

Definition of Certificate of Deposit

Certificate of Deposit (CD) is a negotiable money market instrument and issued in dematerialised form or as a Usance Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period.

Note: Usance Promissory Note or Demand Promissory Note has to be paid immediately on demand.

India introduced Certificates of Deposit (CDs) in 1989 to increase the range of money market instruments in the country and thereby give investors greater flexibility in terms of utilization of their short-term funds.

Features of Certificate of Deposit

Certificate of Deposit (CDs) can be issued by

- (i) scheduled commercial banks {**excluding Regional Rural Banks and Local Area Banks**};
- (ii) **select All-India Financial Institutions (FIs)** that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI.

Banks have the freedom to issue CDs depending on their funding requirements.

Banks and financial institutions should issue a Certificate of Deposit in a **dematerialised form only**. However, investors can seek a certificate in physical form as well as per **Depositories Act, 1996**.

Banks/FIs cannot provide loans against **Certificate of Deposits**.

Minimum Amount of Certificate of Deposit

Minimum amount of a CD should be Rs.1 lakh, i.e., the minimum deposit that could be accepted from a single subscriber should **not be less than Rs.1 lakh**, and in **multiples of Rs. 1 lakh thereafter**.

CDs can be issued to

- individuals,
- corporations,
- companies (including banks and PDs),
- trusts, funds, associations, etc.

Non-Resident Indians (NRIs) may also subscribe to CDs, but only on non-repatriable basis, which should be clearly stated on the Certificate. Such CDs cannot be endorsed to another NRI in the secondary market.

Banks have to maintain appropriate reserve requirements, i.e., **cash reserve ratio (CRR) and statutory liquidity ratio (SLR), on the issue price of the CDs**.

Maturity Period of Certificate of Deposit

- The maturity period of CDs issued by banks should not be less than 7 days and not more than one year, from the date of issue.
- FIs can issue CDs for a period not less **than 1 year and not exceeding 3 years from the date of issue**.
- **There is no lock-in period for the CDs**.

In case of loss of physical certificates, duplicate certificates can be issued after compliance with the following:

- Notice is required to be given in at least one local newspaper;
- Lapse of a reasonable period (say 15 days) from the date of the notice in the newspaper; and
- Execution of an indemnity bond by the investor to the satisfaction of the issuer of CDs.