7. Reporting of related party transactions:
Although this is disclosed as part of 10A, it is recommended to report as part of annual reporting requirements by the organisation.
8. Mechanisms for advice and concerns about ethics, along with conflict of interest and communicating other critical concerns:
A description of the organizations internal and external mechanisms for seeking advise about ethical and lawful behavior and organizations integrity. It will also include the identification of who in the organization is assigned the responsibility for this mechanism. The concerns related to any conflict of interest and other concerns raised by the mechanism above shall be disclosed along with the actions the organization has taken.
9. Remuneration policies:
Remuneration policies for the highest governing body and the senior executive of the organization shall be reported. This shall include all kinds of fixed pay, variable pay and performance linked payments. It can also include any termination payments and claw backs. It is also important to bring out how performance of the organization is linked to remuneration.
10. Stakeholder concern, process of grievance redressal and number of concerns raised and resolved:
Apart from concerns related ethics, the organization shall report on what is the organizations process to seek any stakeholder concerns or grievances. How many such concerns were reported and how the organizations handled the same.
11. Compliance management process and statement of compliance from senior decision maker: This disclosure requires the organizations to explain how the organization manages to monitor its compliance again all regulatory and legal requirements. There shall be a statement on the compliance status by the senior decision maker, which shall be the chair, CEO or equivalent senior position.
12. Organisation registration certificate, and other licenses and certifications (12A, 80G, FCRA, GST, etc.).

Financial Disclosures

ICAI is in the process of publishing the uniform accounting and reporting framework for NGO. The below disclosures will comply with the same.

1. Financial Statement:
 - Balance Sheet
 - Income statement

- Cash Statement
- Program wise fund utilization certificate
- Percentage of organizational budget this 'issue' represents
- Breakup of organizational budget and expenditure
- Split of the budget across partners of the project/initiative is being jointly executed

2. Auditors Report and auditor's details

Annexure 9: Guidance notes for all SEs on impact reporting

Strategic Intent and Planning

1. What is the social or environmental challenge the organization or the instrument listed is addressing?

The problem statement to be explained in detail. The challenge, its extent, causes and consequences, and the part of the problem statement the organization and the instrument are trying to address shall be explained.

How the organization is planning to attend to the challenge or attending to the challenge? The approach the organization or the specific instrument will be using or already using need to be explained. The organization shall also explain what the change is resulting for the targeted beneficiary and what proportion of the target group are experiencing the change.

2. Who is being impacted (target segment)?

The target beneficiaries / stakeholders to cover various kinds of target groups. Include the organization's internal definition of "target segments" it seeks to serve, usually along one or more of the three dimensions namely,

- Income (driven by socio-demographic and/or behavioural characteristics)
- Geography (ecosystem or geographic characteristics driven by population density (urban/rural), administrative boundaries, terrain etc), and
- Thematic issue (gender, caste, community that places the target segment at a disadvantage that has economic and non-economic consequences)

Where the target segment is a specific geographic region in its entirety, state so. Thematic issues could be one or more of the following: *Conservation of Resources, Generation via renewable resources, Reduction in waste, Conservation (say of land, wildlife, historical monuments, etc), Reduction in toxic substances.*

Also, bring out possible deviations that might have occurred in the reporting period.

3. What will be the outcomes of the solution/program? Coverage should include positive and potential unintended negative outcomes.

Describe the Theory of change / logic model framework (defining input, output(s), outcome(s)) for the solution proposed. While identifying the targeted impact segment, both positive and potential unintended negative impacts need to be identified.

Approach

1. What is the baseline status / situation analysis / context description at the start of the project/program?

The baseline measurement is done to establish the starting point in any project/program. The measurements give the depth of the challenge and/or the spread of the challenge. The organization will establish the right kind of measurements keeping the end or what the organization or instrument wants to achieve since the baseline will be used to measure what actually changed due to the intervention. In absence of baseline study, a detailed situation analysis to be mentioned.

2. What has been the past performance trend?

For the on-going project/program explain the key past performance trends and for proposed project/program the narrative should explain the experience of similar programs in similar situations.

3. What is the solution implementation plan and the measures taken for sustainability of program outcomes?

Detailed implementation plan to be mentioned capturing all the essential activities. The interventions can be either perennial support or time bound support. In case of time bound support, the organization shall explain the exit strategy and how it ensures that the outcomes achieved will be sustained. In case of perennial support also, the organization can explain how it ensures sustainability of the project/program. Also, bring out possible deviations that might have occurred in the reporting period.

4. Please brief out alignment of solution to SDGs/national priorities/state priorities.

Explain the alignment of program/solution to respective SDGs and national/state priorities and schemes.

5. How have you taken into consideration stakeholder feedback in this reporting period?

The organization to mention how they have mapped and prioritized the key stakeholders for the engagement. The reporting shall include the list of stakeholders engaged, their feedback and how the organization used the feedback.

6. In the last year, what have you seen as the biggest risks to the achievement of the desired impact? How are these being mitigated?

Mention the key potential risks pertaining to the organization or the specific instrument that could hamper/hinder the achievements of desired intended outcomes in last year and the steps or strategies taken by organization to mitigate the same.

Impact Scorecard

1. What are the metrics monitored and what has been the trend?

The trend in performance shall be explained through the trend of the data across the output, outcome and impact metrics that are established by the organization. The metrics will capture the reach of the program as well as level of inclusiveness of impact being

generated (direct, indirect, extended). This shall help evaluate the delta change that has occurred in lives of various target stakeholders (including environment) due to the solution. The metrics monitored shall target to cover the reach, depth and inclusion.

Reach - Outreach metrics for target segment(s) served:

- Proportion of target segment(s) who have been reached in the reporting period
- Proportion of target segment(s) who accepted the organization's solution
- What part of the planned activities have been accomplished in the reporting period
- Cumulative reach (members of the target segment served since inception)
- Other suitable metrics in relation to the solution, usually relate to people, institutions or activities (Ex: monthly active users of MAUs for an app/tech platform). These can be considered as needed, where the target segment is the specific geographic region.

Depth - The depth of impact on the median individual (of the target segment(s))

Surveys (1% of the customers/recipients, or at least 200 respondents per organization) asking respondents 'Has your quality of life changed', with response options being: Very much improved, slightly improved, no change, got slightly worse, got much worse.

Alternatively, SE can compare itself to different 'case studies' of High - Medium - Low depth organizations.

Inclusion - The SE must consider for itself how its approach intends to improve Inclusion for its customers / recipients, along one or more of the following themes.

- Theme 1: Net increase in Income levels of customers / recipients among target segment(s), as decided by the organization. The organization can self-select 'Low', 'Medium', or 'High'.
- Theme 2: Diversity and Inclusion: The SE exhibits how it prioritizes the inclusion of these disadvantaged groups or communities (either as owners, partners or customers) and empower them in their relationship with the SE over time.
- Theme 3: Social Equity: The SE exhibits how its approach has resulted in the disadvantaged group or community experiencing increased social equity. This can be through a survey as above, or through qualitative criteria such as details of its strategy, processes and internal accountability/governance processes that have resulted in an internal culture that values and works towards achieving social equity for the disadvantaged group or community.

2. What are the highlights or achievements in the reporting period?

The organization to mention key highlights, achievements, challenges and/or disappointments faced during the reporting period.

3. Beneficiary / Stakeholder validation

It is utmost necessary to capture the perspective of stakeholders for the program to draw a holistic picture of impact/change that has been achieved by the program. The stakeholder

voices would also help in capturing information that will help validate the impact claims. This can establish a check and avoid overclaiming. The validation process shall answer the following questions.

- What would have happened in the absence of this intervention?
- How much the project contributed to the changes that are evidenced?
- How much unintended negative impacts happened due to the intervention.

Annexure 10: Sample indicators of social performance in select sectors

The following types of parameters or indicators of performance have been adopted by organisations working in rural livelihoods, education and health respectively. These are tracked by them either through their internal MIS and/ or through third party assessments.

- a) direct short term outputs,
- b) medium term outcomes (learning, incomes or better health; and
- c) impact that are capacity related either capacity of the people impacted and their institutions (demand side) or capacity of the government system (supply side).

Livelihoods	
<i>Indicators related to direct impact</i>	Geographical coverage I. Outreach – along with social composition (SC, ST, OBC, etc.) II. SHGs and their associative tiers III. Savings and credit information IV. Change vector – number of women and men working as change vectors V. Capacity Building – SHGs, Farm intervention, NRM, Gender, WASH VI. Institution building – number of SHGs or federations taking action on issues of gender, caste, and class VII. Specific programs a. WATSAN b. Land Rights c. Youth VIII. Gross annual household income IX. Finance leveraged and invested X. Community contribution XI. Donor requirement – examples a. Livelihoods Fund project – number of trees, tree species, mortality, amount of carbon sequestration b. HUF – Amount of land treated, number of water harvesting structures, amount of water conserved c. ICICI funded “arresting distress migration” – number of people who got wage employment in MGNREGA, social composition, and average workdays generated
<i>Indicators related to direct impact</i>	XXX
Health	

Indicators related to direct impact	Health sector organisations could have two kinds of programs: A. Clinical Services B. Community Services <u>Indicators for Clinical Services</u> I. Number of patients treated – OPD, IPD, Operated (Major, Minor and Intermediate, as also elective vs emergency), Deliveries (Vaginal, Assisted, Cesarean), Emergencies attended to, ICU care (Denominator difficult to determine as patients may come from wide geographic areas – hence lives saved, or reduction of medical impoverishment are difficult to establish) II. Mortality (in hospital) III. Gender, Social group (Tribal, Dalit, OBC), Economic class, IV. Direct expenses – Out of Pocket average (OPD, IPD) <u>Indicators related to Community Services Program</u> I. Mother and Child Health (MCH) – Maternal deaths, Institutional deliveries, Safe deliveries %, Near miss, NB deaths, LBW and VLBW outcomes, Under 5 Deaths, Immunisation coverage upto 5 years – Avni app (earlier open CHS platform) II. Non-Communicable Diseases (NCD) – Numbers screened and diagnosed, New cases added and on treatment, Total number coming for FU visits or to PSG meetings regularly (Avni – Sr Health Workers) III. Malaria – Number of Fever cases, Slides made and Tested, Slide positivity rate, Seasonality
Indicators related to Sector-wide impact	Public Health System Strengthening (in partnership with State Govt and NHSRC) • Trainings • Mentoring and Supportive supervision • Technical support – • Accountability • QI initiatives
Education	
Indicators related to direct impact	Strengthened leadership capacities of xxxx education leaders in districts towards following outcomes: I. Number of Coaches trained and supported II. Number of Schools have functional library III. Schools with Building as Learning Aid IV. Schools with active Bal Sansad V. New Students enrolled in Govt. schools VI. Dropped students enrolled back

	VII. Volunteers involved in more than 3 campaigns VIII. Students enrolled for ALP Program (ALP – Advanced Learning Program) IX. Improved learning outcomes in xxx demonstration schools
<i>Indicators related to Sector-wide impact</i>	I. Education department managers have 21st Century leadership skills II. School clusters as true ‘units of change III. Teacher education focuses on 21st Century skills IV. Future ready Curriculum & Assessment