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News: Certificates of Deposit (CDs)

- Recently, the **Clearing Corporation of India** released data that revealed that **Commercial banks have mobilised Rs 1.45 trillion through Certificates of Deposit (CDs) to strengthen their balance sheets.**

Certificate of Deposit (CD)

- Certificate of Deposit (CD) is a **negotiable, unsecured money market instrument and issued in dematerialized form** or as a Usance Promissory Note (Promissory Notes which are payable after a pre decided definite period) against **funds deposited at a bank** or other eligible financial institution for a specified time period.
- It is an **agreement between the depositor and the bank where a predetermined amount of money is fixed for a specific time period.**
- CDs can be **issued by scheduled commercial banks {excluding Regional Rural Banks and Local Area Banks}; and 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.
- The 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.
- The maturity period of CDs issued by banks ranges from 7 days to one year, while for FIs this limit is from 1 year to upto 3 years from the date of issue.

Advantages of Investing in Certificate of Deposit:

- CDs are a less risky investment option than stocks or bonds.
- Certificate of Deposit is known to offer a higher rate of interest and better returns in comparison to the traditional savings accounts.
- Certificate of Deposit is regulated by the Reserve Bank of India.