

Special drawing rights (SDRs) were created in 1969 as an international reserve asset to supplement other reserve assets whose growth was inadequate to finance the expansion of international trade and finances under the Bretton Woods system in the postwar period and to support the Bretton Woods fixed exchange rate system. The creation of the SDR was intended to make the regulation of international liquidity subject, for the first time, to international consultation and decision. The SDR is not a currency, nor is it a claim on the IMF. Instead, it is a potential claim on the freely usable currencies of IMF members. The IMF may allocate SDRs unconditionally to members (participants) who may use them to obtain freely usable currencies in order to meet a balance of payments need without undertaking economic policy measures or repayment obligations.

After a brief introduction to the background and characteristics of the SDR, Sections 4.2 and 4.3 of this chapter describe the methods used to value the SDR and determine its yield (SDR interest rate). Section 4.4 then reviews the rules for allocation and cancellation of SDRs. Section 4.5 outlines the operations of the SDR Department and the nature and evolution of voluntary SDR trading arrangements, highlighting the key role of the IMF. Finally, Section 4.6 highlights the separation between the IMF's General and SDR Departments as shown in the SDR Department's balance sheet.

4.1 BACKGROUND AND CHARACTERISTICS OF THE SDR

The Bretton Woods fixed exchange rate system came under pressure during the 1960s because it did not have a mechanism for regulating the growth of reserves to finance the expansion of world trade and financial development. Gold production was an inadequate and unreliable source of reserve supplies, and the continuing growth in global U.S. dollar reserves required a persistent deficit in the U.S. balance of payments, which itself posed a threat to the value of the U.S. dollar. The international community decided to create a new international reserve asset under the auspices of the IMF (Box 4.1).

Following the creation of the SDR, the SDR Department was established within the IMF to conduct all SDR transactions. The SDR is an interest-bearing international reserve asset created by the IMF to supplement existing reserve assets and can be held and used only by participants in the SDR

Department, by the IMF through the General Resources Account (GRA), and by certain designated official entities referred to as "prescribed holders" (see Section 4.5.1).

The IMF Articles of Agreement require that the General Department and the SDR Department be kept strictly separate. Any assets or property held in one department may not be used to meet the liabilities, obligations, or losses of the IMF incurred in the operations and transactions of the other department except for the reimbursement of the General Department for expenses incurred in conducting the business of the SDR Department.¹ A member of the IMF need not be a member of the SDR Department, although all current IMF members are also members of the SDR Department. Participants' holdings of SDRs are part of their international reserves, together with their holdings of gold, foreign exchange, and reserve position in the IMF. The SDR is used almost exclusively in transactions with the IMF, and it serves as the unit of account of the IMF and a number of other international organizations.²

The SDR's value as a reserve asset derives from the commitments of members to exchange SDRs for freely usable currencies and to honor various obligations connected with the proper operation of the SDR Department. SDRs are not liabilities of the IMF. The IMF helps ensure the SDR's claim on freely usable currencies by acting as an intermediary between holders of SDRs in a voluntary but managed market. Members may also use SDRs outside this market to acquire foreign exchange in a transaction by agreement with another participant or group of participants. There is no obligation under current Executive Board decisions for participants to maintain any particular level of SDR holdings.

¹ The IMF levies an assessment on each participant in the SDR Department (in proportion to its net cumulative SDR allocations) at the end of each financial year to cover the expenses of conducting the business of the SDR Department. As an example, assessments for the financial year that ended April 30, 2015, were 0.00170655 percent of cumulative allocations (or SDR 3.5 million) (see Appendix 1).

² In a series of decisions during 1979 and 1980, the Executive Board prescribed that participants and other holders are free to use SDRs among themselves in certain operations not otherwise expressly authorized by the Articles of Agreement. These include the use of SDRs in forward purchases or sales, swaps, settlement of financial obligations, loans, pledges, or donations (grants), and as security for the performance of financial obligations, among other prescribed operations.

Since September 1987, the SDR market has functioned primarily through voluntary SDR trading arrangements (VTAs). Under these arrangements, a number of members and one prescribed holder have volunteered to buy or sell SDRs as defined by their respective arrangements. In the event there is insufficient capacity under the voluntary trading arrangements, the IMF can activate the designation mechanism: IMF members with a strong balance of payments and reserves position may be designated by the IMF to purchase SDRs from members with weak external positions. This designation mechanism serves as a backstop to guarantee the liquidity and reserve asset character of the SDR. Thus, the functioning of the SDR Department, like that of the General Department, is based on the principle of mutuality and intergovernmental cooperation.

The value of the SDR and its yield are defined according to the prevailing exchange rate system. In the early years, this was the Bretton Woods fixed exchange rate system, but it has been a basket of currencies since 1974. The SDR basket, as revised on January 1, 2011, consists of four freely usable currencies: U.S. dollar, the euro, Japanese yen, and pound sterling (Box 4.3). The SDR's value is calculated daily as the sum of specific amounts of the four basket currencies valued in U.S. dollars, on the basis of exchange rates quoted at noon each day in the London market (Box 4.4). The U.S. dollar equivalent of the SDR is posted daily on the IMF Finances website (www.imf.org/external/fin.htm).

The SDR interest rate was initially set at a fixed, below-market level but is now market based and calculated weekly. It is based on a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket of currencies, except if the weighted average falls below the floor for the SDR interest rate of 0.050 percent (5 basis points) (see Section 4.3). Although both the valuation and the yield of the SDR are linked to the prevailing markets for their component exchange and interest rates, there is no market for the SDR itself in which excess supply or demand pressure can be eliminated by adjustments in the price, or value, of the SDR. Rather, the IMF itself manages the flows of SDRs to ensure liquidity in the system.

Under certain conditions (Article XV(1) and Article XVIII), the IMF may make a general allocation of SDRs to members participating in the SDR Department in proportion to their IMF quotas, subject to the approval of 85 percent of the voting power of the IMF. As of April 30, 2015, there have been only three general allocations of SDRs and one special allocation (see Section 4.4). The last two allocations occurred in 2009: one general allocation to meet a long-term global need for reserves while helping to mitigate the effects of the global financial crisis and a special allocation following the entry into force of the Fourth Amendment to enable all members of the IMF SDR Department to participate in the SDR system on an equitable basis. An allocation

of SDRs by the IMF provides each recipient country with a costless asset.³ A member earns interest on its holdings and pays interest on its cumulative allocations, but the two interest rates are identical and the payments therefore net out as long as the member's cumulative allocations are equal to its holdings of SDRs. Countries holding SDRs can use these assets by exchanging them for freely usable currencies at a value determined by the value of the SDR basket.

Countries that use their SDRs—and therefore hold fewer SDRs than their cumulative allocations—pay interest at the SDR interest rate on the difference between their cumulative allocations and their current holdings. Countries that hold more SDRs than their cumulative allocations—and are therefore net creditors in the SDR system—receive a corresponding amount of interest on their excess SDR holdings. The SDR Department maintains records on SDR transactions, holdings, and allocations.

4.2 VALUATION OF THE SDR

There has been a high degree of stability in the method by which the SDR is valued, which has been revised only to reflect major changes in the roles of various currencies in the world economy. The current criteria for SDR valuation were adopted in 2000 following the introduction of the euro. The 2000 decision modified criteria that had been in place since 1980, when the SDR valuation basket was streamlined from 16 to 5 currencies and before that the SDR was linked to the value of gold.⁴ The current SDR basket consists of four currencies: the euro, Japanese yen, pound sterling, and U.S. dollar.

4.2.1 SDR Basket

When the SDR was redefined as a basket of currencies in 1974, it comprised the 16 IMF members representing at least 1 percent of world trade. At the same time, the interest rate

³ From the perspective of the SDR Department, interest payments and receipts cancel out, and the net income of the SDR Department is always zero, as illustrated in the financial statements of the SDR Department.

⁴ The SDR was initially defined as equivalent to 0.888671 grams of fine gold because this was the par value of the U.S. dollar under the Bretton Woods system; therefore, the SDR was also equivalent to one U.S. dollar. When the dollar was devalued against gold in 1971, the SDR retained its nominal gold value and was dubbed “paper gold.” With the collapse of the Bretton Woods par value system in 1973, most major countries adopted floating exchange rate regimes. Because gold no longer played a central role as the anchor of the international monetary system, the rationale for defining the SDR in terms of gold was weakened, and in 1974 it was redefined as a basket of currencies.

on the SDR was raised to 5 percent, consistent with a new policy under which the rate was set semiannually at about half the level of a combined market interest rate that was defined as a weighted average of interest rates on short-term market instruments in France, Germany, Japan, the United Kingdom, and the United States.

The 16-currency SDR basket was challenging to manage as a unit of account because it was difficult and costly to replicate and because it included some currencies that were not widely traded. It was also a poor store of value because it had a lower yield than substitute reserve assets. To address these shortcomings, in 1981 the valuation of the SDR was simplified: it would be valued using the same five-currency basket that determined the SDR interest rate, and the interest rate itself would be equal to market rates. The valuation basket was formally defined as the currencies of the five member countries with the largest exports of goods and services over the previous 5 years. As a result of these changes, both the SDR valuation and SDR interest rate baskets were composed of the five freely usable currencies recognized by the IMF at the time: U.S. dollar, Japanese yen, Deutsche mark, French franc, and pound sterling.

The five-currency basket was simple enough to be readily replicable by financial markets while still ensuring a fairly stable SDR value in the face of wide swings in exchange rates. With the introduction of the euro in 1999, the Deutsche mark and French franc were replaced in the SDR basket with an equivalent amount of euros, but the relative weight of the continental European currencies in the basket was unchanged.

4.2.2 Current SDR Valuation Method

The IMF's Executive Board reviews the SDR valuation every 5 years. These quinquennial reviews cover the currencies to be included in the SDR valuation basket, determine the relative weights of those currencies, and assess the financial instruments that are used to calculate the SDR interest rate. The reviews are based on criteria adopted by the Executive Board, which can also be modified by the Executive Board.⁵ Reviews have been guided by long-standing principles that aim to enhance the attractiveness of the SDR as a reserve asset (Box 4.2). Following the introduction of the euro, the Executive Board further refined the criteria for selection of the SDR valuation basket (Box 4.3).

The decision by the Executive Board in 2000 to require that currencies in the SDR basket be freely usable

⁵ Article XV, Section 2, provides that "the method of valuation of the special drawing right shall be determined by the Fund by a seventy percent majority of the total voting power, provided, however, that an eighty-five percent majority of the total voting power shall be required for a change in the principle of valuation or a fundamental change in the application of the principle in effect."

principally reflected the role of the SDR as a supplementary official reserve asset. Specifically, the level of a country's exports of goods and services is a necessary, but insufficient, condition for inclusion in the valuation basket, given that a country's share of world exports is not necessarily a reliable indicator of the extent to which its currency is used in international transactions, nor an accurate gauge of the depth and breadth of its financial markets. The requirement that a currency be freely usable encompasses the level of the official reserves denominated in that currency by other member countries and also allows for consideration of several other indicators of the breadth and depth of a country's financial markets. This requirement was also consistent with previous Executive Board decisions; for instance, one goal of the 1980 decision to reduce the number of currencies in the SDR basket from 16 to 5 was to ensure that the basket's currencies had broad and deep foreign exchange markets, which is a key element of the concept of a freely usable currency.

The method used to determine SDR currency weights remained unchanged at the 2000, 2005, and 2010 reviews. The weighting is based on a combination of the value of exports and official reserves held by monetary authorities outside of the country or the monetary union issuing the respective currency, as shown in Table 4.1. Under each of these decisions, the new SDR valuation and interest rate baskets came into effect on January 1 of the following year.

The Executive Board decides every 5 years the initial weights of the currencies in the basket, but the weights change over time with exchange rate developments. Specific currency amounts consistent with the initial weights are fixed on the date on which the decision becomes effective (Box 4.4). Subsequent daily valuations of the SDR are based on these fixed currency amounts. Movements in exchange rates alter the relative weights of the component currencies, with appreciating currencies gaining a larger share in the basket (Figure 4.1).

Table 4.1 Currency Weights in the SDR Basket
(Percent)

	2000 Review	2005 Review	2010 Review ¹
U.S. Dollar	45	44	41.9
Euro	29	34	37.4
Japanese Yen	15	11	9.4
Pound Sterling	11	11	11.3

Source: Finance Department, International Monetary Fund

¹In the 2010 review, the method of rounding was changed from rounding to the nearest whole percentage point to rounding to one decimal point.

Figure 4.1 Actual Currency Weights in the SDR Basket, 2000–15¹

(Percent)



Source: Finance Department, International Monetary Fund.
¹ Daily data are through April 30, 2015.

In October 2011, the Executive Board discussed options for clarifying and possibly reforming the existing criteria for broadening the SDR currency basket. Most Executive Directors held the view that the current criteria for SDR basket selection remained appropriate and that the bar for SDR basket inclusion should not be lowered. Executive Directors emphasized, however, that the determination of free usability would need to rely importantly on judgment framed by the definition of freely usable currency (Box 4.3) set out in the Articles of Agreement. A number of Executive Directors also stressed the importance of allowing changes in the basket to keep pace with developments in the international monetary system.

4.3 THE SDR INTEREST RATE

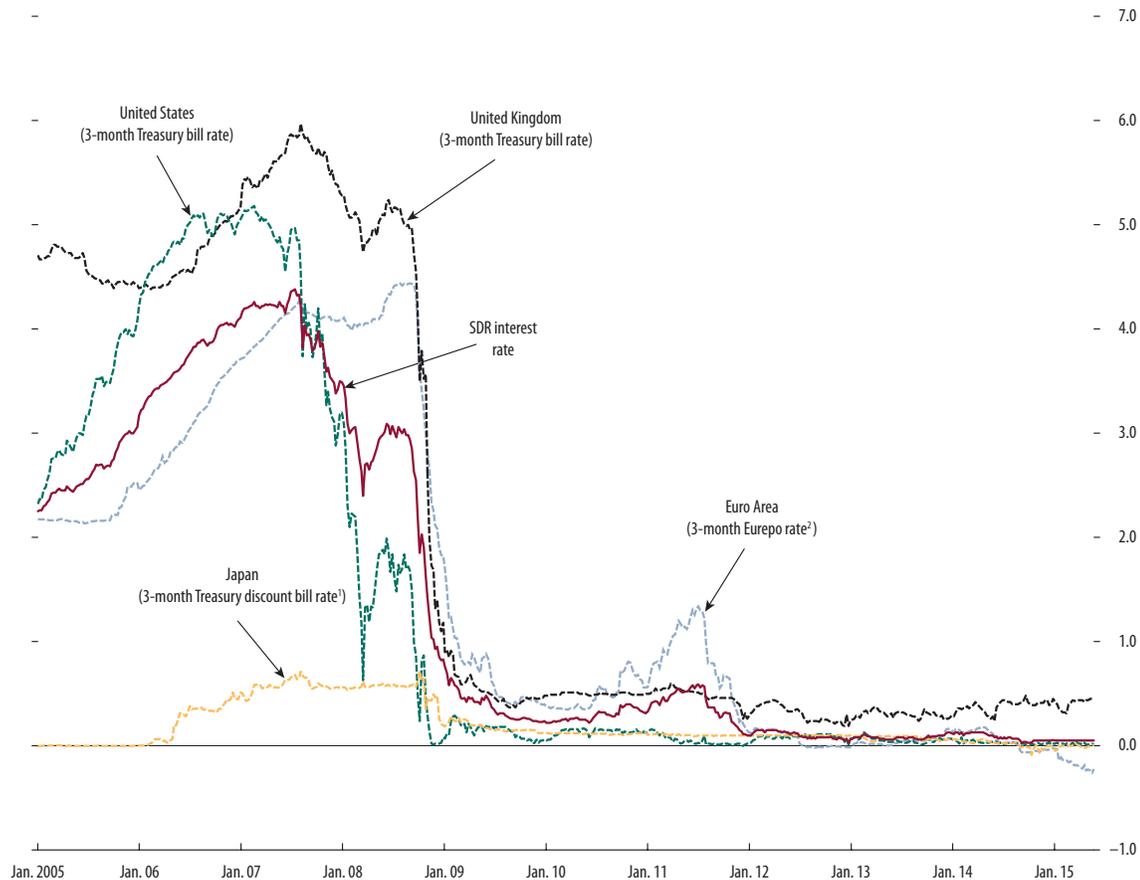
The SDR interest rate provides the basis for calculating the interest charged to members on nonconcessional IMF loans from the IMF's general resources, the interest paid to IMF members on their remunerated creditor positions in the IMF (reserve tranche positions and claims under borrowing agreements), and the interest paid to members on their SDR holdings and charged on their SDR allocation. The SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term financial debt

instruments in the money markets of the SDR basket currencies except if the weighted average falls below the floor for the SDR interest rate of 0.050 percent (5 basis points).⁶

The quinquennial reviews of the valuation method for the SDR also include a review of the financial instruments used to determine the SDR interest rate. The Executive Board has agreed on two broad criteria:

- The financial instruments in the interest rate basket should be broadly representative of the range of financial instruments that are actually available to investors in a particular currency, and the interest rate on the instruments should be responsive to changes in underlying credit conditions in the corresponding money market.
- The financial instruments in the interest rate basket should have characteristics similar to the official standing of the SDR itself—that is, they should have a credit

⁶ On October 24, 2014, Rule T-1 that determines the calculation of the weighted average of the SDR interest rate was changed so that if the combined market rate falls below 0.050 percent, the rate shall be established at 0.050 percent. The Executive Board adopted this change in response to very low and negative SDR component interest rates. There is no authority under the Articles of Agreement to establish zero or negative rates.

Figure 4.2 Interest Rates on the SDR and Its Financial Instrument Components, 2005–15*(Percent a year)*

Source: Finance Department, International Monetary Fund.

¹ Prior to February 2009, this was designated as the 13-week Government Financing Bill.² As of January 1, 2015, the euro component rate has been the 3-month rate of euro area central government bonds with a rating of AA and above, published by the European Central Bank.

risk profile of the highest quality and be fully comparable to that of government paper available in the market or, in the absence of appropriate official paper, comparable to the credit risk on prime financial instruments. Instruments should also reflect the actual reserve asset choice of reserve managers—for example, regarding the form of the financial instrument, its liquidity, and its maturity.

The current benchmark rates for the four currencies are as follows⁷:

- U.S. dollar: 3-month U.S. Treasury bills
- Euro: 3-month rate for euro area central government bonds with a rating of AA and above published by the European Central Bank
- Japanese yen: 3-month Japanese Treasury discount bill
- Pound sterling: 3-month U.K. Treasury bill.

The yields on these instruments are used to calculate the SDR interest rate for each week (Box 4.5). Developments in the SDR interest rate since the 2000 review are shown in Figure 4.2.

4.4 ALLOCATIONS AND CANCELLATIONS OF SDRS

Under the Articles of Agreement (Articles XV(1) and XVIII), the IMF Executive Board may create unconditional liquidity through general allocations of SDRs to member countries that participate in the SDR Department in proportion to their IMF quotas. Such an allocation provides each member with

⁷ In 2000, the representative interest rate for the Japanese yen was changed from the 3-month rate on certificates of deposit to the yield on Japan's government 13-week financing bills. In keeping with the shift to a currency-based system for SDR valuation, the representative rate for the euro, the 3-month Euribor, replaced the national financial instruments of France and Germany. This was subsequently revised to the 3-month Eurepo. The Eurepo was discontinued on December 31, 2014, and was replaced by the 3-month rate for euro area central government bonds with a rating of AA and above, published by the European Central Bank.

an unconditional international reserve asset. If a member's SDR holdings rise above its net cumulative allocation, it earns interest on the excess. Conversely, if it holds fewer SDRs than its net cumulative allocation, it pays interest on the shortfall. The Articles of Agreement also allow for cancellation of SDRs, although to date there have been no cancellations. The IMF cannot allocate SDRs to itself or to prescribed holders.

In its decisions on general allocations of SDRs, as prescribed under the Articles of Agreement, the IMF has sought to meet the long-term global need to supplement existing reserve assets while promoting the attainment of the IMF's purposes: avoiding economic stagnation and deflation and preventing excess demand and inflation. Decisions on general allocations of SDRs are made for successive basic periods of up to 5 years. The decision for a general allocation of SDRs follows a set procedure. First, if the Managing Director has determined that a proposal for an SDR allocation has widespread support among SDR members, he or she is required to make such a proposal at least 6 months before the commencement of a basic period, or within 6 months of a request for a proposal from the Executive Board or Board of Governors, or at such other times as specified in Article XVIII. Second, the Executive Board must agree with the proposal. Third, the Board of Governors has the power, by a majority of 85 percent of its total voting power, to approve or modify the proposal.⁸

SDR allocations are a form of unconditional liquidity. Participants in the SDR Department do not have to meet any specific requirements to receive their proportional share in a general allocation. And, following such an allocation, they have the right to use the newly allocated SDRs when they have a balance of payments need or in order to adjust the composition of their reserves to obtain currency from other participants in transactions by agreement or if necessary through the designation plan. There is no obligation under current Executive Board decisions to maintain any particular level of SDR holdings.⁹ The SDR system therefore provides members with access on demand to freely usable currencies on an unconditional basis with no fixed maturity.

General SDR allocations have been made only three times. The first allocation was distributed in 1970–72 and

totalled SDR 9.3 billion; the second was distributed in 1979–81 and totalled SDR 12.1 billion. After these two allocations, cumulative SDR allocations totalled SDR 21.4 billion. The third general SDR allocation was made on August 28, 2009, to meet a long-term global need for reserves while helping mitigate the effects of the global financial crisis. It was a sizable allocation, totaling SDR 161.2 billion, to help liquidity-constrained countries address the fallout from the global crisis by limiting the need for adjustment through contractionary policies and by allowing greater scope for countercyclical policies in the face of deflation risks. The use of additional SDR reserves, rather than borrowed reserves, was considered to be more conducive to systemic stability over the longer term.

In addition, the Fourth Amendment to the Articles of Agreement became effective August 10, 2009, and provided for a special one-time allocation of SDR 21.5 billion which took place on September 9, 2009.¹⁰ The purpose of the special allocation was to enable all members of the IMF SDR Department to participate in the SDR system on an equitable basis and to correct for the fact that countries that joined the IMF after 1981—more than one-fifth of the current IMF membership and notably many of the economies in transition—had never received an SDR allocation at the time. The 2009 general and special SDR allocations together raised total cumulative SDR allocations to about SDR 204.1 billion (Figure 4.3).

The 2009 SDR allocations were relatively large and resulted in a more than tenfold increase in SDR holdings worldwide.¹¹ The 2009 allocations contributed to a significant increase in reserve coverage for all member countries. Given their larger quota sizes, advanced economies received most of the SDR allocation, 62 percent of the total. In contrast, when measured against economic size, the allocation was proportionally largest for low-income countries, followed by emerging market economies.

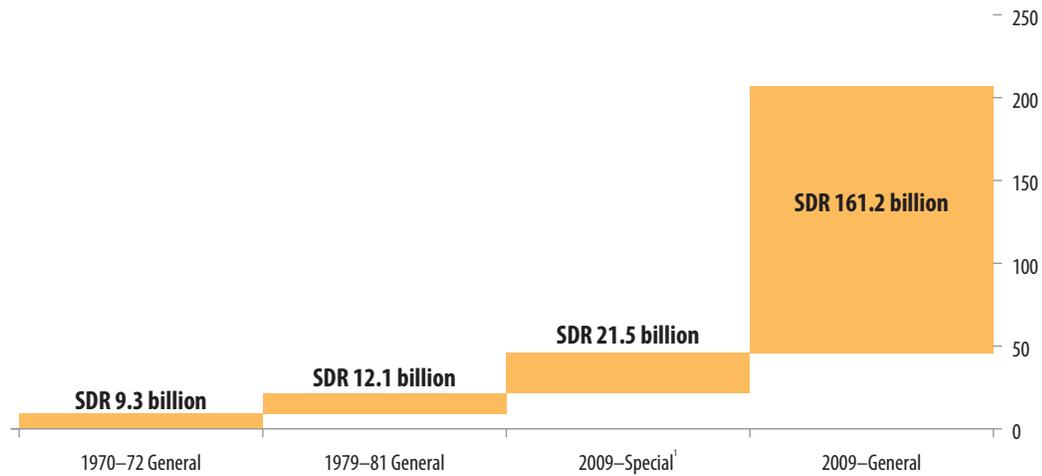
The allocations had an important impact on the currency composition of countries' reserves and on their reserve management decisions. After the 2009 allocations, almost 30 percent of low-income countries and emerging market economies opted either to sell some of the SDRs against currencies of other members or to use them for repayment to the IMF between September and December 2009.

⁸ The procedures for a cancellation of SDRs are broadly the same as for an allocation, except that cancellations are based on cumulative allocations rather than on quotas. This ensures a uniform proportionate reduction for all members regardless of the number of allocations in which they have participated.

⁹ Before 1981, SDR Department participants were subject to a "reconstitution requirement" under which each participant was required to maintain its average daily holdings of SDRs at no less than a specified percentage of its net cumulative allocation over a 5-year period ending each quarter. This initial specified percentage was 30, but was reduced to 15 percent 2 years before the requirement was abrogated.

¹⁰ In accordance with the Fourth Amendment, SDRs allocated as part of a special allocation to participants with overdue obligations to the IMF are placed in an escrow account within the SDR Department and will be released to the participants on settlement of all overdue obligations.

¹¹ This refers to the general SDR allocation of August 2009 and the special allocation of September 2009, which together amounted to SDR 182.6 billion.

Figure 4.3 SDR Allocations: General and Special

Source: Finance Department, International Monetary Fund.

¹The purpose of the special allocation was to enable all members of the IMF SDR Department to participate in the SDR system on an equitable basis and to correct for the fact that countries that joined the IMF after 1981 had never received an SDR allocation at the time.

4.5 OPERATION OF THE SDR DEPARTMENT

4.5.1 Participants and Prescribed Holders

SDRs are allocated only to IMF members that elect to be participants in the SDR Department and agree to observe the obligations of participants. Since April 7, 1980, all members of the IMF have been participants in the SDR Department.

SDRs may be used by IMF members and the IMF itself in accordance with the Articles of Agreement and decisions adopted by the IMF Executive Board and the Board of Governors. SDRs cannot be held by private entities or individuals. Other holders of SDRs include the IMF, through the General Resources Account (GRA) within the General Department, and international organizations and monetary institutions prescribed by the IMF.

The IMF has the authority to prescribe, as other holders of SDRs, nonmembers, member countries that are not SDR Department participants, institutions that perform the functions of a central bank for more than one member, and other official entities. As of April 30, 2015, there were 15 organizations approved as “prescribed holders.”¹² These entities may acquire and use SDRs in transactions by agreement and in operations with participants and other holders. They may not, however, receive allocations of SDRs or use SDRs in “transactions with designation.” There is no general provision for prescribed holders to initiate transactions in SDRs with the General Resources Account.

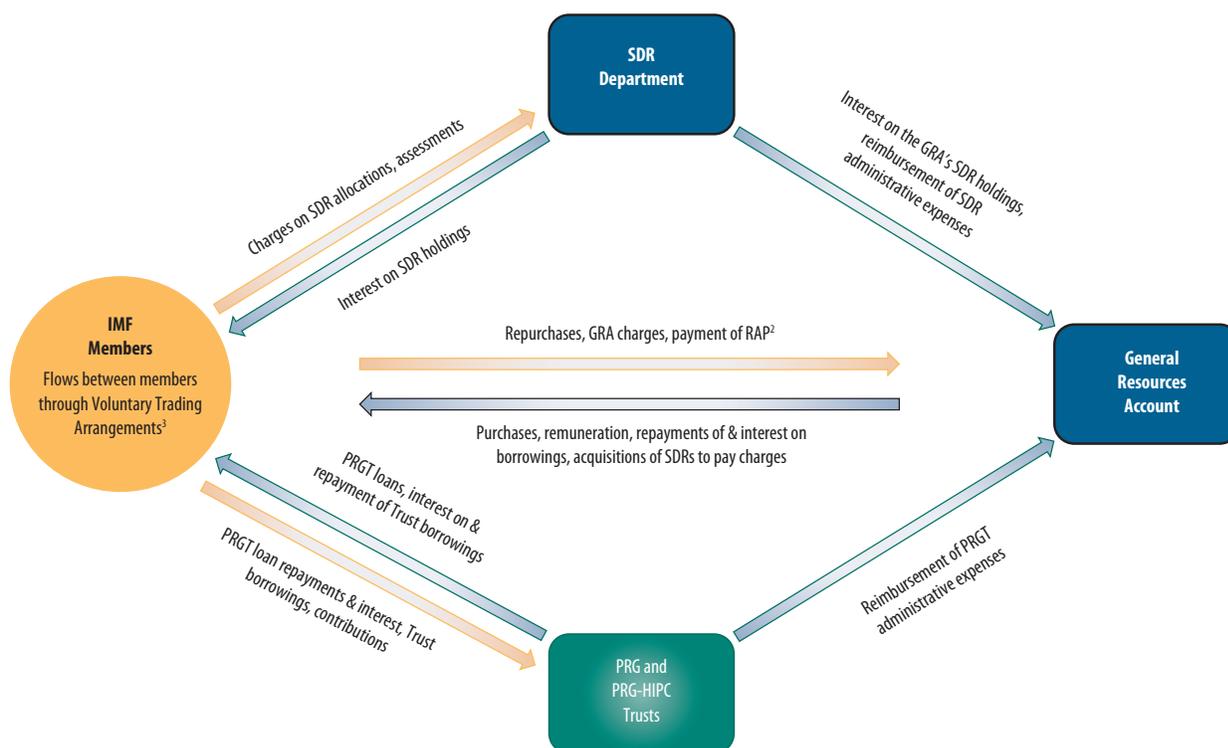
4.5.2 Flows of SDRs and the Central Role of the IMF

The Articles of Agreement authorize the exchange of SDRs for currency among participants, and the Executive Board has the power to authorize other operations. In exercising this power, the IMF has adopted a number of decisions that authorize a broad range of operations among SDR Department participants and prescribed holders, including loans, pledges, donations, swaps, and forward operations.¹³ The Articles of Agreement allow the exchange of SDRs for currency among participants. When used in such operations, the SDR is a potential claim on the freely usable currencies of IMF members; however, it is not a claim on the IMF. It serves as the unit of account for the IMF and a number of international organizations.

¹² The 15 prescribed holders are four central banks (European Central Bank, Bank of Central African States, Central Bank of West African States, and Eastern Caribbean Central Bank); three intergovernmental monetary institutions (Bank for International Settlements, Latin American Reserve Fund, and Arab Monetary Fund); and eight development institutions (African Development Bank; African Development Fund; Asian Development Bank; International Bank for Reconstruction and Development, and International Development Association—respectively, the “hard” and “soft” loan entities of the World Bank Group; Islamic Development Bank; Nordic Investment Bank; and International Fund for Agricultural Development).

¹³ In practice, the bulk of SDR transactions consist of spot sales and purchases of SDRs against freely usable currencies.

Figure 4.4 Circulation of SDRs¹



Source: Finance Department, International Monetary Fund.

Note: GRA = General Resources Account; HIPC = Heavily Indebted Poor Countries; PRG = Poverty Reduction and Growth; SDR = Special Drawing Right.

¹ Excluding flows to and among prescribed holders.

² Reserve Asset Portion (RAP) or 25 percent of members' quota increase, which must be paid in reserve assets—that is, in SDRs or currencies specified by the IMF, or in any combination of SDRs and such currencies.

³ Since 1987, voluntary transactions by agreement have ensured the liquidity of SDRs. In the event that there are not enough voluntary buyers of SDRs, the Articles of Agreement provide for a designation mechanism to guarantee the liquidity of SDRs.

The SDR Department is self-financed, and its basic structure is relatively simple: it charges interest on members' SDR allocations at the same rate as the interest paid on their SDR holdings. It is a closed system, with the interest payments and receipts in the SDR Department canceling out overall. The IMF determines the SDR interest rate weekly based on a weighted average of representative interest rates on 3-month debt in the money markets of the SDR basket currencies, as discussed previously (Box 4.5).

The SDR is used extensively in transactions and operations between IMF members and the General Resources Account, which plays a significant role in the circulation of SDRs.

Inflows of SDRs in the General Resources Account include (1) payments of charges on GRA credit, (2) interest earned on the GRA's own SDR holdings and assessments for the cost of conducting business with the SDR Department, (3) repurchases by members in SDRs, and (4) payment of the reserve asset portion (25 percent) of quota increases (Box 4.6).

Outflows of SDRs from the General Resources Account include (1) purchases under arrangements, (2) remuneration

payments on members' reserve tranche positions, (3) repayments of GRA borrowing (bilateral loan claims or claims under the New Arrangements to Borrow), (4) interest on IMF borrowing, and (5) sale of SDRs to members to pay charges and assessments (Figure 4.4).

The IMF generally offers SDRs as an alternative to currencies in lending operations and transactions with members. In practice, the majority of purchases, repurchases, and loan drawings and repayments tend to be made in currencies, whereas charges, remuneration, interest on loans, and to some extent the reserve asset portion of quota payments tend to be paid in SDRs. Members are not obliged to accept SDRs in any transaction except replenishment, which is a special procedure that the IMF could use to rebuild its holdings of the currency of a participant in the SDR Department. Members who obtain SDRs from the Fund may request to convert these to a freely usable currency in transactions by agreement with other members.

The main flows of SDRs into and out of the General Resources Account are depicted in Figure 4.5, which shows the relative proportions of these flows since 2005 and

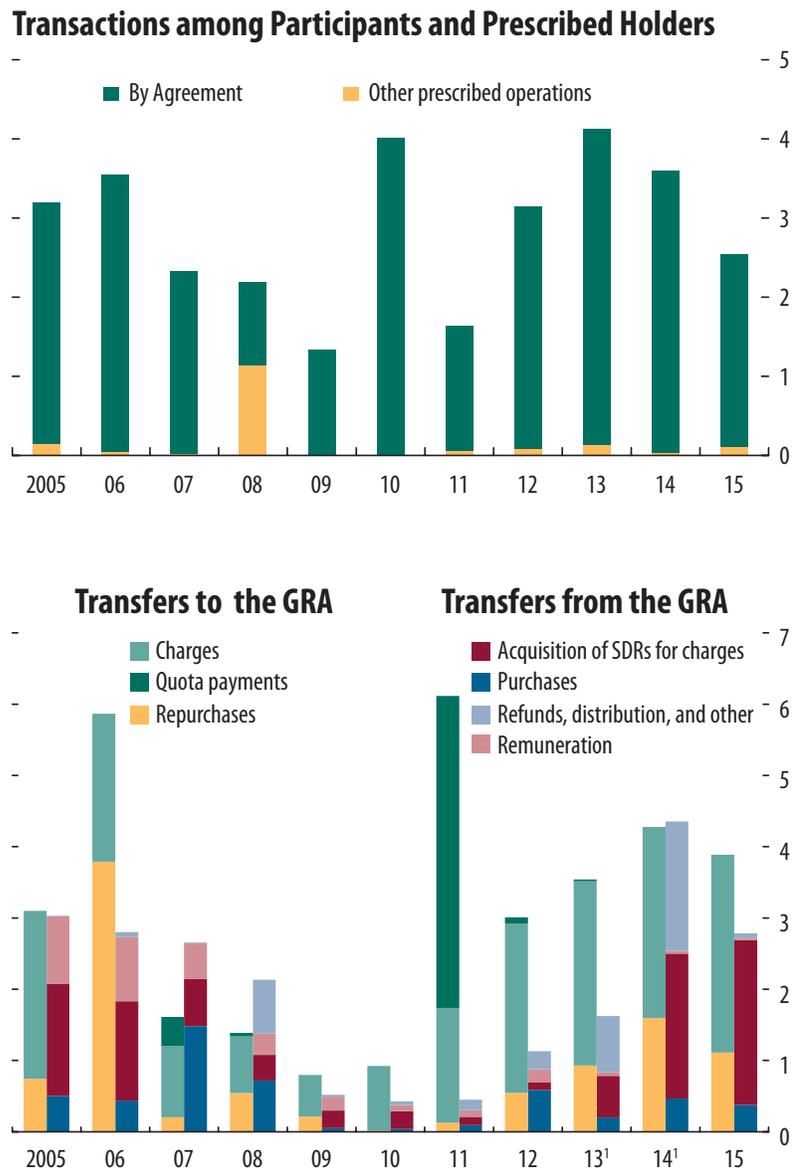
compares them with the level of transactions among participants and prescribed holders.

The IMF recycles the stock of SDRs held in the General Resources Account in two main ways. First, SDRs are channeled directly to debtor members who are making purchases from the IMF. Second, SDRs are channeled indirectly from the

holders of SDRs to other members who need to acquire SDRs to make payments to the IMF (charges and repurchases). The IMF may also assist members in buying or selling SDRs for reserve-management purposes. Such transactions are carried out through the voluntary SDR trading arrangements (see Section 4.5.4).

Figure 4.5 Selected SDR Transactions, 2005–15

(Billions of SDRs, as of April 30 each year)



Source: Finance Department, International Monetary Fund.

Note: GRA = General Resources Account.

¹Including distributions of the General Reserve attributable to windfall gold sales profits in October 2012 and October 2013.

4.5.3 IMF SDR Holdings

The General Resources Account provides one of the mechanisms for the circulation of SDRs, both to debtor members in connection with their purchases from the IMF and to creditor members through the payment of interest on IMF borrowing and payment on remunerated reserve tranche positions in the GRA. The GRA's holdings of SDRs tend to rise in the wake of reserve asset payments of quota increases (Figure 4.6). The GRA rebalances its SDR holdings mainly through transfers of SDRs for purchases under its quarterly Financial Transactions Plan (see Chapter 2).

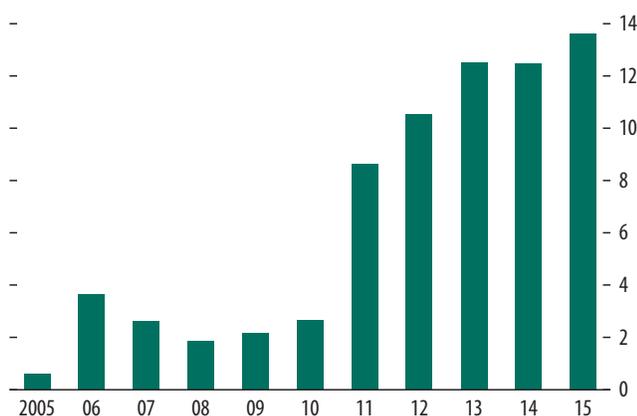
4.5.4 Voluntary SDR Trading Arrangements

IMF members regularly need to buy SDRs to discharge their obligations to the IMF or to replenish their SDR holdings. They may also wish to sell SDRs in order to adjust the composition of their reserves. A participant or prescribed holder may use SDRs freely, without representing a balance of payments need, to obtain an equivalent amount of currency in a transaction by agreement.

Participants may conduct such transactions bilaterally with any participant or prescribed holder. However, in practice, such transactions are usually made through a market in SDRs coordinated by the IMF through voluntary trading arrangements to buy and sell SDRs with a group of participants and one prescribed holder (so-called market makers). The role of the IMF in transactions by agreement is to act as an intermediary, matching participants in this managed market in a manner that meets, to the greatest extent possible, the requirements and preferences of buyers and sellers of SDRs. The voluntary trading arrangements allow the IMF to facilitate purchases and sales of SDRs on behalf of any participant or prescribed holder in the SDR Department

Figure 4.6 IMF SDR Holdings, 2005–15

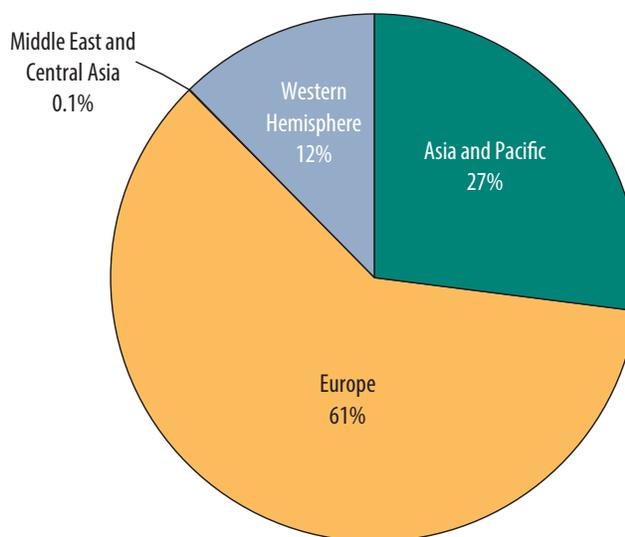
(Billions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.

Figure 4.7 SDR Sales: Participation by Market-Makers by Region September 1, 2009–April 30, 2015

(Millions of SDRs)



Source: Finance Department, International Monetary Fund.

against freely usable currencies, subject to the constraint that all transactions take place at the official SDR exchange rate for the currency involved.

Since the 2009 SDR allocations, the voluntary SDR market has been substantially expanded and has absorbed all sales requests. The number of participants in two-way arrangements has expanded and now stands at 32, including 19 new arrangements since the 2009 SDR allocations (Box 4.7) and includes both advanced economies and a number of large emerging market economies.

The IMF staff allocates requests for SDR sales and acquisitions using informal modalities developed to produce equitable burden sharing over time. Since the 2009 SDR allocations, sales of SDRs have been allocated among most market makers spanning four major geographical regions (Figure 4.7). SDR holdings of some market makers are also affected by operations unrelated to their participation in voluntary trading arrangements, including the receipt of remuneration, SDR interest payments, the use of SDRs for Poverty Reduction and Growth Trust (PRGT) lending and subsidy contributions, and the use of SDRs to pay quota increases.¹⁴ In general, market makers with relatively low SDR holdings compared with cumulative allocations have

¹⁴ Other operations that have an impact on SDR holdings of some members with voluntary trading agreements include the settlement of charges, assessments, and commitment fees.

been used more extensively in SDR sales transactions. (Conversely, market makers with higher SDR holdings compared with allocations have been used more in SDR acquisitions.) Consistent with these informal burden-sharing modalities, the IMF staff continues to seek the utilization of all arrangements over time.

Each two-way arrangement specifies a range of SDR holdings within which transactions may be initiated, the specific currencies to be exchanged, the minimum and maximum amounts of individual transactions, and the notice period required before initiating a particular transaction (Box 4.8).

The ranges of these voluntary trading arrangements have been broadened considerably to ensure increased trading capacity. New trading ranges are now defined as a percent of the net cumulative allocations compared with the nominal amounts used before 2009. Therefore, in the event of future allocations, the absorption capacity will be able to expand correspondingly. As of April 30, 2015, the SDR purchasing capacity of voluntary arrangements was SDR 74 billion and the selling capacity was SDR 33 billion.

Following the general allocation in August 2009 and a special allocation in September 2009, there was an initial surge in SDR sales. During the first 4 months following the allocations, 16 countries sold SDR 2.9 billion. Since then, voluntary SDR trading arrangements have continued to facilitate sales. Most SDR sales have been conducted through the standing voluntary SDR trading arrangements. Many countries have engaged in multiple SDR sales transactions and a few—mainly low-income countries—have sold more than 80 percent of their 2009 SDR allocations.

Certain operations of the Poverty Reduction and Growth Trust (PRGT) are conducted in SDRs. The PRGT receives part of its loan resources and contributions from members in SDRs. At the request of the borrowing members, the PRGT may also disburse loans in SDRs. In addition, most borrowing members choose to make interest and principal payments on outstanding loans in SDRs. The Bank for

International Settlements (BIS) conducts sales on behalf of the PRGT to facilitate the disbursement of loans in currencies funded with resources in SDRs. Eight of fourteen loan and note purchase agreements that were put in place after the 2009 reforms of Facilities for Low-Income Countries provide for disbursements in SDRs and amount to SDR 7.5 billion. The IMF has standing voluntary arrangements with all the member countries (or their financial institutions) that lend SDRs to the PRGT, and most lenders in SDRs have subsequently replenished their SDRs by participating as a market maker in SDR sales during the same period. Sales have also been conducted to convert SDR contributions from members to the PRGT Subsidy Accounts following the two distributions of the general reserve attributable to windfall gold sales profits in October 2012 and October 2013 (see Chapter 3).

Since September 1987, voluntary transactions by agreement have ensured the liquidity of SDRs. However, in the event that there are not enough voluntary buyers of SDRs, the Articles of Agreement provide for a designation mechanism to guarantee the liquidity of the SDR (Box 4.9). Designation plans have been adopted on a precautionary basis during the period the voluntary market supported SDR liquidity, but they can be activated if needed to ensure that members with a balance of payments need can exchange SDRs for freely usable currency.

4.6 FINANCIAL STATEMENTS OF THE SDR DEPARTMENT

The strict separation of the General Department and the SDR Department implies that their financial accounts are maintained separately. The basic structure of the SDR Department's balance sheet is quite simple (Table 4.2). Because interest payments and receipts cancel out for the SDR Department as a whole, it is convenient to keep the accounts on a net basis.

Table 4.2 Balance Sheet of the SDR Department
(Millions of SDRs; as of April 30, 2015)

Assets		Liabilities	
Net Charges Receivable	2	Net Interest Payable	2
Participants with Holdings below Allocations		Participants with Holdings above Allocations	
Allocations	128,935	SDR Holdings	78,541
Less: SDR Holdings	110,797	Less: Allocations	75,156
Allocations in Excess of Holdings	18,138	Holdings in Excess of Allocations	3,385
		Holdings by General Resources Account	13,617
		Holdings by Prescribed Holders	1,136
Total Assets	18,140	Total Liabilities	18,140

Source: Finance Department, International Monetary Fund.

The asset side of the balance sheet shows the position of debtors to the SDR Department—that is, members that have exchanged some of their SDRs for freely usable currency and whose holdings of SDRs therefore fall short of their net cumulative allocations. The accrued interest receivable from these debtor members on the asset side is the mirror image of the accrued interest payable to creditors on the liability side.

Participants with holdings above allocations assume a creditor position in the SDR Department, and their SDR holdings in excess of their net cumulative allocations are therefore liabilities of the SDR Department.¹⁵ Interest payable to holders of SDRs is accrued and paid on a quarterly basis.¹⁶

The income statement of the SDR Department is equally straightforward (Table 4.3). The SDR Department's income consists of net charges from debtors and assessments paid by members for the administrative expenses incurred in

Table 4.3 Income Statement of the SDR Department
(Millions of SDRs; as of April 30, 2015)

Revenue	
Net Charges from Participants with Holdings below Allocations	11
Assessment on SDR Allocations	3
	14
Expenses	
Interest on SDR Holdings	
Net Interest to Participants with Holdings above Allocations	2
General Resources Account	8
Prescribed Holders	1
	11
Administrative Expenses	3
	14
Other Comprehensive Income	—
Total Comprehensive Income	—

Source: Finance Department, International Monetary Fund.

¹⁵ As are any holdings of prescribed holders and the IMF (General Resources Account), which do not receive SDR allocations.

¹⁶ The balance sheet shows the last day of the financial year and therefore shows the accrued interest and charges from February 1 to April 30. These amounts were settled on May 1, with the figure reverting to zero to begin accruals for the following quarter.

operating the SDR Department. The SDR Department's expenses consist of net interest payments to the creditors in the system and the reimbursement to the GRA for the administration of the SDR Department. Because revenue and expenditure are always equal, net income of the SDR Department is always zero.

Box 4.1 Creation of the SDR

Gold was the central reserve asset of the international monetary system created at the Bretton Woods conference in 1944. Under the Bretton Woods system, the value of each currency was expressed in terms of gold (its par value), and member states were obliged to keep their currency's exchange rate within 1 percent of parity. In practice, most countries fulfilled this obligation by observing the par value against the U.S. dollar and by buying and selling their currencies for U.S. dollars at that time, while the United States undertook to buy and sell gold freely for U.S. dollars at \$35 a fine ounce, the par value of the U.S. dollar. This was also the "official" price of gold, at which all IMF transactions in gold were conducted.

In the immediate postwar period, the United States held about 60 percent of the world's official gold reserves. There was widespread concern over a dollar shortage as war-devastated countries sought to buy goods from the United States. These needs were met through the large capital outflows from the United States, which exceeded its current account surplus. This net transfer of gold and dollars to the rest of the world helped other countries rebuild their reserves. By the end of the 1950s, European countries had largely recovered and many had made their currencies convertible, and the dollar shortage was replaced by what some observers called a "dollar glut." In the 1960s an increasing number of countries sought to exchange dollars for gold with the United States, reflecting their fear that dollars were no longer "as good as gold."

The Bretton Woods par value system had an inherent flaw, the so-called Triffin dilemma.¹ As long as the U.S. dollar was the primary foreign exchange reserve asset, a growing level of world trade and finance required a growing supply of dollars. An ever-increasing stock of dollars, however, required a persistent deficit in the U.S. balance of payments, which itself was a threat to the value of the dollar. Official holders of dollars became concerned that the value of their reserve assets might decrease relative to gold.

To resolve this some countries favored the creation of a new reserve unit. The United States, concerned that such a unit would compete with the dollar, preferred to build on the existing automatic drawing rights (the gold tranche) in the IMF. In the mid-1960s the ministers of the Group of Ten (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States) debated a plan to create "reserve drawing rights" in the IMF. Some European countries feared this mechanism could be interpreted as a replacement for gold and suggested instead the creation of "special" drawing rights. The name stuck. A blueprint for the creation of the new international reserve asset, the SDR, in amounts necessary to supplement supplies of gold and foreign exchange reserves was agreed at the Rio de Janeiro meeting of the IMF Board of Governors in September 1967, and SDRs were first allocated by the IMF in 1970.

¹Robert Triffin, *Gold and the Dollar Crisis: The Future of Convertibility* (New Haven: Yale University Press, rev. ed., 1961).

Box 4.2 Broad Principles Guiding SDR Valuation Decisions

A number of broad principles have guided decisions by the Executive Board pertaining to the valuation of the SDR since the 1970s. The overall aim has been to enhance the attractiveness of the SDR as a reserve asset.

- The SDR's value should be stable in terms of the major currencies.
- The currencies included in the basket should be representative of those used in international transactions.
- The relative weights of currencies included in the basket should reflect their relative importance in the world's trading and financial system.
- The composition of the SDR currency basket should be stable and change only as a result of significant developments from one review to the next.
- There should be continuity in the method of SDR valuation such that revisions in the method of valuation occur only as a result of major changes in the roles of currencies in the world economy.

Box 4.3 Criteria for the Composition of the SDR Basket

The current SDR valuation method was adopted by the IMF's Executive Board in 2000. Under the 2000 decision, the SDR valuation method has the following key elements: (1) currency selection criteria, (2) currency weighting, and (3) periodicity of SDR valuation. In this 2000 decision, the IMF's Executive Board also defined the composition of the SDR valuation basket in terms of the currencies to be included rather than in terms of the country members whose currencies would comprise the basket.

Currency Selection: The SDR basket presently comprises the four currencies that are issued by IMF member countries, or by monetary unions that include IMF members, with the largest value of exports of goods and services during the 5-year period ending 12 months before the effective date of the revision (the "export criterion") and that the IMF considers freely usable currencies in accordance with Article XXX(f) (the "freely usable criterion").¹ Article XXX(f) defines a freely usable currency as a member's currency that the IMF determines (1) is in fact widely used to make payments for international transactions and (2) is widely traded in the principal exchange markets. Rule O-3 stipulates that the IMF will determine the currencies that are freely usable in accordance with Article XXX(f) and that it will consult a member before placing its currency on, or removing it from, the list of freely usable currencies.

The export criterion is assessed based on balance of payments data. This size-related criterion is meant to reflect countries' relative importance in global commerce, ensure an adequate supply of reserve assets, and limit the number of currencies in the basket.

The freely usable criterion was introduced in the SDR valuation method as a second criterion for currency selection in 2000 to recognize the importance of financial transactions for SDR valuation purposes. However, the concept of a "freely usable currency" was developed earlier in the context of the Second Amendment of the Articles in 1978 to ensure that a member purchasing another member's currency from the Fund would be able to use it, directly or indirectly, to meet its balance of payments needs. Specifically, in accordance with the definition of a "freely usable currency" adopted the Second Amendment (Article XXX(f)):

- The requirement that a currency is "in fact, widely used to make payments for international transactions" is designed to ensure that a currency may be directly used to meet a member's balance of payments need. It has been recognized in past applications that "widely used" would be best assessed by examining the degree to which trade and service payments as well as financial account transactions are undertaken in the currency. In 2011, the Executive Board endorsed the use of the currency composition of official reserve holdings, and the currency denomination of international banking liabilities and of international debt securities as indicators for assessing "widely used".
- The requirement that a currency be "widely traded in the principal exchange markets" is designed to ensure that it

may be indirectly used, i.e., that it can be exchanged in markets for another currency to meet a member's balance of payments need with reasonable assurances of no substantial adverse exchange rate effect. In past applications, "widely traded" was understood to imply that there should be "reasonable assurance" that the market for the currency in question has sufficient depth so that no appreciable change in the exchange rate would occur when a member country transacts a sizable amount of that currency. In 2011, the Executive Board endorsed the use of the volume of transactions in foreign exchange markets to be an indicator for assessing "widely traded".

In 1978, the Executive Board determined that the Deutsche mark, French franc, Japanese yen, pound sterling, and U.S. dollar were freely usable currencies. With effect on January 1, 1999, the euro was added to the list, and the Deutsche mark and French franc were removed. More recently, in the context of the 2010 SDR review, the Chinese renminbi was considered to not yet meet the criteria to be a freely usable currency.

Currency Weighting: The percent weight of each currency selected reflects the following²:

- Reserves (which are meant to capture currencies' importance in global financial flows): The value of the balances of that currency held by the monetary authorities of other members³ at the end of each year of the relevant 5-year period ending 12 months before the effective date of the revision.
- Exports (which are meant to reflect currencies' role in global trade): the value of exports of goods and services of the members or monetary unions as defined in the method for currency selection.

Review: The currencies and their weights in the valuation basket must be reviewed every 5 years in order to keep the composition of the basket stable for at least that period of time, unless the Executive Board decides otherwise.⁴

¹In the case of a monetary union, trade among members of the union is excluded from the calculation.

²For currency i , its weight ω_i is given by

$$\omega_i = \frac{X_i + R_i}{X + R}, \quad X = \sum_i X_i, \quad R = \sum_i R_i$$

in which X = exports and R = reserve holdings, in levels in SDRs.

³Or, in the case of the currency of a monetary union, by the monetary authorities of members other than those forming part of the monetary union.

⁴The 2015 review of the method of valuation of the SDR is ongoing. Since China continues to be the only non-SDR basket member that meets the export criterion, this review will focus on assessing whether the Chinese renminbi is freely usable. The review will also assess the current weighting methodology.

Box 4.4 Currency Amounts and Actual Daily Weights

Currency amounts are calculated on the last business day before the date on which the new basket becomes effective. On that day, currency amounts are derived from the weights decided by the Executive Board using the average exchange rate for each currency over the preceding 3 months. Currency amounts are adjusted proportionally to ensure that the value of the SDR is the same before and after the revision. The currency amounts

remain fixed for the subsequent 5-year period. As a result, the actual weight of each currency in the value of the SDR changes on a daily basis as a function of changes in exchange rates. Shown below as an example are the calculation of the SDR in terms of the U.S. dollar on April 30, 2015, and the corresponding weights. Current valuation can be found on the SDR Valuation page on the IMF's website.

SDR Valuation

(SDR valuation as of April 30, 2015)

Currency	Initial Weight Decided in 2011	Currency Amount under Rule O-1	Exchange Rate ¹	U.S. Dollar Equivalent	Actual Weight
U.S. Dollar	41.9	0.660	1.0000	0.66000	46.9
Euro	37.4	0.423	1.11930	0.473464	33.7
Japanese Yen	9.4	12.1	118.95	0.101723	7.2
Pound Sterling	11.3	0.111	1.54260	0.171229	12.2
				1.406416	100.0
US\$1 = SDR				0.711027	
SDR1 = US\$				1.406420	

Source: Finance Department, International Monetary Fund.

¹ U.S. dollar for each currency unit except for the yen, which is expressed as currency units per U.S. dollar.

Box 4.5 SDR Interest Rate Calculation

The SDR interest rate is calculated weekly by the IMF as the sum of the yields on the respective financial instruments in the SDR valuation basket in terms of SDRs, using the currency amounts in the valuation basket as weights except if the weighted average falls below the floor of the SDR interest rate of 0.050 percent (5 basis points). If this happens, the rate shall be established at 0.050 percent. The effective weights of the financial instruments representing each component currency therefore reflect the interest rates in each currency as well as the exchange rates and currency amounts in the basket.

As for the valuation of the SDR, the currency amounts remain fixed for the 5-year period following a quinquennial review and revision of the valuation basket. As a result, the actual weight of each financial instrument in the SDR interest rate changes on a weekly basis as a result of changes in both interest rates and exchange rates, as shown in the example below. Note that these weights can differ from those in the valuation basket on the same date (Box 4.4) because the weights in the interest rate basket reflect changes in each currency's interest rates and exchange rates.

SDR Rates*(as of April 30, 2015)*

Currency	Currency Amount under Rule O-1 (A)	Exchange Rate against the SDR ¹ (B)	Interest Rate ² (C)	Product (A) × (B) × (C)
U.S. Dollar	0.660	0.72125	0.0300	0.0143
Euro	0.423	0.780681	-0.188384	-0.0622
Japanese Yen	12.1	0.00603556	-0.0200	-0.0015
Pound Sterling	0.111	1.09017	0.4200	0.0508
			Total	0.0014
			Floor of SDR Interest rate	0.050
			SDR Interest Rate³	0.050

Source: Finance Department, International Monetary Fund.

¹ SDR per currency rates are based on the representative exchange rates used in the SDR valuation basket.

² Interest rate on the short-term (3-month) financial instrument of each component currency in the SDR basket expressed as an equivalent annual bond yield.

³ IMF Rule T-1(b) specifies that the SDR interest rate for each weekly period commencing each Monday must be equal to the combined market interest rate as determined by the IMF. Under IMF Rule T-1(c), the combined market interest rate is the sum—as of the Friday preceding each weekly period, rounded to the three nearest decimal places—of the product of each yield or rate listed above multiplied by the value in terms of SDRs of the amount of the corresponding currency specified in Rule O-1, which states that the value of the SDR shall be the sum of the values of the amounts of the currencies listed above except if the weighted average falls below the floor of the SDR interest rate of 0.050 percent (5 basis points). In this case, the rate shall be established at 0.050 percent. If a yield or rate is not available for a particular Friday, the calculation must be made on the basis of the latest available yield or rate.

Box 4.6 Borrowing SDRs for Payment of the Reserve Asset Portion of a Quota Increase

Members are required to pay 25 percent of their quota (including any quota increases) in SDRs or currencies specified by the IMF, or in a combination of SDRs and currencies. The balance of any such increases are payable in the countries' own currencies.

If the gross reserves and SDR holdings of members are low, the IMF, if requested, may make arrangements to assist these members in paying the reserve asset portion of their quota increases. This is done by means of an intra-day SDR bridge loan free of any interest, fee, or commission. The SDR bridge loan mechanism functions as follows:

- The member borrows SDRs from a member willing to lend SDRs.
- The member uses the borrowed SDRs to pay the reserve asset portion of its quota subscription or quota increase.
- The member makes a reserve tranche purchase in the same amount (that is, it pays in domestic currency equal to 25 percent of the increase in its own quota) and receives SDRs.
- The member uses the SDRs received from the reserve tranche purchase to repay the SDR loan to the lending member on the same day.

Box 4.7 Voluntary Trading Arrangements of the Special Drawing Rights

Asia and Pacific: Australia, China, Japan, Korea, and New Zealand

Europe: Austria, Belgium, Cyprus, Denmark, European Central Bank, Finland, France, Germany, Greece, Ireland, Israel, Italy, Malta, Netherlands, Norway, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and United Kingdom

Middle East and Central Asia: Saudi Arabia

Western Hemisphere: Canada, Chile, Mexico, and United States

Voluntary SDR Trading Arrangements by Region
(as of April 30, 2015)

Source: Finance Department, International Monetary Fund.

Box 4.8 Timeline to Buy or Sell SDRs under the Voluntary Trading Arrangements¹

- T – approximately 10 business days: Member notifies the IMF with a request to buy or sell SDRs.
- T – approximately 5–10 business days: IMF arranges trade under a voluntary arrangement.
- T – 5 business days: IMF sends advance notice to SDR seller, including amount and value date.
- T – 2 business days: IMF instructs SDR buyer to pay freely usable currency to seller.
- T – 2 business days: IMF advises SDR seller of expected payment of freely usable currency from buyer.
- T: Value Date for an SDR trade (sale or acquisition).
- T or T+1 business day: SDR seller confirms receipt of currency to IMF.
- T or T+1 business day: IMF confirms debit to SDR seller.
- T or T+1 business day: IMF confirms credit to SDR buyer.

¹These settlement modalities apply to the majority of the voluntary SDR trading arrangements. Payment instructions are always sent 2 business days before the SDR trade (T – 2).

Box 4.9. Designation Mechanism

Article XIX of the Articles of Agreement provides for a designation mechanism under which participants in the SDR Department whose balance of payments and reserve positions are deemed sufficiently strong must, when designated by the IMF, provide freely usable currencies in exchange for SDRs up to specified amounts. The designation mechanism ensures that, in case of a balance of payments need, participants can use SDRs to obtain freely usable currencies on short notice.

Each designation plan identifies participants subject to designation and sets maximum limits on the amounts of SDRs they can be designated to receive during the next period. In practice, the list of SDR Department participants subject to designation is the same as the list of members considered sufficiently strong for inclusion in the quarterly Financial Transactions Plan (see Chapter 2).

The designation amounts for individual countries are designed to promote a balanced distribution of the excess SDR holdings over time. Specifically, each participant's designation is calculated so that, if all participants were to accept the designated amount, they would all achieve a low, relatively similar "excess holdings ratio." The excess holdings ratio is calculated as the difference between the member's actual SDR holdings and its net cumulative allocation as a percent of its quota. Effective October 1, 2015, the Executive Board will decide the designation plan on an annual basis.

A participant's obligation to provide currency in exchange for SDRs under a designation plan is subject to a ceiling of SDR holdings of not more than 300 percent of its net cumulative allocation (acceptance limit), unless the participant and the IMF agree to a higher limit.

ADDITIONAL READING

- Criteria for Broadening the SDR Currency Basket*, IMF Policy Paper: www.imf.org/external/np/pp/eng/2011/092311.pdf
- Evolution of the SDR: Paper Gold or Paper Tiger? www.imf.org/external/pubs/ft/history/2001/ch18.pdf
- Financial Statements of the International Monetary Fund: <http://www.imf.org/external/pubs/ft/quarter/>
- General and Special SDR Allocations: <http://www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm>
- General and Special SDR Allocations, September 2009: www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm
- IMF Articles of Agreement—*Article XV(1) Authority to Allocate Special Drawing Rights*: www.imf.org/external/pubs/ft/aa/#a15s1
- IMF Articles of Agreement—*Article XVI General Department and Special Drawing Rights Department*: www.imf.org/external/pubs/ft/aa/#art16
- IMF Articles of Agreement—*Article XVIII Allocation and Cancellation of Special Drawing Rights*: www.imf.org/external/pubs/ft/aa/index.htm#art18
- IMF Articles of Agreement—*Article XIX Designation of Participants to Provide Currency*: www.imf.org/external/pubs/ft/aa/#a19s5
- IMF Determines New Currency Weights for SDR Valuation Basket, Press Release No. 10/434, November 15, 2010: www.imf.org/external/np/sec/pr/2010/pr10434.htm
- IMF Executive Board Completes the 2010 Review of SDR Valuation, Public Information Notice No. 10/149, November 17, 2010: www.imf.org/external/np/sec/pn/2010/pn10149.htm
- IMF Executive Board Modifies Rule for Setting SDR Interest Rate, Press Release No. 14/484, October 24, 2014: <http://www.imf.org/external/np/sec/pr/2014/pr14484.htm>
- IMF Executive Board Modifies SDR Interest Rate Basket, Press Release, December 23, 2014: <http://www.imf.org/external/np/sec/pr/2014/pr14601.htm>
- Review of the Method of Valuation of the SDR*, IMF Policy Paper: www.imf.org/external/np/pp/eng/2005/102805.pdf
- Review of the Method of Valuation of the SDR*, IMF Policy Paper: www.imf.org/external/np/pp/eng/2010/102610.pdf
- Rule O-1, *Valuation of the SDR*: www.imf.org/external/pubs/ft/bl/rr15.htm
- SDR Allocation that Was Proposed under the Fourth Amendment: www.imf.org/external/np/exr/faq/sdrfaqs.htm#q5
- SDR Interest Rate Calculation: www.imf.org/external/np/fin/data/sdr_ir.aspx
- SDR Valuation: www.imf.org/external/np/fin/data/rms_sdrv.aspx
- Selected Decisions and Selected Documents of the IMF*, Thirty-Sixth Issue—SDR Valuation Basket-Revised Guidelines for Calculation of Currency Amounts, December 2011: [www.imf.org/external/pubs/ft/sd/index.asp?decision=12281-\(00/98\)](http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12281-(00/98))