

Mid-Term Review of Monetary and Credit Policy 2002- 03 Certificates of Deposit

DBOD No. BP.BC . 43 / 21.03.053/ 2002-03

16 November 2002

**All Scheduled Commercial Banks
(excluding RRBs & LABs)**

Dear Sir,

**Mid-Term Review of Monetary and Credit Policy 2002- 03
Certificates of Deposit**

Please refer to paragraph 87 regarding Certificates of Deposit (CDs) in the Governor's "Statement on Mid-term Review of Monetary and Credit Policy for the year 2002-03" enclosed with letter No. MPD.BC.222/ 07.01.279/ 2002-03 dated October 29, 2002.

2. As per extant instructions, CDs are required to be issued at a discount to face value and the issuing bank is free to determine the discount rate. With a view to providing more flexibility, CDs may also be issued as a coupon bearing instrument now. In order to give additional choice to both investors and issuers, it has, therefore, been decided that banks may issue CDs on **floating rate basis** provided the methodology of computing the floating rate is objective, transparent and market-based.

3. The interest rate on floating rate CDs would have to be reset periodically in accordance with a pre-determined formula that indicates the spread over a transparent benchmark. The standard procedures and documentations in this regard would be issued separately by FIMMDA in consultation with market participants.

4. Please acknowledge receipt.

Yours faithfully,

**(M. R. Srinivasan)
Chief General Manager-in-Charge**