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Operational Guideline on Certificate of Deposit effective from 17th March, 2020

17th March 2020

Dear Member,

FIMMDA drafted a standardized procedure and documentation for issue of Certificates of Deposit (CD) in consultation with depositories and market participants as advised by RBI vide letter No.D.O.No.MPD.2405/03.01.09/2001-02 dated January 30, 2002. RBI vide its Master Direction No.2/2016-17 dated 7th July 2016 directed that FIMMDA may prescribe, in consultation with the RBI, for operational flexibility and smooth functioning of the CD market, any standardized procedure and documentation that are to be followed by the participants, in consonance with the international best practices. It was felt necessary that the document needs to be reviewed for operational convenience capturing all changes in the intervening period. We sought suggestions from the market participants for the requisite changes and considered changes are incorporated in the document. All rules relating to physical format of CDs are incorporated in the end for easy reference. We placed the same on our website for comments by the market participants. Suggestions considered are incorporated in the document.
These will come into effect immediately. If RBI makes any changes in their directions, we will incorporate the same in our document. But till we insert such changes, the market participants will follow the RBI guidelines.

Your truly,

D.V.S.S.V Prasad
Chief Executive Officer.

Standardized Procedure, Documentation and Operational Guidelines for Certificates of Deposit

1. What is certificate of Deposit?

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

2. Regulatory Framework:

2.1 Regulatory requirement:

Banks have to maintain CRR and SLR on the issue price of the CD.

2.2 Eligibility for issue

CDs can be issued by scheduled commercial banks (excluding Regional Rural Banks and Local Are 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.

3. Aggregate Amount

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

3.2 An FI can issue CDs within the overall umbrella limit prescribed in the Master Circular/Direction on Resource Raising Norms for FIs, issued by Department of Banking Regulation, Reserve Bank of India and updated from time-to-time.

4. Minimum Size of Issue and Denominations

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.

5. Investors

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.

6. Maturity

Banks can issue CD for a period not less than 7 days and not exceeding one year from the date of issue, whereas FIs can issue CD for a period not less than 1 year and not exceeding 3 years from the date of issue.

Maturity date for CD is the final date of payment and no days of grace are allowed. The renewal of CD is not permitted with retrospective effect and holiday convention (as given elsewhere in this document) will apply. CDs will be redeemed on a Mumbai business day only.

7. Discount/ Coupon Rate

CD should be issued at a discount to the 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. The investor should be clearly informed of the same.

8. Payment of CD (Demat form)

One working day before the maturity date, the issuer will send a request to the depositories to give a list of investors (BENPOS report) as at the end of that day with their bank account details. No transfers/transactions will be permissible on maturity date of CD. The depositories will furnish the Benpos statement before 11:00 A.M. on the maturity to the issuer directly or through the Registrar and Transfer Agent. The issuer, without requiring the investors to transfer the CDs from their demat accounts to the demat account of the issuer, shall make full redemption payment to the investors/holders of CD by 2 P.M. by electronically crediting the bank account of the investors as made available by the depositories. When CDs are fully redeemed the issuer will advise the depositories through Registrar and Transfer Agent to extinguish the CD as a debit corporate action on the same day. Based on the self-certificate/declaration issued/made by the issuer of CD confirming that the full redemption has been made, the depositories shall extinguish the CD by debiting the demat accounts of the investors (BENPOS report).

CDs will be redeemed on a Mumbai business day. Securities maturing on any Saturday, Sunday will be payable on the immediately preceding Mumbai business day. Likewise, a security maturing on a holiday at Mumbai will be paid on immediately preceding Mumbai business day.

9. Accounting

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.

10. Loans / Buy-back

Banks / FIs cannot grant loans against CDs. Furthermore, they cannot buy-back their own CDs before maturity. However, the RBI may relax these restrictions for temporary periods through a separate notification.

11. Standardised Market Practices and Documentation

Fixed Income Money Market and Derivatives Association of India (FIMMDA) may prescribe, in consultation with the RBI, for operational flexibility and smooth functioning of the 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 Handbook of Market Practices issued by FIMMDA in this regard in April, 2016 and as amended from time to time (http://fimmda.org).

12. General Guidelines:

Appointment of Issuing and Paying Agent (IPA) for issue and redemption of CDs is not required.
Rating of the CD is not mandatory/compulsory.
Any dispute arising from or transfer/splitting of the Certificates of Deposit shall be subject to the jurisdiction of the Courts in Mumbai .

13. Documentation and Operational Guidelines

Brief Process of Issue of Certificates of Deposit:
The issuer will negotiate the discount with the prospective investor/s and exchange the deal confirmation letter (Annexure 1).
Since the CDs are normally to be issued in demat form, the issuer has to enter into an agreement with the Depository. The Depository will require an agreement to be executed with the issuer and its registrar. The issuer shall comply with the formalities of the Depository.

Once this arrangement is in place, the Issuer can get an ISIN created by submitting the 'Letter of Intent' and 'Master Creation form' in the format prescribed by the depository. ISIN would be allotted on the basis of the date of maturity of the CD. So, whatever be the date of issue, depending on the date of maturity, the ISIN will be allotted.

First, CD in the form of a Usance Promissory Note (UPN) has to be executed and pay the stamp duty to the depository as per prevailing rates. Intimation will be given to the Registrar and Transfer Agent (R&TA) by the issuer about the creation of the security. The issuer instead of executing several UPNs, can prepare a Jumbo UPN in respect of several CD issuances taking place for the same date of maturity.

Issuers are encouraged to issue digitally signed usance promissory note.
The stamp duty as per Annexure 7 may be paid online and the Electronic - Secure Bank and Treasury Receipt (e-SBTR) may be retained for record. In case the issuer is not in a position to make payment of stamp duty through e-SBTR, it can make the payment as per the manual process (till 31st march 2020 or such date as ministry of finance may advice)

The CD in Jumbo UPN form will not be cancelled when the demat security is created. The issuer will hold the consolidated UPN by making suitable remarks on it, which reads as follows:

"Electronic security against the UPN has been created with NSDL/CDSL bearing ISIN:…………. for the credit of investor's account with DP and that the UPN is not available for trade in the secondary market."

The UPN with noting stated above on the face of it will be kept with the issuer and would, thus, not be available to the market for trading.

Validity of the ISIN: Several CDs can be issued under the same ISIN as long as the due date of all the CDs is same and no CD is issued for a period shorter than prescribed by RBI.

The issuer will send a letter (refer Annexure 3) to the depository through the R&TA, to activate the ISIN with the following declaration signed by the authorized officials of the issuer:

1. The CDs issued are within umbrella limit as specified by Reserve Bank of India (in case of FIs only).

2. The stamp duty will be paid to the Depositories as per rules.

3. All Directions/policy guidelines of RBI and all procedural and operational guidelines of FIMMDA for the issue of CD have been followed.

After the ISIN is activated, on value date, upon the receipt of the stated consideration through approved mode of remittance the R&TA will advise the depository to credit the security to the demat accounts of the investors as per the list provided by the issuer.

The issuer will issue a certificate (Annexure 4) to the first investor in case the CDs are issued in the demat form.

14. Reporting:

Banks / FIs should report the data on issuance of CDs on F Trac on the same day.
Since the primary market data are vital to the primary as well as secondary CD market and the primary market data in respect of CDs are made available on F-trac platform on the same day, the issuers of CD should report the primary market data to CCIL on the same day of issue for uploading as primary market watch data on F-trac by 5:00 p.m.

15. Secondary market transactions in CD:

Trading hours for OTC trades will be 9:00 A.M to 5:00 P.M. on Monday to Friday. F-trac reporting time (within 15 minutes of the trade) will be between 9:00 A.M. to 5:00 P.M.

Secondary market transactions would take place in the manner they are taking place in case of other debt instruments and would be without recourse to the transferors.
One working day before the maturity date, only T+0 transactions will be allowed. On maturity date, no transfers/transactions will be allowed.

Stamp duty on secondary market transactions will be collected by the clearing agents.

Trade confirmation:

The requirement of exchange of physical confirmation of trades matched on FTRAC is waived, if both the Parties to the transactions are RBI regulated entities.

As and when SEBI, PFRDA and IRDA permit their entities to waive exchange of physical confirmation by entering into an MLA (multi-lateral agreement) drafted by FIMMDA with other counterparties, waiver will be permissible for those entities

Settlement

All OTC trades in CDs shall necessarily be cleared and settled under DVP I mechanism through the authorized clearing houses {National Securities Clearing Corporation Limited (NSCCL), Indian Clearing Corporation Limited (ICCL) and MCX Stock Exchange Clearing Corporation Limited (CCL)} of the stock exchanges

The trade settlement will take place on T+0 or T+1-day basis. OTC trades reported up to 2.30 P.M. can be considered for T+0 settlement.

Default/Delay in redemption by the Issuer:

The Issuer will be wholly responsible for settlement of CD on the maturity date.

In case of default or delay (technical delay-RTGS/NEFT/Market Disruption) leading to non-credit of the account of the investors by the end of the day, on the date of redemption, the issuer has to compensate the investors by paying interest at MIBOR rate for the days of default/delay.

If the issuer defaults, then the investor can take the appropriate legal remedies available to him under the legal framework on the strength of demat holding of CD or physical CD certificate.

16. Holiday Convention:

FIMMDA's hand book of market practices (latest) may be referred for the holiday convention.

Annexure I

Negotiable Certificate of Deposit

______________________________Bank/FI

Address ______________________________

CD.No._________ Maturity/Face Value (in. Rs.) ___________

Date of Physical Issue of the CD: ______________

Value Date *(Effective date of the issue of CD) __________

Maturity Date________________

NEGOTIABLE CERTIFICATE OF DEPOSIT

___________months/days after the value date *(without any dates of grace) thereof, we ____________________Bank/FI, at ____________ (name of the branch/office) 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 branch/office above, or Demat thereof in the manner prescribed for value received.

_____________________ ____________________

Authorised Signatory Authorised Signatory

* **The due date is calculated from the value date.**

** **The issuer confirms that the UPN is duly stamped and properly executed as per the requirements of Indian Stamp Act, 1899.**

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Annexure-II

DEAL CONFIRMATION / CONTRACT NOTE

Trade Date: ***Value Date of:***
CD (MATURITY VALUE) *: RS.* ***DUE DATE *:***
PRICE *: RS.* ***DISC.RATE****:* *% p a*

- ISIN CODE:
- ISSUED BY:
- CREDIT RATING (not compulsory)]
- DATE OF RATING

AMOUNT VALIDITY :
FOR AMOUNY :
CONDITIONS (if any) :

* ***Issuer's liability under the CD will continue beyond due date, in case the CD is not redeemed on due date, even if the CD is in demat.***

SELLER OF CD :

PURCHASER OF CD :

SETTLEMENT INSTRUCTIONS

- *VALUE DATE*
- *FUNDS -PLEASE CREDIT TO (ACCOUNT DETAILS) /ISSUE PAY ORDER FVG. FOR AMOUNT RS.*
- *CD -PLEASE DELIVER TO (DP ACCOUNT DETAILS)*

MARKET CONVENTIONS : FIMMDA CONVENTIONS

THE DEAL IS DONE BY
(ON BEHALF OF SELLER) *MR./MS.*
(ON BEHALF OF PURCHASER) *MR./MS.*
*ON (*TRADE DATE*)*

OVER PHONE / IN PERSON

(ON BEHALF OF SELLER OF CD) *(ON BEHALF OF PURCHSER OF CD)*
CD)

NOTE: ISSUER IS THE SELLER OF CD IN CASE OF PRIMARY MARKET DEAL.

Annexure III

Letter to be given by the issuer to the Depository

Name of Bank / FI :
Address of Bank / FI:

Re: Certificate of Deposits ISIN Number:

We_______________ hereby declare that: -

1. The Certificate of Deposit (CDs) issued is within the umbrella limit as specified by Reserve Bank of India (RBI)**.

2. The original UPN is kept with ________(Bank/FI- issuer) with required noting. The noting is done, such that no trading would take place on the basis of the physical CD (UPN).

3. All directions/policy guidelines of RBI and all procedural and operational guidelines of Fixed Income Money Market and Derivatives Association of India (FIMMDA) for the issue of CD have been followed.

4. The Depository is authorized to extinguish CD's ISIN as a debit corporate action by debiting the demat account of the holders as per the format prescribed by the depositories (if any).

____
(Signature)

Date: **Name & Designation of Authorised Signatory**

** Applicable in case of FIs only.

Annexure IV

Certificate issued by the issuer to the first investor

Name of Bank / FI: ____

Address:

To,
_________ (Investor's Name)
_________ (Investors Address)
____

The Certificate of Deposit (CD) of Face Value Rs_________(Units_____) with maturity date_________, bearing ISIN_________ has been credited to your demat a/c, given below today.

1) **Client ID________ 2) DP Name_________ 3) DP ID_________.**

Date: **Authorised Signatories**

Annexure V

Stamp Duty on CD

The stamp duty on issuance of CD is governed by the Indian Stamp Act and is under the purview of the Central Government. Stamp duty has been revised effective September 12, 2008. The stamp duty payable on CD by the issuer is based on the period for which the CDP/UPN is issued.

Structure of Stamp Duty

(Effective from September 12, 2008)

Usance Period Promissory Note	Stamp Duty (Rs. per thousand or part thereof)
I. Up to and including 3 months	0.12
II. Above 3 months up to and including 6 months	0.24
III. Above 6 months up to and including 9 months	0.36
IV. Above 9 months up to and including 1 year	0.50
V. Above 1 year	1.00

Three months could have 89/90/91/92 days as the case may be. The stamp duty should be calculated based on months, while consideration, based on yield, is worked out based on the actual number of days.

e.g. CD is placed for 3 months say on	01.02.17	15.06.18
Corresponding due date:	01.05.17	15.09.18
No of days	89	92

In both cases (above) stamp duty for 3 months is payable.

With effect from April 01 2020 the following will be the stamp duty:

Structure of Stamp Duty

	Stamp Duty (in percentage)
I. In case of Issue of debenture	0.005%
II. In case of transfer and re-issue of debenture	0.0001%

Debentures include Certificate of Deposit as per Gazette Notification

N.B. Any changes/amendments as announced by Central Government from time to time will have to be complied with.

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Rules and regulations pertaining to Physical format of CDs

Format of CDs

Banks / FIs should issue CDs only in dematerialized form. However, according to the Depositories Act, 1996, investors have the option to seek certificate in physical form. Accordingly, if an investor insists on physical certificate, the bank / FI may inform the Chief General Manager, Financial Markets Regulation Department, Reserve Bank of India, Central Office, Fort, Mumbai - 400 001 about such instances separately.

Security Aspect

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

Issue of Duplicate Certificates

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

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 CDs.

16.2 The duplicate certificate should be issued only 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 ________").

Payment of Certificate

Since CDs are transferable, the physical certificates 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. . If the security issued in the demat form has been subsequently rematted before maturity, then the security will be redeemed at the place mentioned in the rematted physical certificate. The holiday calendar of the place of redemption (in case of physical holding at the time of redemption) will be followed for deciding the treatment for CD falling due on a holiday. **If CD is in physical form:** Since CDs are transferable, the duly discharged CD physical certificates should be presented by the holder to the issuer, at the place stated therein on the maturity date or on a working day before the maturity date, for payment on maturity date, along with payment instructions. Since the question of liability on account of any defect in the chain of endorsements may arise, it is, therefore, desirable that banks/FIs take necessary precautions and make payment only by a crossed cheque. Those who deal in these CDs may also be suitably cautioned. The issuer will repay the CDs on the first come first served basis and would arrange to cancel the redeemed CDs with proper notings on it.

Transferability

CDs in physical form are freely transferable by endorsement and delivery (exception being CD held in physical form by NRI). CDs held in the demat form can be transferred as per the procedure applicable to other demat securities. There is no lock-in period for CDs.

Conversion of Physical to Demat:

Step 1:

The client (holder) will submit a request to the DP, in the Dematerialization Request Form (DRF), along with the original CD certificate/s to be dematerialized.

Before submission, the client/holder has to write on the reverse of the 'CD' (certificate/s) in the space provided for endorsement followed by signature of authorized official of holder;

"**SURRENDERED FOR DEMATERIALISATION and credit to my/our demat ACCOUNT. …… (account number) with …… (DP) name /-------- number**.

The DP would give an acknowledgment (DRF acknowledgement portion) to its client confirming the acceptance of the CD for dematerialization.

Step 2:

DP enters the ISIN of the CD in the 'DRF'. The DP stamps the certificate "surrendered for Dematerialization" on the face of the CD and sends the certificate and DRF to the R&TA/issuer along with a covering letter for further processing.

Note: The CD being a Negotiable Instrument, the Investor should ensure that appropriate notings are made on the reverse of the CD stated above, without fail, so as to avoid the chances of its misuse, in case of loss of the CD in transit.

The DP would transmit all the documents received to the issuer/R&TA at his address appearing on the face of physical CD (surrendered).

Upon the receipt of original CDs, DRF etc. the issuer's R&TA would arrange for the credit of Demat CD to the holder of scrutiny.

The issuer would also make the following remarks on the original CD's received by him from DP.

"Electronic security has been created, (against the UPN issued) on__________ with National Securities Depository Ltd/Central Depository Services (India)Ltd. bearing ISIN: ---, for the credit to the investor's account and the UPN issued is not available for trade in the secondary market."

Thus, the Electronic Credit of Security (CD) would come to Demat Account of Holder, directly from the issuer/registrar in conformity with the normal depository procedure for Demat.

The issuer will hold in its custody original CD, surrendered by investor through DP, along with the copy of DRF form bearing the above remark.

Conversion of Demat to Physical:

Considering the advantages of dealing in CD in Demat form and with the instructions from RBI to Banks, PDs, SDs and FIs to invest in demat form w.e.f. October 31, 2001, issuers may discourage conversion of dematted securities into physical/scrip form. However, investors' right to hold debt instrument (like in the case of equity) in physical form is recognized by Depositories Act, 1996. As such, investors request to convert Demat CD to physical would have to be accepted.

The procedure for conversion of Demat CD to physical would be more or less similar to any other debt instrument.

The detailed process is given below:

The holder of Demat CD would submit Remat request in the form "RRF" (Remat Request Form) prescribed by the Depository to his DP.

DP would acknowledge the RRF after checking whether sufficient unencumbered balance of security is available in the account of the client. DP generates a remat request.

The DP shall forward the RRF to the issuer/R&TA.

The Issuer through its R&TA after validating the RRF will confirm electronically to Depository that the RRF has been accepted. This results in extinction of the security in electronic mode.

The issuer would prepare physical CD in the form of Annexure-I given below and complete execution of the document in the manner prescribed as per its by-laws.

The CD instrument now created in the form of Usance Promissory Note (UPN) would bear the date of conversion of the dematerialized CD into a physical CD and not the original date appearing on the Jumbo UPN.

The promissory note so executed in place of Demat Security would be on a non-judicial stamp paper of face value of Re. 1/-. If Re.1/- stamp is not available, non-judicial stamp paper of higher value may be used. The UPN would bear superscribed clause reading as under:

"Issued physical certificate (UPN) on __________in place of Demat security under ISIN ______________ based on original UPN duly stamped and properly executed.

The issuer would directly send the physical CD bearing the name of the Demat holder to the holder at the address as per depository's records.

It is expected that physical to Demat process would take 15-20 days from the acceptance of the DRF by the DP (depending on existence of ISIN for relevant CD) and Demat to physical would take 15 days from the date of submission of RRF.

<u>Issue of Duplicate Certificates</u>

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

1. A notice is required to be given in at least one local newspaper,

2. Lapse of a reasonable period (say 15 days) from the date of the notice in the newspaper; and

3. Execution of an indemnity bond by the investor to the satisfaction of the issuer of CD.

The duplicate certificate should only be issued in a 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 <u>CD is a Duplicate one stating the</u> original value date, due date, and the **date of issue (as "Duplicate issued on ________")**.

This duplicate CD would not be at any point, available for dematting. The prospective buyer of the CD would know about the risk associated, with the duplicate certificate, while buying it.

In respect of mutilated CDs, the branch / office, which had issued the original CD, can issue duplicate by retaining the original CD with itself. The issuer should ensure that suitable remark is made on the original so that it does not come in the market for trading.

The duplicate certificate should only be issued in a physical form. No fresh stamping is required as a duplicate certificate is issued against the original CD. The duplicate CD should clearly state that the <u>CD is a Duplicate one stating the</u> original value date, due date, and the **date of issue (as "**Duplicate **issued on ________").**

This duplicate CD would not at any point, available for dematting. And hence the prospective buyer of the CD would know about the risk associated, with the duplicate certificate, while buying it.

General Information

1) The CD will be redeemed at the place mentioned in the CD Certificate if the CD is held in the physical form.

2) If a CD issued in demat form is rematted then the CD will be redeemed at the place mentioned in the rematted physical CD certificate.

3) Issuer shall not be liable to pay any interest, compensation etc. for delay in repayment due to non-presentation at least two working day before due date of CD.

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