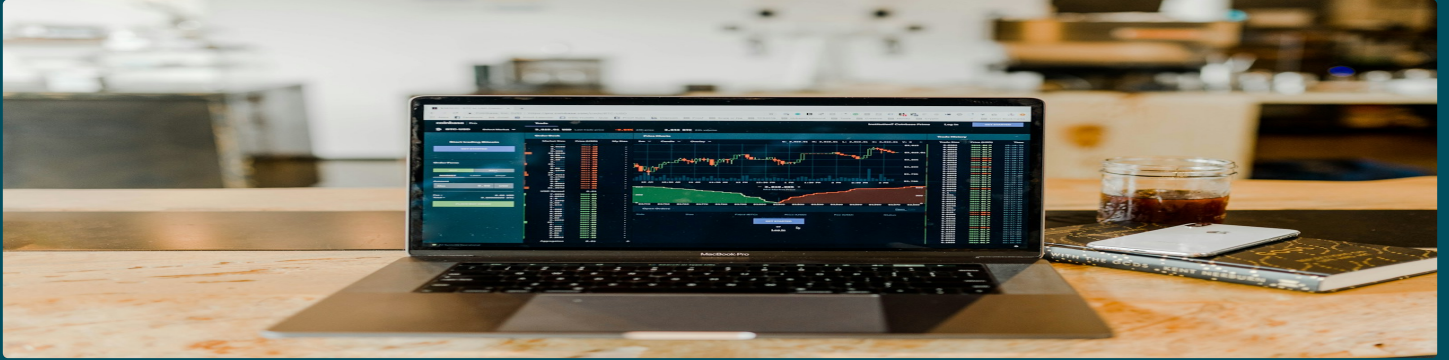




COMMERCIAL/CORPORATE

SEBI (Custodian) (Amendment) Regulations, 2025: Raising Standards for Custodians of Securities

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Introduction

On 18 September 2025, the Securities and Exchange Board of India ("SEBI") notified the Securities and Exchange Board of India (Custodian) (Amendment) Regulations, 2025 ("Amendment Regulations"). These amendments substantially revise the SEBI (Custodian of Securities) Regulations, 1996 ("Principal Regulations"), enhancing financial thresholds, governance obligations, and compliance responsibilities for custodians. The changes are designed to reinforce systemic stability, strengthen investor protection, and align the Indian regime with international standards.

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Legal Framework and Background

The regulation of custodians is anchored in the SEBI Act, 1992, which empowers SEBI under section 30 to frame regulations for intermediaries. Acting on this mandate, SEBI notified the Custodian of Securities Regulations, 1996, establishing registration conditions, net worth requirements, and a code of conduct.

Since then, SEBI has periodically amended the regulations to reflect market developments. Early amendments addressed eligibility and fees, while later reforms in 2006, 2017, and 2020 introduced governance and compliance innovations. The 2022 and 2024 amendments strengthened documentation and investor-protection mechanisms. The 2025 amendment, however, is among the most comprehensive, simultaneously raising financial thresholds, expanding permissible activities, and embedding stronger governance norms.

Key Amendments

1. Enhanced Net Worth Requirement

The minimum net worth requirement has been raised from **₹50 crore to ₹75 crore**, with existing custodians given a three-year transition period. Importantly, SEBI has required that this net worth be maintained **separately from capital adequacy requirements** applicable under other regulations. This ensures dedicated financial buffers for custody services, strengthens custodian resilience, and limits the role to financially sound entities.

2. Separation of Capital Adequacy

Custodians must now **ring-fence net worth** from capital adequacy obligations for other regulated activities. This structural safeguard prevents cross-use of resources and enhances investor protection by ensuring that each line of activity maintains its own financial strength.

3. Expansion of Permissible Activities

The scope of activities has been widened to permit custodians to undertake **other financial services**, subject to SEBI's conditions. However, this relaxation does not extend to banking companies or their affiliates, as defined under the **Banking Regulation Act, 1949**. This change expands the business opportunities for non-bank custodians while preserving regulatory oversight and prudential safeguards.

4. Governance and Risk Management (New Regulation 19B)

A new **Regulation 19B** obliges custodians to maintain:

- effective **governance structures**,
- strong **risk management systems**,
- scalable **technical infrastructure**, and
- an **orderly wind-down framework**.

These requirements raise custodians to the standards expected of other systemically important market infrastructures.

5. Expanded Code of Conduct (Schedule III)

The code of conduct has been extensively expanded to include **26 detailed obligations**. Custodians must comply with SEBI, RBI, and depository/clearing corporation rules, and are prohibited from unfair competition or misrepresentation. They must provide effective grievance redressal, adopt strong internal controls against fraud or misconduct, ensure that directors and key managerial personnel remain fit and proper, and empower compliance officers with sufficient independence. These provisions formalise global best practices, institutionalising accountability and client protection.

Implications

For custodians, these changes raise compliance and capitalisation costs, while also imposing heightened governance and operational requirements. However, the possibility of diversifying into additional financial services provides new commercial opportunities. For investors, the reforms enhance transparency, strengthen grievance mechanisms, and reduce systemic risks. For SEBI, the framework enables more effective oversight, harmonises domestic norms with global standards, and builds investor confidence in India's capital markets.

Conclusion

The SEBI (Custodian) (Amendment) Regulations, 2025 represent a substantive reform of India's custodian regime. By tightening financial criteria, mandating stronger governance structures, expanding permissible activities, and codifying an elaborate code of conduct, SEBI has ensured that custodians remain strong, transparent, and accountable. This amendment is a decisive step toward safeguarding investor interests and strengthening the resilience of India's market infrastructure.

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