INTERNATIONAL MONETARY FUND
FACTSHEET

Review of the Special Drawing Right (SDR) Currency Basket

The Review of the Method of Valuation of the Special Drawing Right (SDR) basket is conducted every five years by the IMF's Executive Board, or earlier if warranted by developments. The purpose of the review is to ensure that the SDR basket reflects the relative importance of major currencies in the world's trading and financial systems, with a view to enhancing the SDR's attractiveness as an international reserve asset. The latest review was completed on November 30, 2015.

Scope of SDR reviews

The reviews cover the key elements of the SDR method of valuation. These include the criteria and indicators used in selecting SDR basket currencies, the number of currencies in the basket, and the methodology for determining currency weights. The financial instruments comprising the SDR interest rate basket are also typically covered.

The 2015 Review—SDR basket composition and interest rate

In the most recently concluded review (November 2015), the Executive Board decided that the Chinese renminbi (RMB) met the existing criteria for SDR basket inclusion (see below) and therefore, effective October 1, 2016, would join the SDR basket, along with the US dollar, euro, Japanese yen, and pound sterling. With the RMB's inclusion in the SDR basket, the three-month benchmark yield for China Treasury bonds serves as the RMB-denominated instrument in the SDR interest rate basket.

The 2015 Review—currency weights

The IMF also adopted a new formula for determining currency weights in the SDR basket to address long-recognized issues with the formula that had been in place since 1978. The adopted formula assigns equal shares to the currency issuer's exports and a composite financial indicator. The financial indicator comprises, in equal shares, official reserves denominated in the member's (or monetary union's) currency that are held by other monetary authorities that are not issuers of the relevant currency, foreign exchange turnover in the currency, and the sum of outstanding international bank liabilities and international debt securities denominated in the currency.

The weights of the five currencies in the new SDR basket based on the new formula are:

- **US dollar** 41.73 percent (compared with 41.9 percent at the 2010 Review)
- **Euro** 30.93 percent (compared with 37.4 percent at the 2010 Review)
- **Chinese renminbi** 10.92 percent
- **Japanese yen** 8.33 percent (compared with 9.4 percent at the 2010 Review)
- **British pound sterling** 8.09 percent (compared with 11.3 percent at the 2010 Review)

The amounts of each currency in the revised basket, effective on October 1, 2016, were calculated in accordance with the above-listed weights on September 30, 2016. The calculation was made based on the average exchange rates for these currencies over the three months ending on that date, in a manner that ensures that the value of the SDR in terms of the

US dollar was the same on September 30, 2016 under the old and new (revised) valuation baskets. The new currency amounts will remain fixed throughout the current five-year SDR valuation period. Since currency amounts are fixed, the relative weight of currencies in the SDR basket can change during a valuation period, with weights rising (falling) for the currencies that appreciate (depreciate) relative to other currencies over time (see daily SDR valuation).

Criteria for SDR basket inclusion

The current criteria for inclusion were adopted by the Board in 2000. They establish that the SDR basket comprises the currencies that are issued by members or monetary unions whose exports had the largest value over a five-year period, and have been determined by the IMF to be "freely usable".

The export criterion, which acts as a "gateway," aims to ensure that currencies that qualify for the basket are those issued by members or monetary unions that play a central role in the global economy. This criterion has been part of the SDR methodology since the 1970s.

A "freely usable" currency is defined in the IMF's Articles of Agreement (Article XXX(f)) to mean a currency that the IMF determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets. The concept of a freely usable currency concerns the actual international use of and trading in currencies, and is different from whether a currency is either freely floating or fully convertible. The freely usable concept plays a central role in the IMF's financial operations. IMF lending operations are, in practice, conducted in freely usable currencies or SDRs. The freely usable concept seeks to ensure that a member can use the currency received from the IMF either directly or indirectly (by exchanging it in markets into another currency with reasonable assurances of no substantial adverse exchange rate effect) to address a balance of payments financing need. The definition of a freely usable currency requires interpretation, and the IMF Executive Board has relied on quantitative indicators to inform its judgment.

Operational implications

The Chinese RMB met all conditions and operational requirements for being determined freely usable and to be added in the SDR basket at the time of the Executive Board's decision on November 30, 2015. It was decided to make the new basket effective October 1, 2016 to allow the IMF and its members prepare for operations using the RMB. To facilitate this, the Chinese authorities took a broad set of measures to facilitate RMB operations, and as a result, the IMF, its membership, and other SDR users gained access to onshore foreign exchange and fixed-income markets to perform IMF-related and reserve management transactions in RMB without substantial impediments.

Voting majorities needed for determining the SDR method of valuation

The method of valuation is determined by a 70 percent majority of the total voting power, provided that an 85 percent majority is required for (i) a change in the principle of valuation, or (ii) a fundamental change in the application of the principle in effect (Article XV, Section 2). To date, all decisions that have changed the SDR valuation method have been adopted with a 70 percent majority of the total voting power.

Next review

The next review of the method of valuation of the SDR will take place by September 30, 2021, unless an earlier review is warranted by developments in the interim.