

INTEGRATING THE SOCIAL STOCK EXCHANGE INTO INDIA'S CSR
FRAMEWORK

THE MCA'S 2026 CSR AMENDMENTS

AUTHORS

ARMIN PARDIWALA (PARTNER)
MUNEERA SHABBEER (TRAINEE ASSOCIATE)

✉ mail@hsalegal.com

🌐 www.hsalegal.com

Introduction and Brief Overview of the Pre-Amendment Landscape

- Corporate Social Responsibility (“CSR”) in India is a statutory obligation under Section 135 of the Companies Act, 2013 (the “Act”), requiring eligible companies to constitute a CSR Committee, formulate a CSR Policy and spend at least 2% of their average net profits of the preceding three financial years on activities specified under Schedule VII of the Act. Traditionally, the CSR framework under the Companies (Corporate Social Responsibility Policy) Rules, 2014 (“CSR Rules”) contemplated implementation either directly by companies or through eligible implementing agencies registered under Rule 4 of the CSR Rules. This model imposed significant compliance obligations on companies, including project monitoring, reporting and, in certain cases, impact assessments under Rule 8 of the CSR Rules.
- Separately, the Securities and Exchange Board of India (“SEBI”) established the Social Stock Exchange (“SSE”) framework under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“ICDR Regulations”) to facilitate fundraising by social enterprises and Not-for-Profit Organisations (“NPOs”), including through Zero Coupon Zero Principal (“ZCZP”) Instruments.[1] Notwithstanding the establishment of this framework, subscription to such instruments was not recognised as a permissible mode of CSR expenditure under the Act or the CSR Rules.
- This position changed with the Ministry of Corporate Affairs’ (“MCA”) notifications G.S.R. 415(E) and G.S.R. 416(E), both dated 27 May 2026, which amended the CSR Rules and Schedule VII of the Act to permit CSR spending through subscription to ZCZP Instruments issued by eligible SSE-registered NPOs. By introducing Rule 4A, the amendments create a regulated capital-market-based channel for CSR deployment, reflecting a broader shift towards greater transparency, accountability and institutionalisation of social impact funding.

Changes Introduced

1. Introduction of New Definitions in Rule 2 of the CSR Rules

- The amendment introduces two new definitions under Rule 2(1) of the CSR Rules. First, a NPO is defined by reference to Regulation 292A(e) of the ICDR Regulations, thereby aligning the CSR framework with the eligibility requirements applicable to entities registered on the SSE.[1] Secondly, a ZCZP Instrument is defined as an instrument issued by such an NPO in accordance with the ICDR Regulations and listed on the SSE segment of a recognised stock exchange.[2] By adopting these definitions, the CSR Rules rely on the SSE regulatory framework to determine which NPOs and ZCZP Instruments are eligible for CSR funding. Accordingly, companies may subscribe only to ZCZP Instruments issued by NPOs that are registered on the SSE and whose instruments are listed on the SSE segment of a recognised stock exchange.

2. New Rule 4A: A Self-Contained Implementation Regime

The newly inserted Rule 4A establishes a distinct framework for undertaking CSR activities through subscription to ZCZP Instruments. It introduces four key features:

- **Permissible mode of CSR spending:** Companies may undertake CSR activities by subscribing to ZCZP Instruments issued by eligible NPOs registered on the SSE. The instrument must be listed on the SSE segment of a recognised stock exchange.
- **Cap on eligible expenditure:** Rule 4A(1) limits expenditure through ZCZP Instruments to 10% of a company's total CSR expenditure for the relevant financial year. Any amount invested beyond this threshold will not qualify towards the company's CSR spending obligation under Section 135 of the Act.
- **Exemption from impact assessment:** Rule 4A(2) exempts expenditure incurred through subscription to ZCZP Instruments from the impact assessment requirements otherwise applicable under Rule 8(3) of the CSR Rules.
- **Exclusion of certain Rule 4 requirements:** Rule 4A(4) provides that Rule 4 shall apply to this mechanism except for sub-rules (5) and (6). As a result, certain obligations relating to the implementation and monitoring of CSR projects that would otherwise apply to implementing agencies are excluded in the context of CSR expenditure undertaken through ZCZP Instruments.

Changes Introduced

3. NPO Obligations Under Rule 4A(3)

- Rule 4A(3) places the primary responsibility for project implementation and fund utilisation on the issuing NPO. The NPO is required to utilise the proceeds raised through the ZCZP Instrument for the identified project within three succeeding financial years from the date of issuance.[1] Further, upon termination of the listing of the instrument, any unspent amount must be transferred to a fund specified under Schedule VII of the Act, and a compliance report confirming such transfer must be submitted to SEBI. In this manner, the framework vests the primary oversight of project execution and fund utilisation in the SSE and SEBI regulatory framework, rather than in the subscribing company.

4. Schedule VII Amendment

- G.S.R. 416(E) amends Schedule VII of the Act to expressly recognise subscription to ZCZP Instruments on the SSE as a permissible CSR activity.[2] By incorporating this route into Schedule VII, the amendment places ZCZP-based CSR spending within the statutory framework governing eligible CSR activities and clarifies that expenditure incurred through such subscriptions may be counted towards a company's CSR obligation under Section 135(5) of the Act.

Legal, Compliance, and Governance Implications

1. Integration of the Social Stock Exchange into the CSR Framework

- A key feature of the amendment is the formal integration of the SSE into the CSR framework. Traditionally, companies discharged their CSR obligations either directly or through eligible implementing agencies under Rule 4(1) of the CSR Rules. The newly introduced ZCZP route under Rule 4A allows companies to undertake a portion of their CSR expenditure through SSE-registered NPOs issuing listed ZCZP Instruments.
- Since such NPOs are subject to the SSE regulatory framework and SEBI's disclosure requirements, companies accessing this route benefit from an additional channel for CSR deployment that operates within an established regulatory ecosystem. This structure may enhance transparency and provide boards and CSR Committees with greater visibility into the utilisation and monitoring of CSR funds.

Legal, Compliance, and Governance Implications

2. Greater Transparency and Accountability

- The amendment links a portion of CSR spending to the SSE framework, under which participating NPOs are subject to disclosure, reporting and compliance requirements. In addition, Rule 4A(3) requires any unspent amount to be transferred to a fund specified under Schedule VII of the Act upon termination of the listing of the ZCZP Instrument. Together, these requirements introduce additional safeguards around the utilisation of CSR funds and strengthen accountability within the CSR implementation framework.

3. Shift in Compliance Burdens

- A notable feature of Rule 4A is the exemption from the impact assessment requirement prescribed under Rule 8(3)(a) of the CSR Rules. This exemption should not, however, be treated as a substitute for governance oversight. Companies remain responsible for ensuring compliance with Section 135 of the Act and the CSR Rules, and should continue to exercise appropriate due diligence when deploying CSR funds through this route. The exemption removes a specific statutory obligation but does not diminish the broader governance responsibilities of the board and CSR Committee.

4. Adoption Challenges and Market Realities

- While the amendment introduces an additional avenue for CSR deployment, it is unlikely to replace conventional implementation models. The 10% cap under Rule 4A limits the extent to which companies can rely on the ZCZP route, making it a supplementary rather than a primary mode of CSR spending. Further, the effectiveness of the framework will depend on the depth and maturity of the SSE ecosystem, including the availability of eligible NPOs and suitable projects. Companies with established CSR programmes and long-standing implementation partnerships may also prefer to retain direct involvement in project design and execution. As a result, many companies are likely to adopt a hybrid approach, combining traditional CSR initiatives with selective deployment through ZCZP Instruments.