

Certificates of Deposit: An overview

Certificates of deposit are a variation of money market deposits.

A certificate of deposit bears the following features:

- A maturity date
- A specified interest rate
- It can be issued in any denomination
- It is normally issued in maturities ranging from less than a week up to five years.

Certificates of deposit are securities that provide indication that funds have been deposited with the bank, and they evidence the bank's undertaking to repay the holder a fixed amount of principal and interest on an agreed-upon maturity date.

In some markets, the certificate of deposit can be freely traded and the holder can sell the security for cash in the secondary market (The primary market being the initial market where the certificate of deposit was issued). While a certificate of deposit can be a tradable security for the purchaser, it represents a fixed-period borrowing for the issuing bank.

By contrast, money market deposits are fixed term investments that cannot be traded. In return for this improved liquidity, certificates of deposit offer a slightly lower yield than term deposits.

The good side:

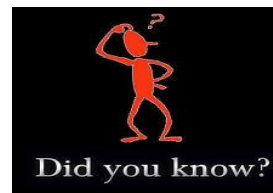
- They are considered to be a safe investment: Even if market changes, the matured value of the certificate of deposit will maintain the value expected at purchase.

- The returns earned on a certificate of deposit are better than a savings account.
- It can be a tradable instrument, benefiting both the investor and the bank.

The bad side:

- There is less flexibility with regards to withdrawing the funds as compared to a savings account.
- Yields are lower when compared to a fixed deposit.

Banks in the local market currently do not issue certificates of the deposit. However, this instrument is considered to be a solid investment tool and it might look attractive to corporate customers who are looking to invest their excess funds into tradable rated instruments should there be a market for it locally.



The negotiable certificate of deposit revolutionized the world of finance. Introduced in 1961 by First National City Bank of New York (now Citibank), the flexible certificate of deposit enabled large banks to quickly and efficiently raise funds for lending.

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