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## SDR CURRENCY BASKET—PROPOSED EXTENSION OF THE VALUATION OF THE SDR

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- The **Staff Report** on SDR Currency Basket—Proposed Extension of the Valuation of the SDR, prepared by IMF staff. The proposed decision in the paper was approved by the Executive Board on August 11, 2015.

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## SDR CURRENCY BASKET—PROPOSED EXTENSION OF THE VALUATION OF THE SDR

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Prepared by the Finance and Legal Departments, in consultation with the Strategy, Policy, and Review Department.

*This paper proposes an extension of the current SDR valuation basket for a period of nine months to September 30, 2016. This extension would respond to feedback from SDR users on the desirability of avoiding changes in the basket at the end of the calendar year and facilitate the continued smooth functioning of SDR-related operations. As discussed at the informal Board meeting on July 29, this proposal does not in any way prejudge the outcome of the Review of the Method of Valuation of the SDR.*

**1. The current Special Drawing Rights (SDR) valuation basket is set to expire on December 31, 2015.** Following the conclusion of the last quinquennial review of the method of valuation of the SDR,<sup>1</sup> the current basket became effective on January 1, 2011 and, in accordance with Decision No. 12281-(00/98) G/S (adopted October 11, 2000), an Executive Board decision on a new basket is needed before the current one expires at end-2015. The currently ongoing quinquennial review is scheduled to be concluded later this year, when the Executive Board would determine the SDR basket currencies and their respective weights for the next 5-year period, and also review the SDR interest rate basket.

**2. While the Board is currently expected to complete the review in November 2015, staff sees merit in agreeing now on a limited extension of the current valuation basket for the following reasons:<sup>2</sup>**

- **SDR users<sup>3</sup> and members have indicated that January 1 is not ideal for the inception of a new SDR basket.** Most markets are closed on January 1st and trading is relatively thin in the days before and after the New Year. This complicates portfolio

<sup>1</sup> Decision No. 14769-(10/110) GS, adopted November 15, 2010.

<sup>2</sup> See [Review of the Method of Valuation of the SDR—Initial Considerations](#) (7/16/15).

<sup>3</sup> The term “SDR user” refers to both the participants and prescribed holders in the SDR Department regarding their use of official SDRs, and to the use by third parties of the SDR as a unit of account or other reference, for example, deposits denominated in SDR or investment products based on the SDR basket composition.

rebalancing operations necessary to adjust to the new basket weights every five years.

- **The possibility of a new currency being included in the basket has generated a higher-than-usual level of uncertainty for SDR users, impeding some aspects of the normal functioning of SDR operations.** Given the uncertainty surrounding the possible composition of the new basket—an uncertainty which is larger than at the time of recent SDR reviews—the maturity of some SDR operations has been constrained to the end of the current valuation period (i.e., end-2015). This has a potentially significant impact on some SDR-related operations, including for the Fund’s trust accounts (such as the Poverty Reduction and Growth Trust) and the Fund’s invested resources and thus an early extension of the current basket’s duration would facilitate the continued smooth functioning of SDR-related operations.

**3. Against this background, staff proposes extending the current valuation basket from December 31, 2015 to September 30, 2016.** Such an extension would better facilitate normal SDR operations pending the completion of the review, and would ensure that the new basket comes into effect at a time when trading volumes are at normal levels. It would also likely allow sufficient lead time for users and market participants in the event that a decision was taken to add a new currency to the SDR basket.

**4. At the informal discussion of initial considerations for the SDR valuation review on July 29, Executive Directors expressed broad support for such an extension, while stressing that it should not in any way prejudge the outcome of the review.** The proposed extension requires the Executive Board’s approval by a 70 percent majority of the total voting power as it deviates from the periodicity of SDR valuation under the current method (Article XV, Section 2). If the proposed extension is approved, the new SDR valuation basket that would be decided at the conclusion of the ongoing quinquennial review would be expected to take effect from October 1, 2016.

## Proposed Decision

The following decision, which may be adopted by a 70 percent majority of the total voting power, is proposed for adoption of the Executive Board:

Notwithstanding Paragraphs 2 and 4 of Executive Board Decision No. 12281-(00/98), adopted October 11, 2000, the SDR valuation basket determined under Executive Board Decisions No. 14769-(10/110) G/S, adopted November 15, 2010 and No. 14821-(11/1), adopted December 30, 2010, shall remain effective through September 30, 2016.