

**Master Circular**  
**on**  
**Guidelines for Issue of Certificates of Deposit**

**RBI/2004-05/38**

**Ref.No. MPD 254 /07.01.279/2004-05**

**July 12, 2004**  
**Aashadha 21, 1926 (S)**

The Chairmen/Chief Executives of  
All Scheduled Banks (excluding RRBs and LABs)  
and All-India Term Lending and Refinancing Institutions

**Dear Sirs,**

***Guidelines for Issue of Certificates of Deposit***

As you are aware, with a view to further widening the range of money market instruments and giving investors greater flexibility in deployment of their short-term surplus funds, Certificates of Deposit (CDs) were introduced in India in 1989. Guidelines for issue of CDs are presently governed by various directives issued by the Reserve Bank of India, as amended from time to time.

A Master Circular incorporating all the existing guidelines/instructions/directives on the subject has been prepared. It may be noted that this Master Circular consolidates and updates all the instructions/guidelines contained in the circulars listed in the Appendix, in so far as they relate to 'guidelines for issue of CDs'. This master circular has been placed on RBI website at [www.mastercircular.rbi.org.in](http://www.mastercircular.rbi.org.in)

Yours faithfully,

**(Deepak Mohanty)**  
**Adviser**

**Encls.:** As above

## **Master Circular on**

### **Guidelines for Issue of Certificates of Deposit (CDs) as Amended up to June 30, 2004**

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#### **Introduction**

Certificates of Deposit (CDs) is a negotiable money market instrument and issued in dematerialised form or as a Usance Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period. Guidelines for issue of CDs are presently governed by various directives issued by the Reserve Bank of India, as amended from time to time. The guidelines for issue of CDs incorporating all the amendments issued till date are given below for ready reference.

#### **Eligibility**

2. CDs can be issued by (i) scheduled commercial banks excluding Regional Rural Banks (RRBs) and Local Area Banks (LABs); and (ii) select all-India Financial Institutions that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI.

#### **Aggregate Amount**

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

4. An FI may issue CDs within the overall umbrella limit fixed by RBI, i.e., issue of CD together with other instruments viz., term money, term deposits, commercial papers and inter-corporate deposits should not exceed 100 per cent of its net owned funds, as per the latest audited balance sheet.

### **Minimum Size of Issue and Denominations**

5. 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 the multiples of Rs. 1 lakh thereafter.

### **Who can Subscribe**

6. CDs can be issued to individuals, corporations, companies, 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.

### **Maturity**

7. The maturity period of CDs issued by banks should be not less than 15 days and not more than one year.

8. The FIs can issue CDs for a period not less than 1 year and not exceeding 3 years from the date of issue.

### **Discount/ Coupon Rate**

9. CDs may be issued at a discount on face value. Banks/FIs are also allowed to issue CDs on floating rate basis provided the methodology of compiling the floating rate is objective, transparent and market based. The issuing bank/FI is free to determine the discount/coupon rate. 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.

### **Reserve Requirements**

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

### **Transferability**

11. Physical CDs are freely transferable by endorsement and delivery. Dematted CDs can be transferred as per the procedure applicable to other demat securities. There is no lock-in period for the CDs.

### **Loans/Buy-backs**

12. Banks/FIs cannot grant loans against CDs. Furthermore, they cannot buy-back their own CDs before maturity.

## **Format of CDs**

13. Banks/FIs should issue CDs only in the dematerialised form. However, according to the Depositories Act, 1996, investors have the option to seek certificate in physical form. Accordingly, if investor insists on physical certificate, the bank/FI may inform to Monetary Policy Department, Reserve Bank of India, Central Office, Fort, Mumbai - 400 001 about such instances separately. Further, issuance of CD will attract stamp duty. A format (Annex I) is enclosed for adoption by banks/FIs. There will be no grace period for repayment of CDs. If the maturity date happens to be holiday, the issuing bank should make payment on the immediate preceding working day. Banks/FIs may, therefore, so fix the period of deposit that the maturity date does not coincide with a holiday to avoid loss of discount / interest rate.

## **Security Aspect**

14. Since physical CDs are freely transferable by endorsement and delivery, it will be necessary for banks to see that the certificates are printed on good quality security paper and necessary precautions are taken to guard against tempering with the document. They should be signed by two or more authorized signatories.

## **Payment of Certificate**

15. Since CDs are transferable, the physical certificate may be presented for payment by the last holder. The question of liability on account of any defect in the chain of endorsements may arise. It is, therefore, desirable that banks take necessary precautions and make payment only by a crossed cheque. Those who deal in these CDs may also be suitably cautioned.

16. The holders of dematted CDs will approach their respective depository participants (DPs) and have to give transfer/delivery instructions to transfer the demat security represented by the specific ISIN to the 'CD Redemption Account' maintained by the issuer. The holder should also communicate to the issuer by a letter/fax enclosing the copy of the delivery instruction it had given to its DP and intimate the place at which the payment is requested to facilitate prompt payment. Upon receipt of the Demat credit of CDs in the "CD Redemption Account", the issuer, on maturity date, would arrange to repay to holder/transferor by way of Banker's cheque/high value cheque, etc.

## **Issue of Duplicate Certificates**

17. **In case of the loss of physical CD certificates**, duplicate certificates can be issued after compliance of the following:

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

18. The duplicate certificate should only be issued in physical form. No fresh stamping is required as a duplicate certificate is issued against the original lost CD. The duplicate CD should clearly state that the CD is a Duplicate one stating the original value date, due date, and the **date of issue (as “ Duplicate issued on \_\_\_\_\_”)**.

### **Accounting**

19. Banks/FIs may account the issue price under the Head “CDs issued” and show it under deposits. Accounting entries towards discount will be made as in the case of “cash certificates”. Banks/FIs should maintain a register of CDs issued with complete particulars.

### **Standardised Market Practices and Documentation**

20. Fixed Income Money Market and Derivatives Association of India (FIMMDA) may prescribe, in consultation with the RBI, for operational flexibility and smooth functioning of CD market, any standardised procedure and documentation that are to be followed by the participants, in consonance with the international best practices. Banks/FIs may refer to the detailed guidelines issued by FIMMDA in this regard on June 20, 2002.

### **Reporting**

21. Banks should include the amount of CDs in the fortnightly return under Section 42 of the Reserve Bank of India Act and also separately indicate the amount so included by way of a footnote in the return.

22. Further, banks/FIs should submit a fortnightly return, as per the format given in Annex II, to the Monetary Policy Department, Reserve Bank of India, Central Office Building, 24<sup>th</sup> Floor, Fort, Mumbai – 400 001, Fax ++9122 22651685, 22693204, 22700849 and 22700850 within 10 days from the end of the fortnight date.

**Annex I**

Name of the bank/institution

No.

Rs.-----

Dated -----

**NEGOTIABLE CERTIFICATE OF DEPOSIT**

----- months/days after the date hereof, ----<Name of the Bank/Institution>--  
-----,at -----<name of the place>-----, hereby promise to pay to -----  
<name of the depositor>----- or order the sum of Rupees -----<in words>----- only,  
upon presentation and surrender of this instrument at the said place, for deposit received.

For -----<Name of the institution>----

Date of maturity ----- without days of grace.

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Instructions

Endorsements

Date

1.

- 1.
- 2.
- 3.
- 4.
- 5.

## Annex II

### Fortnightly Return on Certificates of Deposit (CDs) (SFR III – D)

Name of the Bank/Institution :  
For the Fortnight ended :

#### *Issue of Certificates of Deposit (CDs)*

**Total amount of CDs outstanding as at the end of the fortnight (Rs. Crore)**

1. *On Discount Value Basis*  
Face Value :  
Discounted Value :
2. *On Coupon Bearing Basis*  
Face Value :

#### **Particulars of CDs issued during the fortnight**

##### **I. CDs issued on Discount value basis**

Sr. No.	Discounted value of CD issued (Amount in Rs.)	Maturity period	Effective interest rate ( per cent per annum)	Demat or Physical CD issued (D/P)
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- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

##### **II. CDs issued on Floating Rate Basis**

Sr. No.	Face value of CD issued (Amount in Rs.)	Maturity period	Benchmark	Spread	Demat or Physical CD issued (D/P)
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- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

## Appendix

### List of Circulars

Sr. No	Reference No.	Date	Subject
1.	DBOD. No. BP.BC.134/65-89	June 6, 1989	Certificates of Deposit (CDs)
2.	DBOD. No. BP.BC.112/65-90	May 23, 1990	Certificates of Deposit (CDs)
3.	DBOD. No. BP.BC.60/65-90	December 20, 1990	Certificates of Deposit (CDs)
4.	DBOD. No. BP.BC.113/65-91	April 15, 1991	Certificates of Deposit (CDs)
5.	DBOD. No. BP.BC.83/65-92	February 12 1992	Certificates of Deposit (CDs)
6.	DBOD. No. BC.119/12.021.001/92	April 21, 1992	Section 42(1) of the Reserve Bank of India Act 1934 -Cash Reserve Ratio on incremental Certificates of Deposit – Exemption
7.	DBOD. No. BC.106/21.03.053/93	April 7, 1993	Certificates of Deposit (CDs) – Enhancement of Limit
8.	DBOD. No. BC. 171./21.03.053/93	October 11, 1993	Certificates of Deposit (CDs) Scheme
9.	DBOD. No. BP. BC. 109./21.03.053/96	August 9, 1996	Certificates of Deposit (CDs) Scheme
10.	DBOD. No. BP. BC. 49/21.03.053/97	April 22, 1997	Certificates of Deposit (CDs)
11.	DBOD. No. BP. BC. 128/21.03.053/97	October 21, 1997	Certificates of Deposit (CDs)
12.	DBOD. NO. Dir. BC. 96/13.03.00/2001-02	April 29, 2002	Issue of Certificates of Deposit (CDs) in dematerialised form
13.	DBOD. No. BP. BC. 115/21.03.053/ 2001-02	June 15, 2002	Certificates of Deposit (CDs)
14.	DBOD. No. BP. BC. 43/21.03.053/ 2002-03	November 16, 2002	Mid-Term Review of Monetary and Credit Policy 2002-03: Certificates of Deposit