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Revised categorisation and clarifications under SEBI's Cyber Security and Cyber Resilience Framework

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Introduction

On 20 August 2024, the Securities and Exchange Board of India (SEBI) introduced the Cyber Security and Cyber Resilience Framework (CSCRF) to enhance and standardise cybersecurity governance across entities in the securities market. The CSCRF adopts a graded approach to compliance based on the scale and nature of operations of regulated entities (REs). Please refer to our detailed analysis of the CSCRF here.

While the initial circular laid down the broad contours and classification thresholds, SEBI has issued further clarifications and revised categorisation criteria to enhance regulatory certainty and ease of implementation through its recent circular dated 30 April 2025 (Revised Circular).

Under the CSCRF, SEBI has adopted a five-tier categorisation scheme for REs, with obligations increasing proportionally to their size and systematic importance. The categories include, Market Infrastructure Institutions (MIIs), Qualified REs, Mid-size REs, Small-size REs and Self-certification REs.

Revised Categorisation

We have set out below the revised thresholds and corresponding categorisations applicable to each type of RE as per the Revised Circular.

(i) Stock Brokers.

Stock brokers shall now be categorised under the CSCRF based on either of the following two independent parameters.

#	PARAMETERS	QUALIFIED REs	MID-SIZE REs	SMALL-SIZE REs	SELF-CERTIFICATION REs
1	**Total number of registered clients**	More than 10 lakhs	> 1 lakh and ≤ 10 lakhs	> 10,000 and ≤ 1 lakh	>1,000 and ≤ 10,000
2	**Annual clientele trading volume (in INR crores)**	More than 10,00,000	>1,00,000 and ≤10,00,000	>10,000 and ≤1,00,000	>1,000 and ≤10,000

It is clarified that if a stock broker qualifies for different categories under the above parameters, the

higher category shall be applicable. Further, stock brokers having less than 1,000 registered clients and an annual clientele trading volume of less than INR 1,000 crores shall be exempt from compliance with the CSCRF.

(ii) Depository Participants.

Typically, depository participants are also registered as stock brokers to ensure synergy and provide an integrated service offering to clients. Under the Revised Circular, depository participants shall, by default, be classified as Qualified REs under the CSCRF. However, in cases where a depository participant is also registered as a stock broker, the categorisation applicable to stock broker (based on trading volume and number of clients) shall apply. In such instances, the higher of the two applicable categories (i.e., depository participant or stock broker) shall determine the RE's classification for CSCRF compliance purposes.

(iii) Investment Advisers and Research Analysts

Under the Revised Circular, investment advisers (IAs) and research analysts (RAs) have been categorised based on whether they are registered with SEBI in any other capacity (e.g., as a portfolio manager or stock broker). IAs and RAs who are not registered with SEBI in any other capacity shall be exempted from the applicability of the CSCRF. Where an IA or RA is registered with SEBI in any other capacity such entities shall be required to comply with CSCRF in accordance with the highest category applicable among their registrations.

(iv) Portfolio Managers

The categorisation of portfolio managers under the Revised Circular will be based on Assets under Management (AUM) as outlined in the table below:

CRITERIA	QUALIFIED REs	MID-SIZE REs	SMALL-SIZE REs	SELF-CERTIFICATION REs
AUM	Not applicable	Above INR 3000 crores	Not applicable	INR 3000 crores and below

(v) Alternative Investment Funds and Venture Capital Funds

For the purpose of compliance with CSCRF, categorisation of alternative investment funds (AIFs) and venture capital funds (VCFs) shall be determined at the manager level, rather than at the level of individual AIFs or VCFs. In cases where a manager oversees both AIFs and VCFs, the aggregate corpus of all AIF and VCF schemes managed by such manager shall be considered for the purpose of categorisation. Notably, SEBI has clarified that AIFs and VCFs shall not qualify as Qualified REs under the CSCRF.

The categorisation criteria for AIF and VCF managers is outlined in the table below:

CRITERIA	MID-SIZE REs	SMALL-SIZE REs	SELF-CERTIFICATION REs
Sum of the corpus of all AIFs, VCFs and their schemes managed by a single manager	INR 10,000 crores and above	More than INR 3,000 crores and less than INR 10,000 crores	INR 3,000 crores and below

(vi) Merchant Bankers

Under the Revised Circular, merchant bankers under the CSCRF are categorised based on the nature of their regulated activities. Merchant bankers that are engaged in any activity related to issue management such as public issues (IPOs, FPOs, IPOs by SMEs), public offers by REITs/InvITs, buy-backs of securities, delisting of equity shares, or open offers shall be classified as Mid-size REs. All

other merchant bankers that are not engaged in the above-mentioned activities shall be classified as Small-size REs under the CSCRF.

(vii) KYC Registration Agencies

KYC Registration Agencies are re-categorised from Market Infrastructure Institutions to Qualified REs.

Other Clarifications

(i) Categorisation of an RE shall be determined at the beginning of each financial year, based on data from the preceding financial year. Once determined, the categorisation shall remain unchanged throughout the financial year, irrespective of any subsequent variations in the relevant parameters.

(ii) Entities with limited client bases have been granted specific exemptions under the Revised Circular. Registrars to an issue, share transfer agents and depository participants having fewer than 100 clients shall be exempt from the requirement to employ SOC services or to be onboarded on the M-SOC framework. Separately, portfolio managers classified under the Self-certification RE category and having fewer than 100 clients shall be exempt only from the mandatory onboarding requirement to the M-SOC.

(iii) Where an entity is registered under multiple categories of REs, the entity shall be governed by the highest applicable category among those for which it is registered.

(iv) Implementation of a dedicated Hardware Security Module (HSM) is mandatory for MIIs and Qualified REs. However, Mid-size REs, Small-size REs and Self-certification REs are permitted to implement an alternative to HSM, based on a documented risk assessment provided by their Board of Directors, partners, or proprietor, as applicable.

Comments

The Revised Circular marks a significant and welcome shift towards a more practical and proportionate regulatory approach by SEBI. It effectively aligns the obligations of each RE with their nature and size of operations reflecting a risk-based regulatory approach that balances the need for cybersecurity resilience with the realities of market operations.

The revised classification criteria (particularly for IAs, SBs, AIFs, VCFs and PMs) are notably more relaxed and rationalised when compared to the initial framework. Additionally, the targeted exemptions for REs which have lesser clients will help avoid unnecessary compliance and operational costs.

Overall, the Revised Circular is a balanced and industry aligned intervention that is likely to be welcomed by market participants and can enhance the adoption of cybersecurity standards in a more scalable and effective manner.

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