Social exchanges may hit disclosure roadblock

NGOs, civil societies say additional reporting requirement flawed

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The government's Budget proposal to introduce the concept of social stock exchanges (SSEs) in the country could face disclosure roadblock. Non-governmental organisations (NGOs) say the proposal to follow most of the reporting requirements mandated for listed companies, along with the additional requirement of social auditing, could prove to be a major impediment.

This may restrict civil societies to go for voluntary listing. It will add to the regulatory burden, say industry experts. NGOs are already being regulated by multiple agencies and have to follow stringent rules. An SSE is a platform that allows NGOs and voluntary non-profit organisations to raise capital for social purposes. "The thinking within the Securities and Exchange Board of India (Sebi) is that these civil societies have to undergo social audit process and certification and also proper disclosure on a continued basis," said a regulatory source. He added that the Sebi-appointed technical panel is finalising the onboarding mechanism and eligibility criteria for these firms. Social audit measures are an assessment of how the company is achieving its goals or benchmarks for social responsibility. It is not a mere numbers game, as in a normal audit there are no norms for measuring social change. The regulator is of the view that it has to impose these additional checks and balances. Not doing so runs the risk of inviting fly-by-night entities.

However, according to people in the sector, the whole argument of bringing in more transparency is flawed. Even after adhering to the Foreign Contribution (Regulation) Act (FCRA), 2010, the government continues to crack down on civil societies. Amnesty International being the latest example.

Biraj Patnaik, executive director, National Foundation for India, said, "NGOs in India are perhaps the most regulated anywhere in the world, with multiple regulatory authorities, including the income-tax, Ministry of Home Affairs, and the Registrar of Societies. With multiple layers of accountability, the transparency and governance requirement from NGOs are much higher. Therefore, there is little merit in creating yet another additional layer of regulations in the form of social audits, even if it's voluntary at this stage."

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SPEED BUMPS AHEAD

- Only a few hundred would be eligible for listing, according to initial assessment
- Six nations, including Canada and the UK, have SSEs, and none of them is successful
- NGOs, civil societies lack confidence as they have been facing govt scrutiny
- Proposed social audit would be additional disclosure burden on them
- Recent tightening of CSR and FCRA rules has not gone down well with civil society organisations
- Sebi's technical committee is finalising the eligibility criteria and onboard mechanism

Illustration: Binay Sinha