

Review of Securities and Exchange Board of India (Custodian) Regulations, 1996 and operational guidelines for Custodians

1. Objective:

- 1.1. This Board Memorandum seeks approval of the Board for amendment to the Securities and Exchange Board of India (Custodian) Regulations, 1996 (hereinafter referred to as “the Custodian Regulations”) and issuance of circular(s) thereunder for simplifying, easing and reducing the compliance requirements for Custodians and bringing in regulatory changes commensurate with the continually evolving nature of their business.

2. Background:

- 2.1. The Custodian Regulations were notified in 1996. Currently, there are 17 Custodians registered with SEBI. These Custodians are engaged by non-institutional and institutional clients like Foreign Portfolio Investors (FPIs), Mutual Funds (MFs), Portfolio Managers & Alternative Investment Funds (AIFs) to avail custodial services such as safekeeping of assets, maintenance of accounts of securities, collection of benefits pursuant to corporate actions, reconciling of records, etc.
- 2.2. The Assets Under Custody (AUC) of Custodians has increased from INR 2.70 lakh crore in March 2002 to INR 278.50 lakh crore in September 2024 at a CAGR of around 23%. Also, there has not been a comprehensive review of the Custodian Regulations since inception of the same.
- 2.3. Given the time since Custodian Regulations were first introduced and the substantial growth in market size, regulatory scope, and technological advancements, SEBI has identified a need to review and update the Custodian Regulations.
- 2.4. With this backdrop, SEBI constituted a Working Group (‘WG’) with the following terms of reference: -
 - 2.4.1. to review the Custodian Regulations and the circular/ guidelines issued thereunder.
 - 2.4.2. to review the reporting requirements of Custodians to avoid duplication and redundancy and to facilitate data based offsite inspection.

2.4.3. to review the Custodian Regulations vis-a-vis regulations for other intermediaries for incorporation of relevant clauses in the Regulations.

2.4.4. to discuss any other relevant issues.

2.5. The WG submitted its Report, inter alia, setting out its recommendations on the following:

2.5.1. Framework for seeking prior approval for change in control

2.5.2. Code of Conduct

2.5.3. Business Continuity Planning (BCP)

2.5.4. Contingency planning

2.5.5. Segregation of activities

2.5.6. Outsourcing of custody activities

2.5.7. Storage of physical records

2.5.8. Review of reporting requirements

2.6. In addition to the above, based on an internal review, SEBI has made the following proposals on the subject:

2.6.1. Review of Net Worth requirement

2.6.2. Enhanced obligations and responsibilities

2.7. In the backdrop of increased significance of custodians since the notification of Custodian Regulations along with the continually evolving nature of custody business, the need to ease the compliance requirements and to align the regulatory framework for custodians with regulations for other intermediaries wherever applicable, certain proposals, inter alia, based on the recommendations of the WG, are discussed in the subsequent paragraphs and are being placed for consideration of the Board.

3. Public Consultation and Recommendations of the FPI Advisory Committee:

3.1. A Consultation Paper soliciting public comments on the proposals was issued by SEBI on November 13, 2024, and the same is placed at **Annexure A**. A summary of the public response to the proposals is placed at **Annexure B**.

3.2. The suggestions/comments received during public consultation have been incorporated in the proposals placed before the Board. Further, other suggestions/comments not mentioned in this memorandum and SEBI's response thereon are placed at **Annexure C**.

3.3. The proposals, in subsequent paragraphs, were discussed in the FPI Advisory Committee (hereinafter referred to as “the Committee”), in its meeting held on November 25, 2024. The Committee deliberated and concurred with the said proposals.

4. Framework for seeking prior approval for change in Control

4.1. Regulation 9(aa) of the Custodian Regulations provides that a Custodian shall obtain prior approval of SEBI in case of change in control in such manner as specified by the Board.

4.2. SEBI vide circular SEBI/HO/MIRSD/MIRSD-PoD-2/P/CIR/2022/163 dated November 28, 2022 had specified the procedure for seeking prior approval for change in control of certain intermediaries (stock broker/clearing member, depository participant(DP), investment adviser(IA), research analyst(RA), registrar to an issue and share transfer agent(RTA) and KRA). However, no such procedure for seeking prior approval for change in control has been specified for the Custodians. The WG recommended that a framework similar to that for other intermediaries may be adopted.

4.3. In order to harmonize requirements across intermediaries, it is proposed to provide a framework for Custodians similar to that for Stockbrokers, DPs, IAs, RAs, RTAs and KRAs. This framework shall, inter alia, include:

4.3.1. Submission of online applications to SEBI via the Intermediary Portal for prior control changes.

4.3.2. Submission of details about the applicant, the acquirer(s)/the person(s) who shall have the control and the directors/partners of such acquirer(s), etc.

4.3.3. Setting a six-month validity period for SEBI approvals

Public Comments on the Proposal

4.4. A total of 7 comments were received, out of which 6 comments are in agreement with the proposal.

Proposal:

4.5. It is proposed that a framework for seeking prior approval for change in control for the Custodians may be specified by way of issuance of circular, in line with the

procedure specified for intermediaries such as Stockbrokers, DPs, IAs, RAs, RTAs and KRAs.

5. Code of Conduct

5.1. Regulation 12 of the Custodian Regulations specifies that every Custodian shall abide by the Code of Conduct as set out in the Third Schedule. The WG recommended addition of certain clauses to the Code of Conduct.

5.2. Considering the significant changes in market practices and regulatory environment since the notification of the Custodian Regulations, and with a view to bring uniformity with code of conduct for other intermediaries, it is proposed to add new clauses to the extant Code of Conduct. The clauses proposed to be added to existing code of conduct are placed at **Annexure-D**.

Public Comments on the Proposal

5.3. A total of 7 comments were received and all of them are in agreement with the proposal.

Proposal:

5.4. Considering the above, it is proposed that the Code of Conduct as specified in the Custodian Regulations may be suitably amended to add clauses as specified in **Annexure-D** to the Code of Conduct provided under the Third Schedule to the Custodian Regulations.

6. Business Continuity Planning (BCP)

6.1. It is pertinent to note that transactions executed by institutional investors constitute significant proportion of the turnover in the equity cash segment. For e.g., during 2023-24, FPIs contributed 14.8% and 13% of turnover in cash segment at NSE and BSE, respectively. Considering that Custodian is a key constituent of the institutional investors ecosystem, any disruption in Custodian services may significantly impact the orderly functioning of securities market and severely impact investor confidence. It is therefore necessary that Custodians mechanisms have a robust framework on BCP and Disaster Recovery (DR). In this regard, the WG recommended that the Custodians adopt BCP-DR policy in line with that applicable for Market Infrastructure Institutions.

6.2. SEBI has a framework for Qualified Stock Brokers (QSBs) to enhance trust and compliance in the securities market. QSBs are larger securities market brokers that handle a large number of clients and have a significant impact on the securities market. It is proposed that a framework on BCP and DR, similar to those provided for QSBs, may be specified for Custodians, inter-alia, providing for -

6.2.1. Comprehensive BCP to minimize the incidents affecting the business continuity, which shall be reviewed periodically.

6.2.2. Various scenarios and standard operating procedures for resuming operations from DR site.

Public Comments on the Proposal

6.3. A total of 8 comments were received and all of them are in agreement with the proposal.

Proposal:

6.4. It is proposed that a framework on BCP and DR, similar to those provided for Qualified Stock Brokers (QSBs), may be specified for Custodians.

It is proposed to operationalize the above proposal by way of issuance of circular.

7. Contingency Planning

7.1. Considering the scope and volume of activities handled by Custodians, winding down of critical Custodian operations may not only affect the market continuity but may also impact the orderly functioning of securities market.

7.2. It is necessary that Custodians have a policy framework to deal with orderly winding down of their business to ensure clients' asset protection, client confidence, operational resilience, risk mitigation etc.

7.3. Upon consideration of the recommendations of the WG in this regard, it is proposed that a framework for orderly winding down, in line with that prescribed for QSBs, may be specified for Custodians including: -

7.3.1. Seamless portability of its clients to other SEBI registered Custodians, while protecting the funds and securities of such clients;

- 7.3.2. Providing all necessary support to the clients to ensure a smooth and secure transfer process;
- 7.3.3. Providing adequate notice to the clients before winding down of the operations; and
- 7.3.4. Preventing any significant impact on the market and inconvenience to the investors

Public Comments on the Proposal

7.4. A total of 7 comments were received and all of them are in agreement with the proposal.

Proposal:

7.5. It is proposed that a framework for orderly winding down, in line with that prescribed for QSBs, may be specified for Custodians.

To give effect to the above, it is proposed to insert Regulation 19B(4) in the Custodian Regulations. It is also proposed to operationalize the above proposal, including providing for detailed framework, by way of issuance of circular.

8. Segregation of Activities

8.1. Regulation 9 of Custodian Regulations, inter alia, specifies that-

“Conditions of certificate.

9. The certificate granted to custodian shall be subject to the following conditions, namely:—

(a) ...

(f) besides providing custodial services, it shall not carry on any activity other than activities relating to rendering of financial services.”

8.2. Further, Regulation 13 of Custodian Regulations specifies that-

“Segregation of activities

13. Where a custodian is carrying on any activity besides that of acting as custodian, then, —

(i) the activities relating to his business as custodian shall be separate and segregated from all other activities;

(ii) its officers and employees engaged in providing custodial services shall not be engaged in any other activity carried on by him.”

8.3. In this regard, the WG recommended that the Custodian can provide related or allied services without segregation only to their custody clients.

8.4. It may be noted that besides providing custodial services, the custodian may be performing activities relating to rendering of other financial services that are under the purview of specific regulatory authorities. In line with the principle of activity based regulation and supervision, permitting such related/incidental or allied services within the same legal entity merits consideration. Further, the manpower resources, infrastructure and systems can also be shared across these activities provided controls and mechanisms are in place to address issues of conflicts of interest.

8.5. To ring fence regulated custodian activities from risks emanating from rendering of financial services (as permitted under Custodian Regulations) that are not specifically under the ambit of any financial sector regulator, such services may be executed through a separate legal entity. However, the manpower resources, infrastructure and systems can also be shared across these entities subject to adequate Chinese walls in place to address issues of conflict of interest.

Public Comments on the Proposal

8.6. On the proposal to permit non-segregation of allied activities in financial services that are under the purview of specific regulatory authorities, a total of 8 comments were received and all of them are in agreement with the proposal.

8.7. On the proposal to segregate activities, that are not specifically under the ambit of any regulatory authority, to a separate legal entity, a total of 9 comments were received, out of which 1 is in agreement and 8 are not in agreement with the proposal. Commenters who have disagreed with the proposal have inter alia raised the following concerns/suggestions:

- a) Fund services activity is very tightly integrated with the custodian activity and may be given an exemption. Though Fund Accounting services are not directly regulated, RBI provides NOC to the Bank for carrying out this activity.
- b) Non-segregation will help custodian to provide value add services to its clients and will also help custodian to leverage existing system and expertise.

- c) Proposal of housing such para banking and ancillary activities in a separate legal entity is onerous and not required as already authorized or disclosed to RBI.
- d) This proposal has the consequence of restricting the provision of related and supplementary services for the fund's portfolio management and insurance industry. Fund accounting and middle office services may be permitted to be provided by the same entity.

In this regard, it may be mentioned that fund accounting may be considered as an incidental activity that shall be allowed to be undertaken by Custodians. This will address the bulk of the objection to this proposal.

As regards activities that are not specifically under the ambit of any financial sector regulator, the commenters have suggested for non-segregation of activities majorly because of their operational convenience. However, such activities may not be supervised or monitored by any regulatory authority, and may cause a spill-over of risk to the regulated custodian business. In view of the same, the suggestions in this regard are not proposed to be accepted.

Proposal:

8.8. Considering the above, it is proposed that:

- 8.8.1. Custodians shall be permitted to undertake activities related or incidental to rendering of services that are under the purview of specific financial sector regulators or authorities such as fund accounting, provided they ensure that controls and mechanisms, including Chinese walls and adherence to 'need to know' principles, are in place to address issues of conflicts of interest. Such activities shall be specified by SEBI in consultation with pilot Custodians and DDPs Standards Setting Forum ('CDSSF').
- 8.8.2. Custodians shall hive-off activities related to rendering of any service that are not specifically under the ambit of any financial sector regulator or authority, to a separate legal entity within a period of two years from the date of commencement of such requirement. However, Custodians may share manpower resources, infrastructure and systems with such separate legal entity, provided they ensure that controls and mechanisms, including Chinese walls and adherence to 'need to know' principles, are in place to address issues of conflicts of interest.

To give effect to the above, it is proposed to amend Regulations 9 and 13 of the Custodian Regulations. It is also proposed to operationalize the above proposal by way of issuance of circular.

9. Outsourcing of Custodian Activities

9.1. Regulation 15 of Custodian Regulations specifies as under:

“Prohibition of assignment.

15. No custodian shall assign or delegate its functions as a custodian to any other person unless such person is a custodian:

Provided that a custodian may engage the services of a person not being a custodian, for the purpose of physical safekeeping of goods or gold or silver belonging to its client including a mutual fund having a gold exchange traded fund scheme or a silver exchange traded fund scheme, subject to the following conditions-

...”

- 9.2. Thus, from the above, Custodian Regulations permit assigning or delegating functions of a Custodian to another Custodian. Further, Regulations also permit engaging the services of a non-Custodian for the purpose of physical safekeeping of goods or gold or silver belonging to its client, subject to certain conditions.
- 9.3. In terms of SEBI circular CIR/MIRSD/24/2011 dated 15 Dec 2011, the registered intermediaries are allowed to outsource non-core activities. The Intermediaries, however, cannot outsource their core business activities and compliance functions.
- 9.4. In this regard, the WG recommended categorization of activities performed by Custodians as core and non-core, for the purpose of outsourcing while continuing to be responsible with respect to all such outsourced activities and maintenance of client/data confidentiality for such outsourced activities.
- 9.5. The guidelines for outsourcing of activities by SEBI registered intermediaries issued vide SEBI circular dated December 15, 2011, include the principles for outsourcing and the same are applicable to Custodians as well. With respect to categorization of activities, it is noted that no such categorization has been made for other SEBI

registered intermediaries. Given the operational and dynamic nature of the business, demarcation of core/non-core activities for a Custodian with an exhaustive list of such activities is not proposed to be provided by SEBI. However, for a harmonious interpretation and consistent approach amongst industry participants in this regard, it is proposed that the pilot CDSSF may work out and adopt a list of such categorization, in consultation with and with due approval from SEBI.

Public Comments on the Proposal

9.6. A total of 8 comments were received, out of which 6 comments are in agreement with the proposal. Comments in disagreement have, inter alia, opined that SEBI should help in categorizing core and non-core activities. In this regard, as mentioned above, it is proposed that the core and non-core segregation be implemented harmoniously through the pilot CDSSF in consultation with and with due approval from SEBI. This addresses the concern of the commenters.

Proposal:

9.7. To facilitate ease of doing business for Custodians, in respect of outsourcing of Custodian activities, it is proposed that the pilot CDSSF may work out and adopt a list of core/non-core activities categorization, in consultation with and with due approval from SEBI.

10. Storage of Physical records

10.1. SEBI's Master Circular dated May 10, 2024 for Custodians specifies the following in respect of vault to be maintained by Custodians:

“Custodians hold securities of considerable value on behalf of their clients. It is expected that they would take adequate measures to ensure safety of the assets held. Reserve Bank of India (RBI) specifications for construction of vaults can be referred as per the following notification: [Reserve Bank of India - Notification regarding Minimum Standards for a Currency Chest \(RBI/2018-19/166; DCM \(CC\) No. 2482/03.39.01/2018-19 dated April 8, 2019\)](#).

Adherence to other extant technical specifications issued by RBI vide DCM (CC) No G18/03.39.01/2008-09 dated November 14, 2008 relating to construction, etc. can be found at Annexure B.

Custodians shall submit the specifications of their vaults along with their size as part of their quarterly report.”

10.2. The WG highlighted that Custodians mostly hold securities on behalf of their clients in electronic form in respective depository accounts. The WG also highlighted that as per extant regulatory requirements, institutional investors are not allowed to transact in physical securities. The WG recommended that there should be no requirement of vaults, as long as the Custodian is not holding any physical securities.

10.3. The WG further highlighted that maintaining of vaults by Custodians in line with RBI specification for currency chests may not be required considering the low quantum of physical securities held by Custodians presently. The WG recommended that the physical securities can be held in the fireproof vault/safe or equivalent storage with adequate security feature, fire protection, space and organization and durability.

Public Comments on the Proposal

10.4. On the proposal to do away with the requirement of having vault if the Custodian is not holding any physical securities, all the 8 comments received are in agreement with the proposal.

10.5. On the proposal to hold physical securities in the vault /safe or equivalent storage with features as may be adopted by the industry through the industry standards forum, 7 out of 8 comments are in agreement with the proposal.

Proposal:

10.6. To facilitate ease of doing business for Custodians, in respect of requirement of vault the following is proposed:

10.6.1. If the Custodian is not holding any physical securities, there shall be no requirement of vaults.

10.6.2. If the Custodian holds any physical securities, it shall comply with the requirement of having vault. Subject to full disclosure and taking informed consent from client, physical securities may be held in the vault/safe or equivalent storage with features that may be harmoniously adopted by the industry through the pilot CDSSF, in consultation with SEBI.

To give effect to the above, it is proposed to amend Regulation 6(1)(b) of the Custodian Regulations. It is also proposed to operationalize the above proposal by way of issuance of circular.

11. Review of Reporting Requirements for Custodians

11.1. Custodians are required to submit various reports to SEBI and Depositories with respect to clients' investment activity for periodical monitoring purposes. To avoid duplication in submission of such reports to SEBI and Depositories, the WG recommended that certain reporting to SEBI may be discontinued as the data is already submitted by custodian to the Depositories.

11.2. As Custodians already report the data to NSDL and CDSL, with a view to facilitate ease of doing business for the Custodians through removal of duplicate reporting requirement, it is proposed that the following reports to SEBI may be discontinued: -

- a) Report on fortnightly basis to submit ISIN wise AUC details of FPIs
- b) Report on Category wise AUC data for all clients viz. FPI, FDI, MF, etc..
- c) Report on Category wise AUC data for FPIs
- d) Report on Country wise AUC data for FPIs
- e) Report on Change of Custodian details during the month.

Public Comments on the Proposal

11.3. A total of 9 comments were received and all of them are in agreement with the proposal.

Proposal:

11.4. It is proposed that the reports to SEBI as specified in para 11.2 may be discontinued and the same may be specified by way of issuance of circular.

12. Review of Net Worth requirement for Custodians

12.1. The existing net worth requirement for a Custodian is Rs. 50 crores. This requirement was specified at the time of inception of the Custodian Regulations in 1996, i.e., almost three decades ago.

12.2. Considering the increased scope of services and the exponential growth in the volume of business provided by Custodians to its clients, Custodians are prone to fraud and

operational risks. Such risks can result in financial losses that may lead to erosion of the net worth of the Custodian. Higher net worth requirements help provide a cushion against potential fraud losses and operational risks. Custodians with higher net worth may be better equipped to absorb losses, maintain operational stability and enhance the trust of their clients and stakeholders in the ecosystem.

12.3.To manage these risks and enhance market stability, and considering the time elapsed since the prescription of the current requirement, it is proposed to increase the net worth requirement for Custodians to Rs. 100 Crore. This would bring the minimum net worth requirement in line with that of Stock Exchanges. Further, the Custodian shall fulfil the net worth requirements under Custodian Regulations, separately and independently, of the capital adequacy requirements, if any, for each securities market / financial services activity undertaken by it under the relevant framework specified by SEBI / other Regulators.

12.4.Existing Custodians who do not meet the revised net worth requirement, separately and independently, of the capital adequacy requirements, if any, for each activity undertaken by it under the relevant regulations on the date of commencement of revised requirement, may be given a time period of three years from such commencement to comply with the revised net worth requirement.

Public Comments on the Proposal

12.5.On the proposal to increase the Net Worth requirement, all the 5 comments received are in agreement with the proposal.

12.6.On the proposal that net worth requirements under Custodian Regulations should be separate and independent of the capital adequacy requirements for each activity undertaken, 3 out of 5 comments are in agreement. Comments in disagreement have raised the concerns over excessive capital burden and financial viability and have suggested a consolidated capital adequacy framework. In this regard, as mentioned above, Custodians also clear and settle the trades of all institutional investors and are therefore a key element in the ecosystem. Considering the same, the fraud and operational risk that they may be prone to needs to be adequately covered through a separate and dedicated net worth requirement. Hence, this suggestion is not being accepted.

Proposal:

12.7. It is proposed:

12.7.1. to increase the net worth requirement for Custodians to Rs. 100 Crore.

12.7.2. that Custodian shall fulfil the net worth requirements under Custodian Regulations, separately and independently, of the capital adequacy requirements, if any, for each securities market / financial services activity undertaken by it under the relevant framework specified by SEBI / other Regulators.

12.7.3. that the existing Custodians shall raise their net worth to not less than Rs. 100 Crore, separately and independently, of the capital adequacy requirements, if any, for each securities market / financial services activity undertaken by it under the relevant framework specified by SEBI / other Regulators within three years from the date of commencement of the revised net worth requirement.

To give effect to the above, it is proposed to amend Regulations 7(1) of the Custodian Regulations and insert proviso under Regulation 7(1).

13. Enhanced obligations and responsibilities

13.1. Custodians, due to the quantum of client assets and amount of clients' funds and securities handled by them, on behalf of foreign investors and domestic investors, etc. have come to occupy a significant position in the Indian securities market.

13.2. To further strengthen the risk management, compliance and monitoring systems/ processes and to drive focus on capacity building, it is proposed that specific obligations may be provided in the Custodian Regulations to ensure appropriate governance structure, appropriate risk management policy and processes, scalable infrastructure and appropriate technical capacity, framework for orderly winding down, etc.

Public Comments on the Proposal

13.3. A total of 7 comments were received, out of which 6 are in agreement with the proposal.

Proposal:

13.4. It is proposed that enhanced obligations and responsibilities, similar to those prescribed for QSBs, may be specified for Custodians.

To give effect to the above, it is proposed to insert Regulation 19B in the Custodian Regulations. It is also proposed to operationalize the above proposal, including providing for detailed framework, by way of issuance of circular.

14. Timeline for applicability of the proposed amendments:

14.1. Considering that the aforesaid proposals necessitate changes in the manner in which Custodians carry out their activities and require Custodians to make necessary changes in their systems, a time period of six months from the date of relevant notification may be provided for implementation of the aforesaid proposals.

14.2. Accordingly, the proposals specified under paras 4 to 13 above, may be made applicable from 6 months from the date of notification of amendment to Custodian Regulations in the Gazette.

15. Proposal to the Board:

15.1. For simplifying, easing and reducing the compliance requirements for Custodians and bringing in regulatory changes commensurate with the continually evolving nature of their business, the Board may consider and approve the following proposals:

15.1.1. A framework for seeking prior approval for change in control may be specified for the Custodians, in line with that specified for intermediaries such as Stockbrokers, DPs, IAs, RAs, RTAs and KRAs. (Para 4.5)

15.1.2. Clauses as specified in **Annexure-D** may be added to the Code of Conduct specified under the Third Schedule to the Custodian Regulations. (Para 5.4)

15.1.3. A framework on BCP and DR may be specified for Custodians, similar to those provided for QSBs. (Para 6.4)

15.1.4. A framework for orderly winding down may be specified for Custodians, in line with that prescribed for QSBs. (Para 7.5)

15.1.5. Custodians may be permitted to undertake activities related or incidental to rendering of services that are under the purview of specific financial sector regulators or authorities such as fund accounting, provided they ensure that controls and mechanisms, including Chinese walls and adherence to 'need to know' principles, are in place to address issues of conflicts of interest. Such activities shall be specified by SEBI in consultation with pilot CDSSF.

Custodians may be required to hive-off activities related to rendering of any service that are not specifically under the ambit of any financial sector regulator or authority, to a separate legal entity within a period of two years from the date of commencement of such requirement. However, Custodians may share manpower resources, infrastructure and systems with such separate legal entity, provided they ensure that controls and mechanisms, including Chinese walls and adherence to 'need to know' principles, are in place to address issues of conflicts of interest. (Para 8.8)

15.1.6. The pilot CDSSF may work out and adopt a list of core/non-core activities categorization, in consultation with and due approval from SEBI. (Para 9.7)

15.1.7. If the Custodian is not holding any physical securities, there may be no requirement of vaults.

If the Custodian holds any physical securities, it shall comply with the requirement of having vault. Subject to full disclosure and taking informed consent from client, physical securities may be held in the vault/safe or equivalent storage with features that may be harmoniously adopted by the industry through the pilot CDSSF, in consultation with SEBI. (Para 10.6)

15.1.8. Reports to SEBI as specified in para 11.2 may be discontinued (Para 11.4)

15.1.9. Net worth requirement for Custodians may be increased to Rs. 100 Crore. Custodian may be required to fulfil the net worth requirements under Custodian Regulations, separately and independently, of the capital adequacy requirements, if any, for each securities market / financial services activity undertaken by it under the relevant framework specified by SEBI / other Regulators.

The existing Custodians shall raise their net worth to not less than Rs. 100 Crore, separately and independently, of the capital adequacy requirements, if any, for each securities market / financial services activity undertaken by it under the relevant framework specified by SEBI / other Regulators within three years from the date of commencement of the revised net worth requirement. (Para 12.7)

15.1.10. Enhanced obligations and responsibilities may be specified for Custodians, similar to those prescribed for QSBs. (Para 13.4)

15.2.A comparison of the existing provisions with the proposed amendments to the Custodian Regulations is placed at **Annexure E**. The draft notification for the proposed amendment is placed at **Annexure F**.

15.3.The Board is requested to consider and approve the proposed amendments to the Custodian Regulations and authorize the Chairperson, SEBI, to take such consequential and incidental steps necessary to give effect to the decision of the Board.

Annexure A

The consultation paper is available at the following link:

https://www.sebi.gov.in/reports-and-statistics/reports/nov-2024/consultation-paper-on-review-of-sebi-custodian-regulations-1996_88439.html

Annexure B

This has been excised for reasons of confidentiality.

This has been excised for reasons of confidentiality.

Annexure D

Amendment to SEBI (Custodian) Regulations, 1996, shall be notified after following the due process.

Annexure E

Amendment to SEBI (Custodian) Regulations, 1996, shall be notified after following the due process.

Annexure F

Amendment to SEBI (Custodian) Regulations, 1996, shall be notified after following the due process.