



November 25, 2015

REVIEW OF THE METHOD OF VALUATION OF THE SDR— REVISED PROPOSED DECISION AND ILLUSTRATIVE CURRENCY AMOUNTS

EXECUTIVE SUMMARY

This supplement to *Review of the Method of Valuation of the SDR* (11/13/2015) includes revisions to Decision 2.A that reflect the revised proposal for the currency weighting formula presented as “2010 B” in *Review of the Method of Valuation of the SDR*, Supplement 1 (11/21/15), corresponding currency weights and illustrative currency amounts based on July 1–September 30, 2015 average exchange rates. It also includes a revision to paragraph 1 of Decision 2.A to clarify that the availability of data on financial variables is not a precondition for assessing the export criterion.

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REVISIONS TO A PROPOSED DECISION

1. **This supplement describes revisions to Decision 2.A in *Review of the Method of Valuation of the SDR on the weighting formula and currency weights to reflect the revised proposal in Supplement 1*.** Specifically, the proposed formula, as set out in the revised paragraph 2 of Decision 2.A, reflects an equal weight among the three financial variables (reserves, foreign exchange turnover, and the sum of international banking liabilities and international debt securities) that comprise the financial indicator. Further, proposed weights for the five currencies under the new formula would also change, as reflected in the revised paragraph 3 of Decision 2.A.
2. **There are a few other changes to Decision 2.** Paragraph 1 of Decision 2.A is revised to clarify that the availability of data on financial variables is not a precondition for assessing the export criterion. In addition, revisions are also made to subparagraph numbering in paragraph 2 to be consistent with the numbering in other paragraphs of Decision 2.A.
3. **The proposed decisions set forth in *Review of the Method of Valuation of the SDR, with these revisions to Decision 2.A*, are set forth below.** For the convenience of Executive Directors, the redlined text showing the revisions to Decision 2.A is included in the Appendix.

ILLUSTRATIVE CURRENCY AMOUNTS BASED ON PROPOSED WEIGHTS

4. **Illustrative currency amounts based on the new proposed weights are presented in Table 1.** As discussed in *Review of the Method of Valuation of the SDR* (paragraph 69), with the inception of the new basket, new currency amounts would be calculated based on the last three months of exchange rates for the component currencies leading up to the inception of the new SDR basket on October 1, 2016. Table 1 provides an illustrative calculation of the new currency amounts in the SDR basket for the weights based on the proposed formula in Supplement 1 (“2010 B”), using July 1–September 30, 2015 average exchange rates. As in previous reviews, staff would publish updated illustrative currency amounts in the weeks leading up to October 1, 2016.

Table 1. Illustrative Currency Amounts Based on Proposed Weights^{1/}

Currency	Currency Weights	Currency Amounts
US Dollar	41.73	0.584
Euro	30.93	0.390
Pound Sterling	8.09	0.0731
Japanese Yen	8.33	14.3
Renminbi	10.92	0.966

Source: IMF staff calculations.

^{1/} For the given set of weights, the currency amounts shown are indicative amounts based on July 1 – September 30, 2015 average exchange rates. Final currency amounts would be set on September 30, 2016, and would likely be different depending on (i) the average and end-period exchange rates of the base reference period to be used for revising the SDR basket's currency components, and (ii) the rounding procedures to be applied to the currency amounts themselves.

Proposed Decisions

The following decisions are proposed for adoption by the Executive Board. Decisions 1 and 3 may each be adopted by a majority of votes cast. Decision 2 may be adopted by a 70 percent majority of the total voting power and is only proposed for adoption if Decision 1 is adopted by the Executive Board.

Decision 1

Pursuant to Article XXX(f), and after consultation with the People’s Republic of China, the Fund determines that, effective October 1, 2016, and until further notice, the Chinese renminbi is a freely usable currency.

Decision 2

A. Method of SDR Valuation

1. The value of the special drawing right shall be determined on the basis of the five currencies issued by Fund members, or by monetary unions that include Fund members (“monetary unions”), whose exports of goods, services, and income credits (“Exports”) had the largest value during the five-year period ending December 31, 2014, or for any subsequent revision, during the most recent five calendar-year period for which the required Exports data are readily available, and which have

been determined by the Fund to be freely usable currencies in accordance with Article XXX(f) of the Articles of Agreement. In the case of a monetary union, the determination of the value of Exports shall exclude trade among members that are part of the union. In the case of a member with more than one currency, the determination of the value of Exports shall be based, for each currency, on trade by the member's economic region for which the currency is legal tender.

2. The percentage weight of each currency selected in accordance with paragraph 1 above for the SDR basket composition shall be equal to the sum of:

(a) One half of the share of the member or monetary union issuing that currency in the total Exports of the members or monetary unions issuing the currencies as calculated in accordance with paragraph 1 above; and

(b) One sixth of the share of that currency in the total value of balances of the currencies selected in accordance with paragraph 1 above, held by monetary authorities that are not issuers of the relevant currency, and 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, at the end of each year of the five-year period ending December 31, 2014, and thereafter at the end of each year of the

relevant five-year period referred to in paragraph 1 above;

(c) One sixth of the share of that currency in the total value of foreign exchange market turnover of the currencies selected in accordance with paragraph 1 above, during the five-year period ending December 31, 2014, and thereafter during each relevant five-year period referred to in paragraph 1 above; and

(d) One sixth of the share of that currency in the total value of international banking liabilities and international debt securities denominated in the currencies selected in accordance with paragraph 1 above, at the end of each year of the five-year period ending December 31, 2014, and thereafter at the end of each year of the relevant five-year period referred to in paragraph 1 above.

In the case of a monetary union, international banking liabilities and international debt securities shall be determined on the basis of the monetary union as one economic region. In the case of a member with more than one currency, these indicators shall be determined on the basis of the economic region of the member for which the currency in question is legal tender.

3. In accordance with the principles set forth in paragraphs 1 and 2 above, effective October 1, 2016, the value of one special drawing right shall be the sum of the values of specified amounts of

the five currencies listed below. These amounts shall be determined on September 30, 2016 in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of each of the five currencies in the value of the special drawing right correspond to the weights specified below.

Currency Weight (in percent):

U.S. dollar 41.73

Euro 30.93

Chinese renminbi 10.92

Japanese yen 8.33

Pound Sterling 8.09

4. The list of the currencies that determine the value of the special drawing right, and the amounts of these currencies, shall be revised with effect on October 1, 2021 and thereafter on the first day of each subsequent period of five years in accordance with the following principles, unless the Fund decides otherwise in connection with a revision:

(a) The currencies determining the value of the special drawing right shall be determined in accordance with paragraph 1 above, provided that a currency shall not replace another currency included in the list at the time of the determination unless the value of Exports of the member or monetary union, whose currency is not included in the list, during the relevant period exceeds by at least one percent that of a member or a monetary union issuing a currency included in the list.

(b) The amount of the five currencies referred to in (a) above shall be determined on the last working day preceding the effective date of the relevant revision in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of these currencies in the value of the special drawing right correspond to percentage weights for these currencies, which shall be established for each currency in accordance with (c) below.

(c) The percentage weights shall be established in accordance with paragraph 2 above. The percentage weights shall be rounded to the nearest 1 percent or as may be convenient. Adjustments to currency weights resulting from the above formula shall be made, if necessary to ensure that the rounded currency weights sum to one hundred percent, in a manner that has the least impact on relative weights.

5. The determination of the amounts of the currencies under paragraphs 3 and 4 above shall be made in a manner that will ensure that the value of the special drawing right in terms of currencies on the last working day preceding the five-year period for which the determination is made will be the same under the valuation in effect before and after revision, and shall be calculated in accordance with the following guidelines:

(a) The currency amounts calculated for the new basket will be expressed in two significant digits provided that the deviation of the percentage share of each currency in the value of the special drawing right, resulting from the application of the average exchange rates for July–September, from the percentage weight as determined under paragraphs 3 and 4(c) above is the minimum on average and will not exceed one half percentage point for any currency.

(b) If a solution cannot be obtained by the application of the guidelines set forth in (a) above, the calculation shall be made applying the same guidelines but expressing the amount of each currency in three significant digits, and if no solution is found with three significant digits then the calculation shall be made applying the same guidelines but expressing the amount of each currency in four significant digits.

(c) If more than one solution is found in the calculation at the level of two, three, or four significant digits, the solution that has the smallest average deviation will be employed.

B. Amendment of Rule T-1(c)

Effective October 1, 2016, Rule T-1(c) of the Fund’s Rules and Regulations shall be amended by

inserting

“Chinese renminbi Three-month benchmark yield for China Treasury bonds as published daily by the China Central Depository and Clearing Co., Ltd”.

after

“Euro Three-month spot rate for euro area central government bonds with a rating of AA and above published by the ECB”

Decision 3

The Fund determines, after consultation with the authorities of the People’s Republic of China, that the representative exchange rate for the Chinese renminbi is the 4:00 p.m. (Beijing time) reference rate for the renminbi against the U.S. dollar published daily by the China Foreign Exchange Trading System.

Appendix

Redlined Changes to Proposed Decision 2.A

A. Method of SDR Valuation

1. The value of the special drawing right shall be determined on the basis of the five currencies issued by Fund members, or by monetary unions that include Fund members (“monetary unions”), whose exports of goods, services, and income credits (“Exports”) had the largest value during the five-year period ending December 31, 2014, or for any subsequent revision, during the most recent five calendar-year period for which the required ~~data under paragraphs 1 and 2 of this decision~~ Exports data are readily available, and which have been determined by the Fund to be freely usable currencies in accordance with Article XXX(f) of the Articles of Agreement. In the case of a monetary union, the determination of the value of Exports shall exclude trade among members that are part of the union. In the case of a member with more than one currency, the determination of the value of Exports shall be based, for each currency, on trade by the member’s economic region for which the currency is legal tender.

2. The percentage weight of each currency selected in accordance with paragraph 1 above for the SDR basket composition shall be equal to the sum of:

~~(i) 50 percent (a)~~ One half of the share of the member or monetary union issuing that currency in the total Exports of the members or monetary unions issuing the currencies as calculated in accordance with paragraph 1 above; and

~~(ii) 25 percent (b)~~ One sixth of the share of that currency in the total value of balances of the currencies selected in accordance with paragraph 1 above, held by monetary authorities that are not issuers of the relevant currency, and 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, at the end

of each year of the five-year period ending December 31, 2014, and thereafter at the end of each year of the relevant five-year period referred to in paragraph 1 above;

~~(iii) 12.5 percent~~(c) One sixth of the share of that currency in the total value of foreign exchange market turnover of the currencies selected in accordance with paragraph 1 above, during the five-year period ending December 31, 2014, and thereafter during each relevant five-year period referred to in paragraph 1 above; and

~~(iv) 12.5 percent~~(d) One sixth of the share of that currency in the total value of international banking liabilities and international debt securities denominated in the currencies selected in accordance with paragraph 1 above, at the end of each year of the five-year period ending December 31, 2014, and thereafter at the end of each year of the relevant five-year period referred to in paragraph 1 above. In the case of a monetary union, international banking liabilities and international debt securities shall be determined on the basis of the monetary union as one economic region. In the case of a member with more than one currency, these indicators shall be determined on the basis of the economic region of the member for which the currency in question is legal tender.

3. In accordance with the principles set forth in paragraphs 1 and 2 above, effective October 1, 2016, the value of one special drawing right shall be the sum of the values of specified amounts of the five currencies listed below. These amounts shall be determined on September 30, 2016 in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of each of the five currencies in the value of the special drawing right correspond to the weights specified below.

Currency Weight (in percent):

U.S. dollar ~~42.71~~41.73

Euro ~~30.75~~30.93

Chinese renminbi ~~10.85~~10.92

Japanese yen ~~7.95~~8.33

Pound Sterling ~~7.74~~8.09

4. The list of the currencies that determine the value of the special drawing right, and the amounts of these currencies, shall be revised with effect on October 1, 2021 and thereafter on the first day of each subsequent period of five years in accordance with the following principles, unless the Fund decides otherwise in connection with a revision:

(a) The currencies determining the value of the special drawing right shall be determined in accordance with paragraph 1 above, provided that a currency shall not replace another currency included in the list at the time of the determination unless the value of Exports of the member or monetary union, whose currency is not included in the list, during the relevant period exceeds by at least one percent that of a member or a monetary union issuing a currency included in the list.

(b) The amount of the five currencies referred to in (a) above shall be determined on the last working day preceding the effective date of the relevant revision in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of these currencies in the value of the special drawing right correspond to percentage weights for these currencies, which shall be established for each currency in accordance with (c) below.

(c) The percentage weights shall be established in accordance with paragraph 2 above. The percentage weights shall be rounded to the nearest 1 percent or as may be convenient. Adjustments

to currency weights resulting from the above formula shall be made, if necessary to ensure that the rounded currency weights sum to one hundred percent, in a manner that has the least impact on relative weights.

5. The determination of the amounts of the currencies under paragraphs 3 and 4 above shall be made in a manner that will ensure that the value of the special drawing right in terms of currencies on the last working day preceding the five-year period for which the determination is made will be the same under the valuation in effect before and after revision, and shall be calculated in accordance with the following guidelines:

(a) The currency amounts calculated for the new basket will be expressed in two significant digits provided that the deviation of the percentage share of each currency in the value of the special drawing right, resulting from the application of the average exchange rates for July–September, from the percentage weight as determined under paragraphs 3 and 4(c) above is the minimum on average and will not exceed one half percentage point for any currency.

(b) If a solution cannot be obtained by the application of the guidelines set forth in (a) above, the calculation shall be made applying the same guidelines but expressing the amount of each currency in three significant digits, and if no solution is found with three significant digits then the calculation shall be made applying the same guidelines but expressing the amount of each currency in four significant digits.

(c) If more than one solution is found in the calculation at the level of two, three, or four significant digits, the solution that has the smallest average deviation will be employed.