

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5794]
March 31, 1966]

Interpretation by Board of Governors

To the Member Banks of the Second
Federal Reserve District:

Printed below is a copy of an interpretation issued by the Board of Governors of the Federal Reserve System concerning the eligibility of demand paper for discount and as security for advances by Reserve Banks.

The interpretation will be published shortly in the *Federal Register* and *Federal Reserve Bulletin*, but it is being sent to you now so that you may have prompt notice of its content.

ALFRED HAYES,
President.

Eligibility of Demand Paper for Discount
and as Security for Advances by Reserve Banks

The Board of Governors has reconsidered a ruling made in 1917 that demand notes are ineligible for discount under the provisions of the Federal Reserve Act. (1917 Federal Reserve Bulletin 378.)

The basis of that ruling was the provision in the second paragraph of section 13 of the Federal Reserve Act that notes, drafts, and bills of exchange must have a maturity at the time of discount of not more than 90 days, exclusive of grace. The ruling stated that "a demand note or bill is not eligible under the provisions of the act, since it is not in terms payable within the prescribed 90 days, but, at the option of the holder, may not be presented for payment until after that time."

It is well settled as a matter of law, however, that demand paper is due and payable on the date of its

issue. The generally accepted legal view is stated in Beutel's Brannan on Negotiable Instruments Law, at page 305, as follows:

"The words 'on demand' serve the same purpose as words making instruments payable at a specified time. They fix maturity of the obligation and do not make demand necessary, but mean that the instrument is due, payable and matured when made and delivered."

Accordingly, the Board has concluded that, since demand paper is due and payable on the date of its issue, it satisfies the maturity requirements of the statute. Demand paper which otherwise meets the eligibility requirements of the Federal Reserve Act and Regulation A, therefore, is eligible for discount and as security for advances by Reserve Banks.