



## REINVENTING PUBLIC FINANCE: SSE 2.0 AND THE EVOLUTION OF MUNICIPAL DEBT DISCLOSURES

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### ABSTRACT

*In this article, we explore the evolving rules governing India's Social Stock Exchange (SSE) and how they affect municipalities by providing information about their debt.<sup>1</sup> In 2024 and 2025, reforms are planned to create more efficient, transparent markets that are more attractive to investors.<sup>2,3,4</sup> Both SSE staff and staff at municipal funding organisations want to achieve similar goals: to increase capital flows through policies that require additional disclosures, enhance good governance practices, and strengthen verification procedures for capital providers. Both entities can achieve this through ongoing disclosures (SSE), annual impact reporting (SSE), and social audits (SSE). At the same time, municipalities will benefit from following the specified eligibility requirements (trustees), utilising trustees to monitor municipal debt, providing periodic audited financial statements, and disclosing unanticipated events.<sup>5</sup> The article also considers many challenges facing both markets that may affect their operations, including measuring the validity and value of impacts, the need for independent verifiers, and, most importantly, limited liquidity in the secondary market. The author uses examples of actual SSE listings and municipal bond issuances to illustrate that, even though*

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<sup>1</sup> Securities and Exchange Board of India, Framework on Social Stock Exchange (SSE) (Circular No SEBI/HO/CFD/PoD-1/P/CIR/2025/33, 19 March 2025).

<sup>2</sup> Securities and Exchange Board of India, Framework on Social Stock Exchange (Circular No SEBI/HO/CFD/CFD-PoD-1/P/CIR/2025/129, 19 September 2025).

<sup>3</sup> Securities and Exchange Board of India, Consultation Paper on Review of the minimum application size for contribution towards subscription of Zero Coupon Zero Principal Instruments issued by Non-Profit Organisations on Social Stock Exchange (7 March 2025).

<sup>4</sup> Securities and Exchange Board of India, Amendments to SEBI (ICDR) Regulations, 2018, and SEBI (LODR) Regulations, 2015 (Board memorandum, June 2025) paras 4.2.2–4.2.3 and 5.2.1.1–5.2.2.3.

<sup>5</sup> Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, regs 91C–91F; Securities and Exchange Board of India, Regulatory Framework for Social Stock Exchange (Board memorandum, 10 February 2022); Securities and Exchange Board of India, Flexibility in the framework for Social Stock Exchanges (SSE) (Board memorandum, December 2023).

*none of these markets has fully matured, they have begun to operate with sufficient regulatory patience.<sup>67</sup> The overall conclusion is that SSE and municipal debt can become viable instruments of responsible finance only if disclosure is not merely extensive, but also workable, enforceable, and trusted by investors.*

**Keywords:** Social Stock Exchange, Municipal Bonds, SEBI Disclosure, Impact Reporting, Investor Protection.

## INTRODUCTION

Two key related themes characterise the current development of the Indian capital market. Socially responsible investing (SRI) is becoming more prevalent, with the emergence of the Social Stock Exchange (SSE) providing increased access to impact-oriented fundraising.<sup>8</sup> Creating an efficient market for fundraising on the SSE will level the playing field for all fundraisers across social, environmental, and governance categories by providing a more credible and easily accessible source of capital. At the same time, there is a growing trend of developing greater transparency and trust in the municipal bond market as new infrastructure financing models emerge.

The overarching theme of these related developments is to increase disclosure, discipline, and confidence among potential investors. SEBI's actions in the coming years provide clear evidence that it will not only expand these two markets but also continue to tighten governance around them. This balance is crucial to the future of both markets, as both the SSE and municipal bond markets are significantly more reliant on trust than on glamour.

## SSE 2.0: FROM CONCEPT TO CALIBRATED MARKET

The SSE regulatory framework has now entered its second phase, as evidenced by the issuance of SEBI's SSE framework circular in March 2025 and by continued refinement of the SSE through further guidance and clarifications on how the SSE framework will function, as reflected in a second SSE framework circular issued in September 2025.

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<sup>6</sup> National Stock Exchange of India Ltd, India's First Ever Listing on Social Stock Exchange Segment by SGBS Unnati Foundation (2 February 2024).

<sup>7</sup> National Stock Exchange of India Ltd, Press Release (29 February 2024) (Ekalavya Foundation listing).

<sup>8</sup> National Stock Exchange of India Ltd, Social Stock Exchange and Registered NGOs pages.

Moreover, before the issuance of these two SSE circulars, SEBI issued a consultation paper in March 2025 to review the minimum application size for investor contributions to subscribe to Zero Coupon Zero Principal (ZCZP) instruments issued by not-for-profit entities. Thus, it is clear that the SSE regulatory framework is still evolving and that adjustments and further refinements will continue as the SSE matures.

Simultaneously, in June 2020, the Board issued a memorandum recommending new changes to the regulatory structure, which would expand the list of non-profit organizations eligible to register, replace the term “Social Impact Assessment Firm” with “Social Impact Assessment Organization,” and give funds-raising non-profits (NPO) a period of two years to remain registered on the Social Securities Underwriting (SSE). All these changes are more than cosmetic; they are meant to reduce barriers in a young, developing market.

The rationale underlying these changes is clear. The first version established the SSE's legal framework, while the second seeks to facilitate access without compromising accountability. The 2025 proposals demonstrate that the mandated SEBI recognises that many social enterprises fall outside the existing rigid fundraising mandate because they are too small, too early-stage, or too resource-constrained. This is why many terms related to issue size, application size, assessor terminology, and the forms of eligible NPOs are being revisited. In other words, SSE 2.0 is not about loosening standards; it is about making the standards manageable or attainable for true social enterprises.

## **THE PROTECTION ARCHITECTURE BUILT INTO SSE**

Frequently, SSE is characterised as a 'funding platform', but it is also a 'disclosure platform' legally. A non-profit organisation that is registered with SSE must produce annual disclosures within 60 days of the end of the fiscal year per Chapter IX-A of the LODR Regulations. A social enterprise that raises funding through or registers at SSE must also disclose details of material events that could affect the achievement of projected outputs or outcomes within 7 days, and must provide ongoing updates as long as the events are considered material (i.e. continue to affect the enterprise's ability to achieve its objectives). A social enterprise that has raised funds through SSE or is registered with SSE must also submit an annual impact report in the format prescribed by SSE, and that report must be subject to an audit by an organisation that performs social auditing and is certified by a social auditor. In addition, if an NPO is listed,

it must submit quarterly reports on the total amount of funding received, the total amount spent, and the remaining funds in a separate bank account.<sup>9</sup>

These structures matter because fundraising through the social sector is subject to exaggeration. When the securities market allows for impact finance, the greatest risk is not always fraud but rather imprecision. Therefore, if the funding enterprise is unable to quantify what was promised, what was delivered, and what has changed since then, there will be no way to verify whether the intended social purpose was achieved.

The SSE disclosure model also creates a system that makes the impact of the disclosures measurable over time and allows for independent review of the disclosures by an external party. By making legal filings available on the internet through SEBI and the exchanges, the public is able to access legal filings that could otherwise be kept hidden in corporate files.

### **WHY SSE APPEARS VIABLE, AT LEAST IN PRINCIPLE?**

The concept of the SSE being a viable model is now more than just a theory because market activity has proven the model's existence. The NSE's official press release states that the SSE had its first listing in India with the SGBS Unnati Foundation in February 2024 and that they raised roughly ₹1.8 crore. In addition, after the second listing in March 2024 with the Ekalavya Foundation, the NSE's statement of SSE activity indicated the SSE had more than 50 registered Not-for-Profits. The NSE's list of currently active NPOs shows a mix of both "Listed" and "Registered" NPOs, which demonstrates that the SSE has created an operating regulatory channel as opposed to just being a concept from a paper.

As another example, Missing Link Trust's Impact Assessment Report for 2024-2025 states that it was registered on the SSE in April 2024 after raising ₹1.2 crore using a ZCZP bond branded as a Child Safety Bond.<sup>10</sup>

According to the same report, the verification logic in place will also provide evidence of how effective the framework has been. The assessor describes the nature of the review and clearly explains that the work was to consist of limited sample reviews, with a statement indicating that the report does not provide an audit opinion or assurance.<sup>11</sup> This is what SSE is supposed

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<sup>9</sup> National Stock Exchange of India Ltd, Fund-Raising Document Dated February 05, 2024 (Ekalavya Foundation), showing quarterly utilisation statements and separate bank account obligations.

<sup>10</sup> Missing Link Trust, Social Impact Assessment Report 2024-25: Child Safety Bond (2 September 2025).

<sup>11</sup> Missing Link Trust, Form 2.1 Annual Social Impact Report by Social Enterprise (2 September 2025).

to look like, works as intended, and you can produce vs. your verification. Your documented evidence of a social outcome will not just be established based on conjecture or assumption, but by using documented proof, with samples and verifying through sampling.

### **THE REAL PRESSURE POINT: IMPACT METRICS INTEGRITY**

The greatest challenge facing SSE is not the lack of goodwill; it is the price associated with establishing goodwill through impact reporting. Social outcomes are seldom as easily quantified as financial outcomes, and therefore, finding a suitable means to measure them is quite difficult. A school program that is anticipated to result in some level of enrollment of children, improved student attendance, increased student awareness, or increased student confidence requires different methodologies for the collection and analysis of data. The report from The Missing Link Trust demonstrates this aspect of the problem; the Assessor used several different sources of data, including interviews, records, survey data and samples to establish a finding, and cautioned that changes in circumstances and/or changes in information may affect the conclusion. This level of caution is prudent; however, it also serves to identify the expenses involved in producing quality impact measurement. Due to the high cost of conducting quality verification, small NPOs can be deterred from pursuing strategies that involve using the market.

The 2025 consultation paper is significant in this regard because it has allowed SEBI to review the minimum application size for ZCZP subscriptions and confirm to all interested parties that liquidity and retail affordability are major concerns related to the future of the capital market (i.e., market development). In its June 2025 Board memorandum, SEBI also explored ways to provide wider access to Non-Profit Organisations ("NPO") structures (e.g. implementing/further developing alternative financing methods) and make it easier to comply with the social impact assessment of organisations by looking at alternative compliance mechanisms. These actions are indicative of SEBI's overall regulatory philosophy: if impact investing is to become mainstream, it should not be so expensive to comply with regulations that only the largest Charities will be able to take part.

### **MUNICIPAL DEBT DISCLOSURES: A STRICTER AND MORE TRADITIONAL DISCIPLINE**

Municipal debt has different characteristics, but it suffers from the same problem of trust. SEBI's 2024 Master Circular for "non-convertible securities", "securitised debt instruments",

"security receipts" (municipal debt), and "commercial paper" consolidates the regulatory framework for municipal debt issuance and listing.<sup>12</sup> For example, SEBI's own regulatory summary shows that all municipal issuers will continue to be regulated by the ILMDS Regulations, the 2021 Operational Circular, 2017 & 2019 Continuous Disclosure Circulars, and the 2022 Green Debt Disclosure Circular, as applicable under current rules and policy.

The summary indicates that an issuer, when offering a municipal bond issue, must meet the following criteria to be eligible to issue:<sup>13</sup>

1. Must meet the eligibility criteria outlined in their constitutional documents.
2. Must follow proper accounting standards.
3. Must not have defaulted on repayment within 365 days preceding this municipal bond offering.
4. Must not have been subject to an order of the SEBI prohibiting it from filing this offering.
5. Must hold a credit rating from at least 1 registered CRA as issued by SEBI.
6. Must have established arrangements for dematerialisation.
7. Must engage a SEBI-registered debenture trustee.
8. Must engage a merchant banker.

The public offering process is considerably more comprehensive than that of other types of investments, and the standards for the issuer are significant.<sup>14</sup> The Summary issued by SEBI indicates that to offer a public offering, the issuer must have a surplus for each of the previous 3 years, and for an issuer that is a corporation under the Companies Act, must have had a positive net worth throughout the same period. Additionally, a trust deed must be executed to govern the offering; proceeds from the offering cannot be used until the trust deed is signed, and there are minimum subscription requirements for public offerings. Furthermore, public offerings must be listed on at least one recognised stock exchange and be listed within a timely manner after the close of the offering. Therefore, the protections provided by these

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<sup>12</sup> Securities and Exchange Board of India, Master Circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper (22 May 2024).

<sup>13</sup> Securities and Exchange Board of India, Municipal Debt Securities – Key Regulatory Framework (January 2023).

<sup>14</sup> Securities and Exchange Board of India, Disclosure Checklist – Schedule I and IA of SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (January 2023).

requirements are both formal and legal, which distinguishes a municipal bond from an ordinary unsecured promise issued by the municipality.

### **CONTINUOUS DISCLOSURE IS WHERE MUNI-BONDS ARE REALLY PROTECTED**

The municipal debt investor has a lesser reliance on the initial offering document than does the municipal debt investor on the continuing flow of disclosure following the issuance of the securities. The periodic disclosure requirements outlined by SEBI for municipal debt are found in existing disclosure documents in Schedule V, including material adverse impactful occurrences to the issuer's ability to pay interest on the municipal bonds for an issuer proposing a prepayment plan; and a list of relevant leverage and coverage ratios such as Debt-to-Equity Ratio, Debt Service Coverage Ratio, and Interest Service Coverage Ratio. SEBI's compliance calendar for municipal debt instruments is also indicative of the time frames for disclosure and the need for the outlined periodic/every event disclosure; The Regulatory Checklist also indicates that the continuous listing conditions remain applicable after the bond has been issued.

The periodic nature of this framework is necessary because the credit risk of municipal bond issuers is never static- the revenue collected by the relevant issuer may be delayed/declined; grants received by the municipal issuer may take longer than expected; capital expenditures associated with the project financed by the bond are likely to exceed the estimated cost which creates pressure to pay on the bondholders; and/or the priorities among Political/Government leadership can change over the life of the bonds.

General principle-agreements for Trusteeships, Escrow Accounts, Sinking Fund Arrangements and Updates from Credit Ratings & Local Rating Agencies are more than just paperwork for the issuer, it serves as the Supporting Documents for Bondholders to monitor the ability of the issuer to repay (service) the bonds. The SEBI has made these items more visible by requiring the establishment of the Interest Payment Account, the Sinking Fund Account, and the General Account before the opening of the Issue (which is disclosed in the Offer Document or Placement Memorandum).

## **CASE STUDIES SHOW PROGRESS, BUT ALSO THINNESS**

The municipal debt market has expanded, but remains very narrow. The SEBI stats page now shows that there have been 29 issuances totalling ₹4,340.34 crores as of February 28, 2026, and that most issuances come from only a few cities.<sup>15</sup> Issuers that are listed or going to issue new bonds (2024 and 2025) include Rajkot, Surat, Agra, Prayagraj, Varanasi, Greater Chennai, Gandhinagar, Bhavnagar, Nashik, Tiruppur and Coimbatore.<sup>16</sup> This indicates some momentum, but no evidence of any depth at this point. In a circumstance where there is a limited issuer base with episodic issuances, it can be technically compliant, yet remain illiquid in practice.

This lack of depth impacts secondary-market trading. While SEBI has made an effort to improve execution through RFQ, the entire fixed income market infrastructure is becoming increasingly formal.<sup>17</sup> However, the bond market will only be truly useful once an investor believes they can exit their bond position, not just enter. The challenge facing the municipal bond market with respect to the secondary market is structural in nature: limited floating supply, highly concentrated issuer base and the preference of investors for buy-and-hold strategies affect trading velocity. The inference is clear; without the support of market makers, providing better disclosures will not remedy liquidity issues.

## **THE LARGER LESSON: DISCLOSURE MUST BE USABLE, NOT MERELY ABUNDANT**

The SSE 2.0 and the Municipal Bond Disclosure projects are both moving toward achieving the same policy objective of creating a basis for building credibility through structured transparency. Their growing maturity is also indicating that the non-success of disclosure will be a result of the degree of disclosure and not just the mere existence of the disclosure. Disclosure must be readable, affordable and able to be verified. The SSE will be judged by the following criteria: the issue size must be reasonable, the threshold for raising an issue must be workable, and the measurement of social impact must be credible and will not cause an excessive burden on issuers. The municipal bond market will be judged on the following criteria: there must be appropriate trustee oversight, financial statements must be issued in a

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<sup>15</sup> Securities and Exchange Board of India, Municipal Bonds statistics page (as on 28 February 2026).

<sup>16</sup> Securities and Exchange Board of India, Municipal Debt Securities Privately Issued page.

<sup>17</sup> Securities and Exchange Board of India, SEBI, conducts Municipal Bond Outreach Programme to Enhance Urban Financing (1 July 2025).

timely manner, events must be reported clearly, and there must be sufficient support to trade the bonds after they are listed.

The SEBI's July 2025 outreach program is an example of how the regulator is aware of the need to create a market for municipal bonds as well as establish rules for the market. The revisions to the SSE in 2025 illustrate this same line of reasoning and show that both the SSE and municipal bonds are still developing, but both now have greater legal, reporting, and public visibility than ever before. The remaining challenge is to continue to simplify the process for honest issuers, while firmly keeping the door shut on issuers who have inadequate disclosures, make inflated representations, or have untested structures.