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# USERS' GUIDE TO THE SDR

A Manual of Transactions and  
Operations in SDRs

Treasurer's Department  
International Monetary Fund  
1995



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**Treasurer's Department**

International Monetary Fund  
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## Preface

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Since the publication of the first edition of this guide in 1982 (and reprinted in 1985 with minor revisions), a number of changes have taken place that have considerably facilitated transactions and operations in the Special Drawing Rights Department and have led to a large increase in their number and volume. Salient among these changes are the emergence of the SDR buying and selling (two-way) arrangements and the wider use of SDRs in IMF-related operations. Under the two-way arrangements, certain members stand ready to buy or sell SDRs in voluntary transactions for one or more freely usable currencies at any time, provided that their SDR holdings remain within certain limits. These arrangements now accommodate the vast majority of acquisitions and sales of SDRs, and they have obviated any need for recourse to the designation mechanism since September 1987.

This version of the guide, which supersedes the first edition, takes account of these and other significant changes, such as the development of arrangements for the same-day loan and repayment of SDRs used in connection with the payment to the IMF of the reserve asset portion of quota subscriptions and quota increases. In addition, the present edition provides an expanded coverage of typical accounting entries for transactions and operations in SDRs. It has been prepared in the Operations Division for SDRs and Administered Accounts of the Treasurer's Department and has benefited from the comments of colleagues within the Treasurer's Department and elsewhere in the IMF.

David Williams

*Treasurer  
International Monetary Fund*

October 1995

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# Introduction

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The special drawing right (SDR) is an international reserve asset created by the International Monetary Fund to supplement existing reserves. It is valued on the basis of a basket of five currencies and can be used in a wide variety of transactions and operations among official holders.

The Second Amendment of the Articles of Agreement, which became effective April 1, 1978, considerably enhances the role of the SDR and requires participants to collaborate with the Fund and with each other to make the SDR the principal reserve asset in the international monetary system. To this end the SDR has been given increasingly attractive features in terms of yield and liquidity, including a wider range of uses. The scope of operations and transactions in SDRs by the Fund itself has also been enlarged. In addition, the Fund has been given the authority to prescribe (or permit) operations in SDRs not specifically mentioned in the Articles.

The purpose of this guide is to explain to participants in the Special Drawing Rights Department and prescribed holders of SDRs the various transactions and operations that are permitted under the Articles of Agreement and applicable decisions of the Executive Board. The guide describes the characteristics of the SDR and sets out the procedures for using and acquiring it in various transactions and operations. Appendix I describes in more detail allocations of SDRs, the calculation of the SDR valuation and rate of interest, and arrangements for SDR transactions and offers some suggestions for accounting for the SDR. Appendix II sets out the procedures and forms of communication for the use and receipts of SDRs in transactions with designation and describes the preparation and execution of the designation plan. Appendix III reproduces pertinent extracts from the Articles of Agreement, the By-Laws, Rules, and Regulations, and Executive Board decisions. As new decisions are taken by the Fund that affect the scope of SDR uses or any of the other material presented here, revised editions of the guide will be prepared.

# General Description of the SDR

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### 1. SDR as Official Reserve Asset

The SDR is an international reserve asset that serves as a means of payment among Fund members that are participants in the SDR Department, the Fund itself through its General Resources Account (GRA), and prescribed "other holders." SDRs are created by decisions of the Fund to supplement existing reserve assets. Operations and transactions in SDRs are conducted through the SDR Department. SDRs are distributed to participants in the form of allocations in proportion to their quotas in the Fund and are the liabilities of the participants receiving them in allocations should the SDR Department be liquidated.<sup>1</sup> The cumulative amount of SDRs allocated and canceled for each participant to date is called its "net cumulative allocation," although to date there have been no cancellations. Participation in the SDR Department is voluntary for Fund members; however, at present all members are participants.

The Fund guarantees that participants can use their SDR holdings in transactions "with designation" to obtain an equivalent amount in foreign exchange, provided that the user has a balance of payments need to use SDRs. In these transactions, the Fund designates other participants whose balance of payments and gross reserve position is considered sufficiently strong to provide the foreign exchange and to receive SDRs in return. Participants and prescribed holders of SDRs can also use them to obtain foreign exchange from other countries willing to accept the SDRs voluntarily in transactions "by agreement." The Fund is willing to assist in arranging these transactions if requested. In addition, SDRs can be used by participants and other holders quite freely by mutual agreement for a variety of other financial operations.

The Fund's GRA accepts SDRs in settlement of obligations to the Fund, including repurchases of drawings and the payment of charges on the use of the Fund's resources, and for quota payments. The Fund may use SDRs in various ways, including sales to members using the Fund's resources, payment of remuneration (i.e., interest payments on members' creditor positions in the Fund), payment of interest and principal on borrowings, and replenishment of needed currencies.

Participants pay charges on their net cumulative allocations of SDRs and, together with prescribed holders and the Fund, earn interest on holdings. The interest rate on SDR holdings is equal to the rate of charge on SDR allocations. Interest and charges in the SDR Department are due and payable immediately after the end of each financial quarter of the Fund (May 1, August 1, November 1, and February 1).

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<sup>1</sup>For a historical account of the allocations of SDRs, see Appendix I.A, "Allocation of SDRs," p. 35.

## 2. SDR as a Unit of Account

The Fund uses the SDR as its unit of account, and the value of the Fund's currency holdings is maintained in terms of the SDR. Since the generalized floating of exchange rates, the SDR has also become increasingly more important for this purpose outside the Fund. For example, the SDR has been used as a unit of account (or as the basis for a unit of account) in private contracts and international treaties and by other international organizations, such as the African Development Bank, the African Development Fund, the Arab Monetary Fund, the Asian Clearing Union, the Asian Development Bank, the Great Lakes States Development Bank, the East African Development Bank, the Economic Community of West African States, the European Conference of Postal and Telecommunications Administrations, the International Center for Settlement of Investment Disputes, the International Development Association, the International Fund for Agricultural Development, the International Telecommunications Union, the Islamic Development Bank, and the Universal Postal Union. SDR-denominated currency deposits, which may be called "nonofficial" SDRs, are now accepted by the Bank for International Settlements and some commercial banks, and a number of SDR loans have been made by these banks. Some bonds denominated in SDRs have been issued in the international capital market. Moreover, a number of participants have elected to peg their currency to the SDR.

## 3. Improvements in the SDR after the Second Amendment

One of the major objectives of the Second Amendment of the Fund's Articles of Agreement, which became effective on April 1, 1978, is to make the SDR the principal reserve asset of the international monetary system. To this end, the Fund's Executive Board has taken a number of decisions to improve the yield on the SDR and its liquidity and usability. At the same time, certain obligations arising from participation have been eliminated.

### *(a) Valuation and Interest Rate*

On September 17, 1980, the Board adopted a decision<sup>2</sup> to unify and simplify, as of January 1, 1981, the separate currency baskets that had determined the value of (i.e., the exchange rate) and the interest rate on the SDR. The unified basket is revised every five years and is composed of the currencies of the five member countries of the Fund with the largest exports of goods and services during the five-year period ending 12 months before the effective date of the revision.<sup>3</sup> The weights of each of these currencies in the basket are reviewed at the same time to ensure that they broadly reflect the relative importance of each currency in international trade and reserves, as measured by the value of exports of goods and services of each country, and the amounts of these currencies held as reserves by members of the Fund over the preceding five-year period. The value of the new basket must equal the value of the old one on the last business day preceding the day the new basket becomes effective.<sup>4</sup>

<sup>2</sup>Executive Board Decision No. 6631-(80/145) G/S, reproduced in Appendix III.C, p. 88.

<sup>3</sup>During the period July 1, 1974 to December 31, 1980, a basket of 16 currencies was used to value the SDR, while a basket of 5 currencies was used to determine the interest rate on the SDR.

<sup>4</sup>For more details on how the value of the SDR is determined, see Appendix I.B "Valuation of SDRs," p. 35.

With effect from May 1, 1981, the Board decided to increase the interest rate on the SDR to 100 percent of the combined market interest rate, which would be a weighted average of short-term interest rates in the United States, Germany, France, Japan, and the United Kingdom. Since August 1, 1983, the combined market interest rate has been based on the rates prevailing each Friday for the week beginning on the ensuing Monday.<sup>5</sup>

### *(b) Uses of SDRs*

The requirement of a balance of payments need applies to the use of SDRs in transactions with designation but not to transactions by agreement. This is because the designation mechanism is predicated on the Fund's assessment of the strength of members' external position, whereas the latter are transfers agreed upon bilaterally between participants or other holders in which SDRs can be exchanged for any currency for which the Fund has established a "representative" rate.

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

After the establishment of new lending facilities in the mid-1980s, that is, the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF), the Fund, in a number of decisions, permitted the use of SDRs in operations under these facilities and in other Fund-related operations, for example, to pay subsidies under the Supplementary Financing Facility (SFF) and to discharge obligations under the Trust Fund.<sup>6</sup>

Another decision in 1988 facilitating the use of the SDR permits the settlement of transactions by agreement on the date of the agreement or on any of the three business days from that date as agreed between participants. Previously, these transactions could only be settled two or three business days from the date the transaction was initiated.

In arranging transactions by agreement between participants, the Fund has been aided significantly since 1986 by standing arrangements that a number of SDR holders have established with the Fund. These arrangements authorize the Fund to arrange sales or purchases of SDRs, or both, on behalf of the parties to the arrangements subject to the terms and conditions specified by these parties. The transition from a period when the use of SDRs by members depended largely on the obligatory acceptance of SDRs by other members (transactions with designation) to the period since September 1987 during which all uses of SDRs have been accommodated through voluntary acceptance has been made possible by the establishment of these standing arrangements to buy and/or sell SDRs.<sup>7</sup>

<sup>5</sup>For more details on the determination of the rate of interest on the SDR, see Appendix I.C "Rate of Interest on SDRs," p. 37.

<sup>6</sup>The Fund's Executive Board decided to extend and enlarge the ESAF Trust on December 15, 1993, and operations under the enlarged ESAF Trust began on February 23, 1994.

<sup>7</sup>For more details on standing arrangements for SDR transactions, see Appendix I.D "Arrangements for SDR Transactions," p. 38.

### *(c) Obligations in SDR Department*

Some of the original obligations of participation in the SDR Department have been eliminated through the adoption of the Second Amendment and subsequent Board decisions. These include the necessity to meet the requirement of need in transactions by agreement and the rules for reconstitution. Thus, a participant may use all its SDR holdings at any time and is not obliged to reacquire SDRs to maintain a minimum average balance. If, however, a participant's balance of payments and reserve position is considered sufficiently strong by the Fund, it can be designated to provide currency and receive SDRs. Under Article XIX, Section 4(a), a participant's obligation to provide currency "shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund." Should a participant fail to fulfill the obligations to provide currency when designated, its right to use SDRs could be suspended under Article XXIII, Section 2(a).<sup>8</sup>

In addition, all holders of SDRs are subject to the general obligations of Article VIII, Section 7, and Article XXII. These concern the objective of making the SDR the principal reserve asset in the international monetary system and collaboration with the Fund and other participants in order to facilitate the effective functioning of the SDR Department.

## **4. Other Holders**

The Fund has the authority to extend the range of official holders of SDRs beyond its member countries and the Fund's GRA. Official entities prescribed as "other holders" of SDRs can acquire and use SDRs voluntarily in transactions and operations by agreement with any other holder and with any participant. Prescribed holders have the same freedom as participants to buy and sell SDRs both spot and forward; to borrow, lend, or pledge SDRs; to use SDRs in swaps; or to use or receive SDRs in donations.

However, prescribed holders, not being participants, do not receive allocations of SDRs, nor do they have either the rights or the obligations that arise for participants from their receipt of allocations. For example, they are not required to pay assessments or charges because these obligations apply only to participants that have received allocations of SDRs. Prescribed holders are also not subject to designation to provide currency and to receive SDRs in exchange. By the same token, they do not have recourse to the designation mechanism if they wish to use SDRs to obtain currency at any time.

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<sup>8</sup>For more details on transactions with designation, see Appendix II, p. 47.

# Transactions and Operations in SDRs Between Participants and Other Holders

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The Fund's Articles of Agreement establish three categories of SDR holders. These are (a) members electing to participate in the scheme (participants), (b) the Fund itself through its GRA, and (c) "...non-members, members that are non-participants, institutions that perform functions of a central bank for more than one member, and other official entities" (Article XVII, Section 3(i)) prescribed by the Fund as "other holders." Currently all members are participants, and the Fund has prescribed 15 institutions as other holders of SDRs.<sup>9</sup>

Under the Fund's Articles, "transactions" in SDRs mean spot exchanges of SDRs for other monetary assets.<sup>10</sup> There are two categories of transactions: transactions with designation and transactions by agreement. Under the first category, a participant (but not prescribed holders) that has a balance of payments need may use its SDRs to acquire a freely usable currency wherein currency is provided by another participant designated to do so by the Fund because its balance of payments and reserve position is considered sufficiently strong to accept the change in the composition of its reserves. Transactions with designation are discussed in subsection 1 below. Under the second category, participants and prescribed holders can use SDRs by mutual agreement with one another in exchange for any currency for which the Fund has established a representative exchange rate. In transactions by agreement, SDRs may be used without any requirement of a balance of payments need and without the necessity of further authorizations by the Fund. Transactions by agreement are discussed in subsection 2 below.

"Operations" in SDRs mean other uses of SDRs and do not necessarily involve an exchange of currency. The Fund has authorized virtually every type of operation in SDRs between participants and other holders. These operations are discussed in subsections 3 and 4 below.

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<sup>9</sup>The institutions are the African Development Bank (Abidjan); the African Development Fund (Abidjan); the Andean Reserve Fund (Bogotá); the Arab Monetary Fund (Abu Dhabi); the Asian Development Bank (Manila); the Bank of Central African States—BEAC (Yaoundé); the Bank for International Settlements—BIS (Basle); the Central Bank of West African States—BCEAO (Dakar); the East African Development Bank (Kampala); the Eastern Caribbean Central Bank (St. Kitts); the International Bank for Reconstruction and Development—IBRD and its affiliate the International Development Association—IDA (Washington, D.C.); the International Fund for Agricultural Development (Rome); the Islamic Development Bank (Jeddah); and the Nordic Investment Bank (Helsinki). Following Switzerland's membership in the Fund, the status of the Swiss National Bank as a prescribed holder was terminated in late 1992.

<sup>10</sup>Article XXX(i).

## 1. Transactions with Designation

To ensure that potential users of SDRs can obtain currency when the need arises, the Fund establishes in advance a list of participants whose balance of payments and reserve positions are sufficiently strong for them to be called upon (i.e., “designated”) to provide a freely usable currency in these exchanges. This list and the amounts for which participants are included are known as the “designation plan,” which is established each quarter by the Executive Board on the basis of recommendations by the Fund staff.<sup>11</sup> However, as noted earlier, since September 1987, no use of designation has been made, because all requests for sales of SDRs have been accommodated under the standing two-way arrangements to buy and sell SDRs in transactions by agreement. Consequently, the quarterly designation plans have been of a precautionary nature. In the event that a need may, in the future, arise to use designation, the procedures for the use and receipt of SDRs in transactions with designation, and the preparation and execution of the plan are described in detail in Appendix II.

## 2. Transactions by Agreement

### *(a) By Participants*

A participant may use SDRs freely, without the requirement of need, to obtain an equivalent amount of currency in a transaction by agreement with another participant. Participants either may arrange transactions by agreement by themselves or may request the assistance of the Fund if they wish to use or acquire SDRs in this way.

### *(b) By Prescribed Holders*

All prescribed holders have the same freedom to deal in SDRs as is available to participants in transactions and operations by agreement with other participants. Thus, prescribed holders are able to enter into spot operations in SDRs or into any of the operations in SDRs that have been prescribed by the Fund, as described below, on the basis of mutual agreement between themselves or with participants.<sup>12</sup>

The only limitation placed on transactions by agreement (as well as certain operations) concerns the establishment of the exchange rate at which transactions can take place. The principle of equal value set out in Article XIX, Section 7(a) requires that exchange rates be such that participants using SDRs shall receive the same value whatever currencies may be provided and whichever participants provide those currencies.<sup>13</sup> The Fund has made this provision operational through its Rules and Regulations.<sup>14</sup> In accordance with Rule P-6(a), as amended, a transaction by agreement is conducted using an exchange rate determined under Rule O-2 as of the

<sup>11</sup>Under the Articles, a participant’s obligation to provide currency shall not, absent agreement between the participant and the Fund, extend beyond the point at which its holdings of SDRs in excess of its net cumulative allocation are equal to twice its net cumulative allocation.

<sup>12</sup>See Executive Board Decision No. 6467-(80/71) S, p. 83.

<sup>13</sup>See p. 63.

<sup>14</sup>International Monetary Fund, *By-Laws, Rules and Regulations*, Fiftieth Issue (Washington, D.C., 1994).



date of the agreement.<sup>15</sup> Under Rule O-2, procedures are established for the determination by the Fund of the equal-value rate for the currencies of its member countries. Users of SDRs are required to notify the Fund immediately, giving details of the transaction, including the amount of currency received and the value date.<sup>16</sup> The same principle applies in some respects to operations in SDRs, as described in the next section.

### *(c) Procedures for Use of SDRs in Transactions by Agreement*

The Treasurer's Department of the Fund is ready to assist in arranging transactions by agreement if requested by either party. A number of participants have standing arrangements with the Fund according to which they are prepared to buy or sell SDRs in transactions by agreement in exchange for certain freely usable currencies, up to predetermined amounts, within a certain period of time.<sup>17</sup>

If participants or prescribed holders wish to buy or sell SDRs in transactions by agreement to be arranged by the Fund, they should inform the Fund by cable indicating the SDR amount and the proposed value date. To allow enough time to arrange these transfers, the incoming cable, bearing the test number of the fiscal agency, should generally be received by the Fund at least four business days before the proposed value date.<sup>18</sup>

## 3. Prescribed Operations

In addition to spot exchanges with currencies, SDRs can also now be used for virtually any recognized financial operation with other official holders (other than the Fund's GRA) by mutual agreement, subject only to the equal-value limitation already described and a restriction on the use of gold. Specifically, the Fund has taken decisions that permit participants and prescribed holders, by agreement with other participants or prescribed holders, to use SDRs in the following operations:<sup>19</sup>

- settlements of financial obligations;
- loans in which the interest rate and the maturity may be agreed upon by the parties and repayment of the loans and payment of interest may be made in SDRs;
- as security for the performance of financial obligations, in either of two ways: (i) as a pledge, with the SDRs being earmarked for the duration of the pledge in a special register kept by the Fund, or (ii) as a transfer-retransfer agreement, under which SDRs would be transferred as security for the performance of an obligation and would be returned to the original transferor when its obligation under the agreement had been fulfilled;

<sup>15</sup>See Rule P-6, p. 71 and Rule O-2, p. 68.

<sup>16</sup>See Rule P-8, p. 71.

<sup>17</sup>As of September 1, 1995, 13 participants had SDR selling arrangements with the Fund, 12 of which also had SDR buying arrangements. For more details, see Appendix I.D, p. 38.

<sup>18</sup>The main forms of cable communications in connection with transactions by agreement are set out in Section V.1, p. 22.

<sup>19</sup>See Appendix III for relevant decisions.

- swap arrangements, in which SDRs are exchanged at the equal-value rate for a currency or another monetary asset, other than gold, with an agreement to reverse the exchange at a specified future date at an exchange rate agreed upon by the parties;
- forward operations, in which SDRs may be bought or sold for delivery at a future date, against currency or another monetary asset, other than gold, at an exchange rate agreed upon by the parties; and
- donations.

The amounts of SDRs used in any of the permitted operations above are left for the parties to decide. The exchange rate to be used for a loan or the settlement of a financial obligation not denominated in SDRs must be in accordance with the principle of equal value as determined by the Fund.

The above operations and the procedures involved are described in more detail below.

#### *(a) Settlement of Financial Obligations*

Official holders may freely transfer SDRs to other official holders in order to settle financial obligations. The SDRs, therefore, could be used directly to settle obligations rather than the user's first having to acquire currency for the SDRs it wishes to use. Examples of the settlement of obligations would be the repayment of a loan, the payment of interest, and the payment for the receipt of, or the commitment to deliver, goods or services, and in the same-day loan/repayment operations between members in connection with quota payments by members. Settlement of financial obligations could also include the payment of aid commitments (grants). The ability to use SDRs directly in this way is similar to the freedom to use SDRs in transactions by agreement. When the amount of the obligations being settled is expressed in a currency, the equal-value exchange rate would apply.

#### *(b) Loans of SDRs*

There may be circumstances in which an official holder wishes to borrow SDRs rather than to buy them outright: it may, for example, have insufficient SDRs to make a payment that needs to be settled in SDRs but may expect to receive the SDRs at some future date. On the lending side, the lender of SDRs may want to obtain a rate of interest higher than the going rate on the SDR or may prefer to lend SDRs in arrangements of a cooperative or multilateral nature, even at a lower rate of interest.

Because a loan would involve the transfer of the ownership of the SDRs lent, the SDR holdings of the borrower and the lender would be affected by the loan for those purposes of the Fund's Articles of Agreement and, under certain decisions of the Fund, where the member's SDR holdings play a role. Examples of this are designation, and net interest and charges.

The Fund has established two categories of loans of SDRs to other participants: (1) loans that are expressed in SDRs and are to be repaid in SDRs and on which interest is also to be paid in SDRs, and (2) loans of SDRs that involve currencies because either the loan is expressed in currency or currency is used to repay the loan or to pay interest on it. For the second category of SDR loans, the Fund requires that

the exchange value of the currency against the SDR be calculated consistent with the spot exchange value of the currency in terms of the SDR at the time payments are made, that is, at equal value. Under either of these two categories, official holders are free to agree on the interest rate and on the maturity of the loan, but they are required to inform the Fund of its terms.

### *(c) Use of SDRs as Security for Performance of Financial Obligations*

The use of SDRs as security for financial obligations could take the form of either a pledge or a transfer-retransfer agreement. The two techniques have significant operational differences.

#### *(i) Pledges of SDRs*

Participants and prescribed holders are permitted to use SDRs to secure loans by pledging SDRs as collateral.<sup>20</sup> Under this technique, the SDRs would remain part of the SDR holdings of the pledgor for all purposes, including the discharge of obligations payable in the SDR Department or in SDRs in the GRA.

The Fund does not assume any responsibility in the event that a pledgor for any reason reduces its SDR holdings below the amount registered as pledged. However, the Fund would accept an instruction by both parties to such an agreement requesting that the Fund, until further notice by either party, should not execute, without the agreement of the lender, an instruction by the pledgor to transfer SDRs that would reduce the holdings below the amount pledged or set aside, except in order to discharge an obligation to the Fund. It is necessary for the Fund to be informed of the loan and the settlement and default provisions. Most of the specific terms of the loan arrangement covered by an SDR pledge are left to the discretion of the parties. However, the Fund must determine the value of the security to be acquired by the lender in case of a default by the borrower, and for this purpose the Fund prescribes that the equal-value exchange rate for the SDR apply on the date the currency is transferred.

#### *(ii) Transfer-retransfer agreement*

The technique of a transfer-retransfer agreement would clearly be superior as a means of providing security for a financial obligation if there were elements that created uncertainty about the agreement between two participants.<sup>21</sup> SDRs would be transferred by the borrower to the lender as security for the loan, with an agreement that the SDRs would be retransferred to the debtor when the loan was repaid. Thus, the beneficial ownership of the SDRs used for security would pass to the creditor until the loan was repaid.

In comparison with a pledge of SDRs, one of the disadvantages of a transfer-retransfer agreement from the viewpoint of the transferor would be the loss of interest income on the SDRs transferred. It is possible, however, to adjust the transfer-retransfer technique to make its effects closer to those of a pledge. Thus, while all the rights of ownership would be with the transferee, the prescription

<sup>20</sup>See p. 29.

<sup>21</sup>See pp. 29–30.

allows the parties to agree that the transferee would return the interest received on the SDRs to the transferor as and when it is paid by the Fund. The rationale is that the transfer of SDRs simply provides collateral and does not also pass on the benefits of interest income on the SDRs held as security. Nevertheless, the rights attached to the SDRs transferred would be those of the transferee until such time as the SDRs are retransferred to the debtor; that is, the SDRs would reduce the transferee's obligation to receive SDRs in designation if it is a participant, and the Fund would pay it interest.

#### *(d) Use of SDRs in Swaps*

A swap arrangement is a convenient technique by which credit can be extended between central banks, without making loans that may not be permitted under domestic laws and that can be activated at short notice. When a swap arrangement is activated, the two central banks involved swap balances of their own currencies at the prevailing exchange rate in spot transactions, with an agreement to reverse the swap, most commonly at the same exchange rate, at an agreed future date, usually three months ahead. The party activating the arrangement may use the foreign exchange acquired by drawing against the balance available to it for any purpose, such as to bolster its reserves or, more usually, to finance intervention in the exchange markets. The balances of currencies created on the activation of a swap earn interest at agreed rates; however, to the extent that a balance is drawn against, there is an additional interest cost to the party making the drawing.

The party activating the swap arrangement carries an exchange risk to the extent that it uses the amount available under the swap and must subsequently acquire, at a different exchange rate, the amount of the other party's currency needed to repay the amount of currency drawn under the swap arrangement. The party making its currency available at the request of the other party acquires a short-dated, nonmarketable, interest-bearing asset and normally carries no exchange risk in terms of its own currency during the period the swap is outstanding. The swap arrangement may provide, however, that if a balance is drawn upon, any profits or losses would be shared between the parties to the arrangement.

The purpose of permitting the use of SDRs in swaps is to enhance the usefulness of the SDR as a reserve asset in circumstances where participants wish to use SDRs to obtain currency without permanent loss of ownership of the SDRs. The tendency for the SDR exchange rate to be more stable than the rates of many other individual currencies gives it the advantage in swaps of reduced exchange risk compared with other currencies that might be used for that purpose. This is an important consideration where currency is needed on a short-term basis, for example, for intervention in the exchange markets.<sup>22</sup>

The initiative for entering a swap arrangement in SDRs could also come from a participant wishing to acquire SDRs. For example, a participant that needs SDRs to settle an obligation, either to the Fund or to another participant, may prefer to acquire SDRs through a swap rather than through a purchase if it expected to receive SDRs soon after it had settled the obligation. The main features of the use of SDRs in swaps are as follows:

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<sup>22</sup>A similar objective can be achieved by a transfer-retransfer agreement, under which SDRs are transferred to provide security for a loan. However, this technique would not correspond precisely to the terms of a swap operation involving SDRs, as described below.

(i) *Exchange rate*

The initial transfer of SDRs under a swap arrangement is exactly like a transaction by agreement under Article XIX, Section 2(b). Therefore, the equal-value exchange rate for spot transactions applies in all cases to the initial transfer of SDRs in a swap. In order to permit the kind of swap that is normally arranged between central banks, the decision on swaps allows participants to set, by agreement among themselves, the exchange rate for the reversal of the initial transfer of SDRs.

(ii) *Currencies and other monetary assets to be exchanged for SDRs*

Participants entering into swap arrangements are permitted to exchange SDRs for any currency or other monetary asset (including other units of account, such as the European Currency Unit (ECU)) except gold. Participants' choices in this regard are not limited other than by the requirement that the currency or monetary asset be one for which the Fund can determine an equal-value exchange rate in terms of the SDR. The exclusion of gold is consistent with the objective in the Second Amendment of the Fund's Articles of Agreement that the role of gold in the international monetary system should be gradually reduced.

The usual practice in both the central bank and the commercial forms of swaps is for the same currency to be used at both stages of the operation. Thus, if deutsche mark were initially exchanged for U.S. dollars, the exchange would be reversed by the return of one of those currencies against the other. However, in swaps involving SDRs, there is no requirement that the currency received must be returned. Accordingly, if participants so agreed they would be free to reverse a swap involving SDRs with a currency different from that used in the initial exchange.

(iii) *Interest rates*

The Fund does not regulate the interest rates that might be agreed between participants in connection with the use of SDRs in swap operations. Participants are therefore free to agree among themselves on the rate of interest for these operations.

Under the Fund's Articles of Agreement, interest on SDR holdings accrues to the holder of SDRs. If SDRs were transferred in a swap, the recipient would be the holder of the SDRs for the period of the swap and would be credited with the interest on the SDRs at a rate determined in accordance with Rule T-1. Interest earned by the other party to the swap, to the extent that it retained the balances of the currency (or of another monetary asset) acquired under the swap, could be set at the same rate as the SDR rate of interest or at a different rate. Because the parties to the swap may regard the SDR interest rate as either too low or too high for their purposes, they may adjust the interest to be earned by the party that holds the SDRs during the period that a swap is outstanding. This could be done

through a payment from one party to the other, either in a currency or in SDRs, under the decision permitting the use of SDRs in the settlement of financial obligations.<sup>23</sup>

*(iv) Period of swap*

While standing arrangements or swap lines frequently remain in existence for extended periods, a particular drawing under such an arrangement would normally be reversed in a short time, often three months. However, swap arrangements usually provide for extensions so that a particular drawing may remain outstanding for 12 months or longer. Similarly, the period of the swap operation in SDRs is to be agreed upon by the parties concerned.

This approach allows for flexibility for the date on which the swap would be reversed. Participants would be able to arrange for the reversal of a swap after a period that did not correspond to full calendar months, or they could agree that one of the parties would subsequently decide on the precise date of reversal within a range of dates established under the agreement.

There is, however, the possibility that the Fund may make changes in the prescription for swaps in SDRs while an operation is outstanding. In these circumstances, the changes would not affect the use or acceptance of SDRs under the swap operations that were already in effect. Any such swap operation that would be incompatible with an amended prescription must be unwound within 12 months from the date the decision is changed.<sup>24</sup>

*(v) Amounts of SDRs to be used*

There is no limit on the amounts of SDRs that may be transferred in swap operations.

The Fund does not assume responsibility for the performance of a swap arrangement, but certain steps can be taken to give additional assurance that the recipient will hold sufficient SDRs to reverse the swap at maturity. If the SDR holdings are insufficient at the time of reversal, the Fund is always prepared to assist in arranging for the spot purchases of the needed amount of SDRs in a transaction by agreement with another participant, although the Fund cannot guarantee that a willing seller will be found. A further possibility would be for the parties to the swap to make contingency arrangements that would apply in the event that the full amount of SDRs could not be returned to the initial transferor.

*(e) Forward Operations in SDRs*

An important feature of the principal currencies traded in the exchange markets is that they can be bought and sold on a forward basis. A similar facility is available for dealings in SDRs in forward operations among official holders.

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<sup>23</sup>If the parties wished, the amount of interest paid by the Fund on the SDRs could be returned to the participant that used SDRs in the swap.

<sup>24</sup>A swap operation initiated after a change in the prescription for swaps involving SDRs would have to conform to the requirements of the amended prescription, even if it were made under a standing arrangement in effect before the prescription was changed.

Participants and other holders may wish to buy or sell SDRs on a forward basis for a variety of reasons. They may want to acquire SDRs on a forward basis because they plan to use SDRs to repay loans or to discharge other future financial obligations, denominated in SDRs, either to the Fund (e.g., repurchases) or to other official holders. In this case, they would wish to protect themselves against the risk of depreciation of the currencies in which they hold their external reserves in terms of the SDR and to ensure that they would have the SDRs when needed. There may also be sellers of SDRs in forward operations among participants and other holders that wish to use their SDRs to cover a future obligation to be settled in currency.

There are other ways of avoiding or mitigating the risk of changes in the value of currencies in terms of the SDR without buying or selling SDRs on a forward basis. For example, a participant or prescribed holder with a commitment to use SDRs in the future could make forward purchases of the currencies in the SDR valuation basket in appropriate proportions, or acquire those currencies in spot transactions and place them in deposit with a maturity to match the SDR commitment. Another possibility would be to make a currency deposit denominated in SDRs. Compared with a forward operation in SDRs, however, each of these alternatives would involve additional steps, including the subsequent acquisition of SDRs in a spot transaction. In contrast, a forward operation in SDRs would protect the transactors against exchange risk in terms of the SDR and would ensure that the buyer would have the SDRs when needed.

*(i) Exchange rates*

Forward exchange rates for currencies traded in the major exchange markets generally reflect the spot exchange rates among the currencies concerned and the differences in interest rates paid on deposits in those currencies—typically Euromarket deposits—so that interest parity is broadly maintained. Interest parity is not always attained, however, because of the effects of expectations about future exchange rates. If the SDR were freely traded in private markets, its value for spot and forward transactions and its interest rate would be determined by market forces, and the relationship between the spot and forward exchange rates for the SDR would basically reflect prevailing interest rate differentials. In fact, both the value of the SDR for spot transactions and the SDR interest rate are regulated by the Fund. The spot value of the SDR is based on a basket of market exchange rates in accordance with Rules O-1 and O-2. The interest rate on the SDR is determined under Rule T-1 on the basis of a combined market rate using the currencies in the valuation basket. In view of these arrangements regarding the spot exchange rate and the interest rate for the SDR, forward operations in SDRs need to be individually negotiated. The Fund permits the parties to forward operations to determine the forward exchange rate by agreement among themselves.

A forward exchange rate for the SDR can be calculated by using a weighted average of forward exchange values for the currencies in the valuation basket.<sup>25</sup> Generally, the SDR interest rate implied by this calculation would be lower than the rate determined under Rule T-1, and, for participants engaging in a forward operation, the actual interest rate under Rule T-1 may be an important factor in

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<sup>25</sup>See p. 36.

their judgment about the appropriate exchange rate for the operation. The transacting parties may wish to take this factor into account in determining the forward exchange rate.

Official holders entering into forward operations in SDRs are required to notify the Fund of the exchange rate at the time they agree on the operation.

*(ii) Currencies and other monetary assets to be exchanged for SDRs*

Official holders entering into forward operations are permitted to exchange SDRs for any currency, including the currency of one of the parties, or a third currency, such as a reserve currency. They are also permitted to deal in SDRs forward against other monetary assets (e.g., the ECU), except gold, for the reasons mentioned earlier in the discussion of swaps involving SDRs.

*(iii) Period of forward operation*

Official holders are free to determine the maturity for forward operations in SDRs by agreement among themselves.

As for swaps involving SDRs, if there were a change in the decision permitting the use of SDRs in forward operations, any outstanding operations that were incompatible with the new decision would need to be completed within 12 months of the date the decision was changed.

*(iv) Amount of SDRs to be used*

The Fund does not limit the amount of SDRs to be used in forward operations.

*(f) Use of SDRs in Donations*

SDRs may be freely given or received by agreement. As with all other SDR transactions or operations, such transfers of SDRs have no effect on participants' net cumulative allocations.

*(g) Procedures for Use of SDRs in Prescribed Operations*

- Both parties to an operation need to inform the Fund of the amount of SDRs, the value date, the amount of currency received (if applicable), and the provisions of the agreement entered into.
- The exchange rate of SDRs against currency would have to reflect the SDR exchange rate in accordance with the requirements under Article XIX, Section 7(a) and Rule O-2.
- The notification by both parties should include an instruction to the Fund to debit or credit the SDR holdings of each party.
- In accordance with Rule P-7, both parties should declare in their notifications that their intended use of SDRs is in accordance with the relevant prescribed operation.
- If the operation entered into provides for the payment of interest to a party in SDRs, then the parties should give the Fund appropriate standing instructions to debit and credit their SDR holdings.



- The Fund would, if requested, notify the parties of the amount of SDRs and the exchange rate before the value date of the operation.
- In accordance with Rule P-9, the Fund would make the necessary debit and credit entries in the SDR Department as of the notified value date and inform both parties by cable or telex.

The forms of cable communications in relation to prescribed operations in SDRs are set out in Section V.2.

#### 4. Fund-Related Operations

Operations in SDRs between members and the Fund that are conducted through the intermediary of a prescribed holder are referred to as "Fund-related operations." The Fund has adopted a number of decisions to prescribe SDR operations under the Trust Fund, the SFF Subsidy Account, the SAF, and the ESAF. The use of an intermediary in these operations is needed because, under the Articles of Agreement, the Fund can hold official SDRs in the GRA but cannot hold official SDRs in the Special Disbursement Account or in other accounts administered by the Fund (such as the ESAF Trust Account or the Trust Fund) in its capacity as trustee for the benefit of members.

In addition to payments to the SDR Department or the GRA, which must be settled in SDRs (net SDR charges, periodic charges on the use of Fund resources, and annual assessments on participants), and payments that may be made in SDRs at the discretion of the member (such as repurchases or the payment of the reserve asset portion of a member's quota increases), members have been able to make interest payments and loan repayments to the Fund under the Trust Fund, the SAF, or the ESAF with SDRs, which are credited to the SDR account of a prescribed holder acting on behalf of the Fund. The prescribed holder records these SDRs and any interest on them, as its assets against which it issues SDR-denominated deposit liabilities to the Fund. Moreover, contributions by members to the ESAF could also be received in SDRs in this way. By the same decisions, the Fund, through the intermediary of the prescribed holder, could also transfer SDRs to members in making loan disbursements under the SAF or the ESAF, or in making interest payments or loan repayments to the contributors to the ESAF Trust.<sup>26</sup>

Thus, as far as members are concerned, they may use SDRs in discharging all of their financial obligations to the Fund whether they are received in the GRA or in the SDR account of the intermediary acting on behalf of the Fund. An increasing number of members have provided the Fund with a standing authorization to debit their SDR accounts with the amounts of all their financial obligations as they fall due to the Fund.<sup>27</sup> These authorizations have been helpful and operationally convenient for both members and the Fund.

<sup>26</sup>Financial obligations under the SAF, the ESAF, and the Trust Fund consist of principal, interest, and special charges. In addition, donations and loans to the SFF Subsidy Account and to the ESAF Trust may also be made in or exchanged for SDRs. The Fund has also taken decisions that permit the use of SDRs in these operations (see Decision No. 8186-(86/9) SBS/S, adopted January 15, 1986; Decision No. 8642-(87/101) S/TR, adopted July 9, 1987; Decision No. 8239-(86/56) SAF, adopted March 26, 1986; and Decision No. 8937-(88/118) ESAF/S, adopted July 28, 1988). All operations under the SFF Subsidy Account and the Trust Fund have been terminated except for relatively small amounts arising from overdue obligations.

<sup>27</sup>See Section V. 3(d), "Standing Authorization for All Fund Obligations," p. 34.

# Transactions and Operations Through General Resources Account

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## 1. Transfers from Participants to General Resources Account

### (a) Charges

Members are required to pay all charges in SDRs, other than in exceptional circumstances (see below). These are (i) periodic charges on balances of the Fund's holdings of their currency subject to charges, such as would result from purchases under a stand-by or extended arrangement, or under a special facility, such as the compensatory and contingency financing facility; (ii) the stand-by or extended arrangement charges for the relevant period of the arrangement; (iii) service charges relating to the use of the Fund's resources; and (iv) special charges that may arise from overdue repurchases and overdue charges.

Participants are informed by the Fund of the amounts and due dates of charges. When a participant has not given a standing authorization to debit its SDR account, the Fund requests authorization to debit its SDR holdings that the participant sends bearing the test number of the fiscal agency. If a participant's holdings of SDRs are insufficient, the Fund suggests acquisition of SDRs from another SDR holder or from the GRA. A suggested text for an ad hoc authorization to the Fund to debit the SDR account for charges is shown in Section V.3(a).

In connection with the settlement of periodic and other charges, the Fund has obtained a standing authorization from most participants subject to these charges to debit their SDR accounts on the due date. This has proved a convenient procedure for both members and the Fund. The text of such an authorization is shown in Section V.3(b).

However, in exceptional circumstances the Fund may permit a member to pay charges in currencies of other members specified by the Fund, after consultation with them, or in its own currency.<sup>28</sup>

One example of exceptional circumstances referred to above is the inability of a member to pay in SDRs because it is neither a participant in the SDR Department nor a prescribed holder. In these cases the member would be permitted by the Fund to pay all its charges in the currency of another member specified by the Fund.<sup>29</sup>

If a member holds an amount of SDRs insufficient to meet upcoming charges by the Fund, the member should acquire SDRs from another SDR holder in a transaction by agreement or, within 30 days before charges fall due, the member can purchase from the GRA the estimated amount of SDRs required with a currency determined by the Fund.<sup>30</sup>

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<sup>28</sup>See Article V, Section 8(e), p. 58. A decision to permit the use of a member's own currency in payment of charges has not yet been taken by the Fund.

<sup>29</sup>See Executive Board Decision No. 5702-(78/39) G/S, p. 74.

<sup>30</sup>*Ibid.*

### *(b) Repurchases*

Participants may use SDRs to make repurchases of the Fund's holdings of their currency. Members wishing to acquire SDRs to discharge forthcoming repurchases may seek Fund assistance in arranging such acquisitions in transactions by agreement (see Section II.2). Except when a participant has given a standing authorization to debit its SDR account for repurchases or has indicated a preference for using SDRs in making repurchases, the Fund periodically asks participants if they wish to use SDRs or currency to discharge repurchases in the forthcoming quarterly period. In such consultations with members, the Fund takes into consideration the overall supply of SDRs available for transactions by agreement and the volume of SDRs required by members to discharge their repurchase obligations. A number of participants have given standing authorizations to the Fund to debit their SDR accounts with repurchases. Suggested texts of an authorization to debit the SDR account for repurchases are shown in Section V.3(c).

### *(c) Use of SDRs in Quota Subscriptions and in Quota Increases*

Under the Eighth General Review of Quotas, participants were given the option of paying 25 percent of their quota increases in SDRs or in a currency specified by the Fund. The same option was provided for in the Ninth General Review. New members were also authorized to use SDRs for payment of quota subscriptions. In this connection, a facility for aiding members with insufficient SDR holdings or a weak reserve position or both situations was available whereby these members, with the Fund's assistance in finding counterparties, borrowed SDRs from other members on the day of the former's quota subscription payments. This facility is described in (e) below.

### *(d) Other Transfers*

An annual assessment on members that serves to reimburse the Fund for the operating expenses of the SDR Department and the interest on GRA holdings comprises other transfers to the GRA.<sup>31</sup>

### *(e) Arrangements for Same-Day Loans and Repayments in SDRs*

Fund members that participate in the SDR Department must pay the reserve asset portion of the initial quota subscription and any subsequent increase in quotas in SDRs, currencies of other members specified by the Fund, or a combination of these assets. The balance of the quota increase or initial quota subscription, expressed in SDRs, is payable in the member's own currency.

To assist members with insufficient reserves to make the reserve asset payments for their initial quota subscriptions and for their quota increases under the Eighth and Ninth General Reviews, the Fund established arrangements for a same-day loan and repayment of SDRs. Under these arrangements, members that held sufficient SDRs agreed with the Fund to lend SDRs without interest, fee, or commission to other members who needed them for these purposes. A member with insufficient reserves borrowed SDRs and used them to make the reserve asset payment to the Fund. On the same day it drew in SDRs its newly established reserve tranche position in the Fund, it used them to repay the borrowed SDRs. The SDR loan, the

<sup>31</sup>See Section IV for details.

quota payment, the drawing of the reserve tranche position, and the repayment of the loan were all completed and recorded on the same value date, thus allowing members with insufficient reserves to complete their quota payments without cost or exchange risk while leaving the SDR position of lenders unaffected.

An illustrative cable for a participant to establish an arrangement for a same-day loan and repayment in SDRs in connection with quota increases under the Ninth General Review reads as follows:

SDR NO.

TEST NO.

IN ORDER TO ASSIST FUND MEMBERS WHOSE FOREIGN EXCHANGE AND SDR HOLDINGS ARE LESS THAN THE RESERVE ASSET PORTION OF THEIR QUOTA INCREASES AUTHORIZED UNDER THE NINTH GENERAL REVIEW OF QUOTAS, (LENDER) HEREBY NOTIFIES THE FUND THAT IT STANDS READY TO LEND SDRS FROM ITS HOLDINGS TO SUCH MEMBERS AND AUTHORIZES THE FUND TO ARRANGE SUCH LOANS ON ITS BEHALF ON THE FOLLOWING TERMS AND CONDITIONS:

1. LOANS OF SDRS MAY BE MADE TO SUCH MEMBERS FOR THIS PURPOSE ONLY ON SUCH DATE AND IN SUCH INDIVIDUAL AMOUNTS AS THE FUND MAY DETERMINE, PROVIDED THAT THE AGGREGATE AMOUNT OF SUCH LOANS SHALL NOT EXCEED SDR (AMOUNT).
2. THE BORROWER SHALL REPAY THE SAME AMOUNT OF SDRS ON THE SAME DATE AS THE LOAN AMOUNT IS TRANSFERRED.
3. THE FUND IS HEREBY INSTRUCTED TO EFFECT PAYMENT OF EACH LOAN BY DEBITING THE SDR ACCOUNT OF (LENDER) WITH ITS LOAN AMOUNT AND CREDITING THE AMOUNT TO THE ACCOUNT OF THE BORROWER AND TO EFFECT REPAYMENT OF THE LOAN ON THE SAME DATE BY DEBITING THE SDR ACCOUNT OF THE BORROWER WITH THE SAME AMOUNT AND CREDITING THE ACCOUNT OF (LENDER).
4. THE LOAN IS MADE WITH NO INTEREST OR OTHER COST.
5. EACH LOAN AND ITS REPAYMENT SHALL CONSTITUTE OPERATIONS IN SDRS UNDER ARTICLE XIX, SECTION 2(C) IN ACCORDANCE WITH THE APPLICABLE RULES AND PRESCRIPTIONS OF THE FUND. NO FURTHER NOTICE, DECLARATION, OR INSTRUCTION WILL BE NEEDED FROM (LENDER) WITH RESPECT TO THESE OPERATIONS.
6. BY NOTIFYING THE FUND, (LENDER) MAY TERMINATE THE FUND'S AUTHORITY TO MAKE LOAN ARRANGEMENTS HEREUNDER IF (LENDER) CONSIDERS TERMINATION APPROPRIATE IN VIEW OF THE ACTUAL OR ANTICIPATED REDUCTION IN THE LEVEL OF ITS SDR HOLDINGS.

FISCAL AGENCY

## 2. Transfers from the General Resources Account

### *(a) In Purchases*

Since March 1977, the Fund has sold SDRs to participants making use of the Fund's resources with the agreement of those participants.<sup>32</sup> A participant making a purchase under a stand-by arrangement or making another type of purchase would normally, with its agreement, receive some SDRs. There is no operational inconvenience for the purchasing participant in receiving SDRs, which can be used simultaneously in a transaction with designation or in a transaction by agreement to obtain the freely usable currency of the participant's choice. In fact, it can often be more useful to receive SDRs because the purchasing participant can hold all or part of the SDRs as a desired component of its reserves with which it is to pay charges in SDRs at a later date or discharge some of its financial obligations to the Fund in SDRs. Availability of SDRs in purchases depends, of course, on the SDR holdings of the GRA and on the policy on sales of SDRs at the time of purchase.<sup>33</sup> The Treasurer's Department advises participants at the time of the purchase whether the Fund will provide SDRs, subject to the purchasing participant's agreement, instead of currencies.

### *(b) Acquisition of SDRs Against Currency Specified by the Fund*

Participants who hold insufficient SDRs to pay charges to the Fund in the GRA and assessments and charges in the SDR Department may acquire the needed amount of SDRs from the GRA against payment of a currency specified by the Fund within 30 days of the due dates of these obligations.<sup>34</sup>

### *(c) Other Transfers*

SDRs may also be transferred from the GRA for the (i) payment of remuneration by the Fund at the beginning of each financial quarter to members on their net creditor positions (however, either the Fund or the member may decide that the payment to the member shall be made in its own currency), (ii) payment of interest and principal on Fund borrowing from participants and prescribed holders, (iii) refund of charges or remuneration that arise out of burden sharing<sup>35</sup> and those related to purchases under Fund arrangements and their cancellations, and (iv) purchase of any member's currency that is deemed to be scarce by the Fund and therefore needs to be replenished (see p. 58). Any such transfers other than refunds of charges are subject to the agreement, either ad hoc or in a general way, of the recipient of SDRs.

<sup>32</sup>Executive Board Decision No. 5355-(77/36) G/S, p. 74.

<sup>33</sup>Executive Board Decision No. 6275-(79/158) G/S, p. 88.

<sup>34</sup>Executive Board Decision No. 5702-(78/39) G/S, p. 74.

<sup>35</sup>For a discussion of the principles underlying the sharing of costs (arising out of overdue financial obligations to the Fund) between creditor and debtor members of the Fund, see International Monetary Fund, *Financial Organization and Operations of the IMF*, IMF Pamphlet Series No. 45 (Washington, 1993, 3rd ed.).

## Charges, Interest, and Assessments in the SDR Department<sup>36</sup>

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Participants pay charges on their net cumulative allocations, and all holders of SDRs earn interest on their daily holdings. Because the rate for charges is the same as the rate of interest, a participant whose daily holdings equal its net cumulative allocations (i.e., who makes no use of SDRs and does not receive any in transactions) receives interest exactly equal to the charges it pays. Participants whose daily holdings are less than their net cumulative allocations pay net charges, and holders whose holdings exceed their net cumulative allocations receive net interest from the Fund. When a participant fails to pay charges fully and on time, the payment of charges to the Fund is less in aggregate (by the amount of the overdue charges) than the transfer of interest from the Fund. To transfer the full amount of interest owed, the Fund creates SDRs temporarily and cancels them once the overdue charges are paid.

Interest and charges are to be settled immediately after the end of each financial quarter (May 1, August 1, November 1, and February 1), and the Fund makes the necessary debits and credits in participants' and prescribed holders' SDR accounts on those days. Accrued interest and charges are shown on the monthly statements that are airmailed to each participant and prescribed holder. In the event that a participant's holdings are insufficient to cover the charges (and assessment—see below), the participant is obligated and entitled to obtain SDRs in exchange for a currency acceptable to the Fund, in a transaction with the Fund conducted through the GRA. Alternatively, the SDRs may be obtained from another participant through a transaction by agreement.

Participants who have received an allocation are subject to an annual assessment to reimburse the Fund for expenses incurred in operating the SDR Department. The total amount of the estimated expenses is divided among the participants in proportion to their net cumulative allocations and is expressed in the form of a percentage. This assessment is at the same rate for all participants and is a small percentage of participants' net cumulative allocations (normally about 0.01 percent or less) and it is charged to participants' SDR accounts at the end of each financial year (April 30).

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<sup>36</sup>See Article XX, p. 64.

# Forms of Communication for Transactions and Operations in the SDR Department

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Any cable or telex communication from a holder to the Fund relating to the use or receipt of SDRs should bear the test number of the holder's fiscal or transfer agency. Care should be taken, when necessary, to include the relevant reference to the Articles of Agreement and to identify the communication by the prefix "SDR" followed by the number of the cable.

Telephone and telegraph charges and postal fees incurred by participants acting upon instructions from the Fund—for example, to provide currency, arrange for an exchange of currency, or provide information about exchange rates—may be charged to the Fund. The Fund's No. 2 Account should be debited quarterly, and advice of all debits, distinguishing them from expenses relating to the GRA, should be sent to the Treasurer's Department of the Fund by airmail.

### 1. Transactions by Agreement

In accordance with Article XIX, Section 2(b), participants and, on the basis of subsequent Executive Board Decisions, prescribed holders can use SDRs freely in transactions by agreement among themselves. If the Fund's assistance is desired in arranging such a transaction, the holder wishing to sell (or acquire) SDRs should contact the Treasurer's Department. Sections (a) and (b) list the procedural steps involved when participants or prescribed holders wish to buy or sell SDRs in a transaction by agreement to be arranged by the Fund. Section (c) describes procedures to be followed for transactions by agreement between participants and prescribed holders that are not arranged by the Fund on their behalf. For illustrative purposes, it is assumed that the fiscal agencies of the buyer and the seller of SDRs are their central banks.<sup>37</sup>

#### *(a) Procedures for Completing a Transaction by Agreement to Buy SDRs with Fund Assistance*

##### *(i) Cable requesting Fund assistance*

All holders of SDRs may seek Fund assistance in arranging a transaction by agreement. The cable requesting assistance, bearing the appropriate test number of the holder's fiscal agency, should be addressed to the Treasurer's, Interfund, and should indicate the proposed value date, the amount of SDRs to be bought, and the preferred currency to be used. The cable should be received by the Fund at least four business days before the proposed value date.

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<sup>37</sup>In all sample cables, parentheses are used to indicate where relevant entries must be made, whereas square brackets indicate that an alternative entry may be appropriate or that helpful information is enclosed.

An example of such a request for a transaction by agreement follows:

SAMPLE SDR NO.  
TEST NO.  
VALUE (DATE) (HOLDER) WISHES TO ACQUIRE SDR (AMOUNT)  
AGAINST A FREELY USABLE CURRENCY, PREFERABLY  
(PREFERRED CURRENCY), IN A TRANSACTION BY AGREEMENT.  
CENTRAL BANK OF (HOLDER)

Transactions by agreement are not limited to freely usable currencies; any monetary asset other than gold for which the Fund has established a representative rate may be used if both parties agree to it.

*(ii) Notification cable from the Fund*

Upon receipt of the above cable, the Fund will promptly acknowledge the request and notify the buyer of SDRs that a transaction by agreement will be arranged for the amount of SDRs against the payment of a specified freely usable currency on the value date specified. The notification cable will also specify the date for the exchange rate, that is, the date on which the currency equivalent of the SDR amount is determined and on which the Fund will cable the precise payment instructions for the transaction. Unless the buyer requests otherwise, the exchange rate date is generally two or three business days from the value date of the transaction, as arranged by the Fund with the seller of SDRs.

An example of the notification cable from the Fund follows:

SAMPLE SDR NO.  
TEST NO.  
REFERENCE YOUR CABLE DATED (DATE) CONCERNING YOUR  
ACQUISITION OF SDR (AMOUNT).  
1. FUND WILL ARRANGE ON YOUR BEHALF A TRANSACTION BY  
AGREEMENT VALUE (DATE) AGAINST PAYMENT OF (SPECIFIED  
CURRENCY) USING THE EXCHANGE RATE ON (DATE).  
2. FUND WILL CABLE YOU DETAILS ON (DATE).  
TREASURER'S  
INTERFUND

*(iii) Payment instruction cable from the Fund*

On the date that the exchange rate to be used for the transaction is determined, the Fund issues payment instructions to the buyer of SDRs. The instructions specify the exact amount of specified currency to be paid to the account of the seller at its correspondent bank (for example, the Federal Reserve Bank of New York, New York). In addition, the payment instruction cable will request the buyer to cable the Fund by the next business day the arrangements made for payment of currency.



An example of the cable to the buyer from the Fund containing payment instructions follows:

SAMPLE

SDR NO.  
 TEST NO.  
 REFERENCE YOUR CABLE DATED (DATE) AND FUND CABLE SDR NO. (CABLE NUMBER) DATED (DATE) CONCERNING YOUR ACQUISITION OF SDRS.

1. TO ACQUIRE SDR (AMOUNT) FROM (SELLER) IN A TRANSACTION BY AGREEMENT, PLEASE PAY IN IMMEDIATELY AVAILABLE FUNDS VALUE (DATE) (SPECIFIED CURRENCY) (AMOUNT) TO (ACCOUNT NUMBER) OF (SELLER'S CENTRAL BANK) MAINTAINED WITH (SELLER'S CORRESPONDENT BANK). ABOVE CURRENCY AMOUNT CALCULATED AT RATE OF ONE (SPECIFIED CURRENCY) EQUALS SDR (AMOUNT) ON (DATE).
2. PLEASE INSTRUCT (SELLER'S CORRESPONDENT BANK) TO CONFIRM RECEIPT OF FUNDS TO (SELLER'S CENTRAL BANK).
3. THE SDR ACCOUNT OF (BUYER) WILL BE CREDITED ON DATE CURRENCY IS RECEIVED.
4. TO AVOID LOSS OF OVERNIGHT INVESTMENT INCOME, PLEASE ENSURE THAT PAYMENT IS MADE BEFORE (LOCAL TIME) ON THE VALUE DATE. PLEASE CABLE NOT LATER THAN (DATE) ARRANGEMENTS MADE FOR PAYMENT, INDICATING NAME OF YOUR CORRESPONDENT BANK.

TREASURER'S  
 INTERFUND

*(iv) Payment arrangement cable from the buyer*

Upon receiving the above payment instruction cable from the Fund, the buyer sends the Fund by the next business day a cable advising the arrangements made for payment.

SAMPLE

SDR NO.  
 TEST NO.  
 REFERENCE FUND CABLE SDR NO. (CABLE NUMBER) DATED (DATE) REGARDING THE ACQUISITION OF SDR (AMOUNT) VALUE (DATE). WE HAVE ADVISED (BUYER'S CORRESPONDENT BANK) TO PAY (SPECIFIED CURRENCY) (AMOUNT) VALUE (DATE) TO THE ACCOUNT OF (SELLER'S CENTRAL BANK) WITH THE (SELLER'S CORRESPONDENT BANK) BEFORE (LOCAL TIME) AND TO CONFIRM RECEIPT OF FUNDS TO THE BENEFICIARY.  
 CENTRAL BANK OF (BUYER)

*(v) Credit confirmation cable from the Fund*

On the value date or on the day immediately after, the seller of SDRs receiving currency from the buyer confirms such receipt to the Fund (see also Section *b(iv)* below) as confirmed to them by their correspondent bank. Upon receipt of this information, the Fund then confirms to the buyer that its SDR account has been credited with the amount of SDRs on the value date specified.

SAMPLE  
SDR NO.  
TEST NO.  
REFERENCE YOUR CABLE NO. (CABLE NUMBER) DATED (DATE)  
AND FUND CABLE SDR NO. (CABLE NUMBER) DATED (DATE)  
CONCERNING YOUR ACQUISITION OF SDRS IN A TRANSACTION  
BY AGREEMENT WITH (SELLER).  
THE SDR ACCOUNT OF (BUYER) HAS BEEN CREDITED WITH SDR  
(AMOUNT) VALUE (DATE).  
TREASURER'S  
INTERFUND

*(b) Procedures for Completing a Transaction by Agreement to Sell SDRs with Fund Assistance*

This section details the procedural steps involved in a sale of SDRs by a participant or prescribed holder. As before, the cable requesting the Fund's assistance in the sale of SDRs, bearing the appropriate test number of the member's fiscal agency, should be addressed to the Treasurer's, Interfund, and should indicate the value date, the amount of SDRs to be sold, and the preferred currency to be received in payment, and the account and correspondent bank to which the currency is to be paid.

*(i) Request for a sale of SDRs*

SAMPLE  
SDR NO.  
TEST NO.  
VALUE (DATE) (SELLER) WISHES TO SELL SDR (AMOUNT) IN A  
TRANSACTION BY AGREEMENT AGAINST (SPECIFIED CURRENCY)  
TO BE CREDITED TO ACCOUNT NO. (ACCOUNT NUMBER) OF  
(SELLER'S CENTRAL BANK) MAINTAINED WITH (SELLER'S  
CORRESPONDENT BANK).  
CENTRAL BANK OF (SELLER)

*(ii) Notification cable from the Fund*

The Fund, upon receipt of the cable requesting to sell SDRs, will promptly acknowledge the request and notify the seller as follows:

SDR NO.  
 TEST NO.  
 REFERENCE YOUR CABLE DATED (DATE) CONCERNING YOUR SALE OF SDR (AMOUNT).

**SAMPLE**

1. FUND WILL ARRANGE ON YOUR BEHALF A TRANSACTION BY AGREEMENT VALUE (DATE) USING THE EXCHANGE RATE ON (DATE) TO SELL SDR (AMOUNT) AGAINST (SPECIFIED CURRENCY) TO BE CREDITED TO YOUR ACCOUNT (ACCOUNT NUMBER) WITH (SELLER'S CORRESPONDENT BANK).
2. FUND WILL CABLE YOU DETAILS ON (DATE).

TREASURER'S  
 INTERFUND

*(iii) Payment arrangement cable from Fund to seller*

The Fund, on the date the payment instruction cable is sent to the buyer, informs the seller as follows:

SDR NO.  
 TEST NO.  
 REFERENCE YOUR CABLE DATED (DATE) AND FUND CABLE SDR NO. (CABLE NUMBER) DATED (DATE) CONCERNING YOUR SALE OF SDRS.

**SAMPLE**

1. (BUYER) WISHES TO ACQUIRE SDR (AMOUNT) FROM (SELLER) IN A TRANSACTION BY AGREEMENT. ACCORDINGLY, VALUE (DATE) WE EXPECT (BUYER'S CENTRAL BANK) TO PAY (SPECIFIED CURRENCY) (AMOUNT) TO ACCOUNT OF (SELLER'S CENTRAL BANK) MAINTAINED WITH THE (SELLER'S CORRESPONDENT BANK).
2. ABOVE CURRENCY AMOUNT CALCULATED AT RATE OF ONE (SPECIFIED CURRENCY) EQUALS SDR (AMOUNT) ON (DATE).
3. PLEASE CONFIRM RECEIPT OF CURRENCY BY TESTED CABLE TO THE FUND. THE SDR ACCOUNT OF (SELLER) WILL BE DEBITED ON DATE CURRENCY IS RECEIVED.

TREASURER'S  
 INTERFUND

*(iv) Confirmation of receipt of currency*

When the seller of SDRs receives confirmation from its correspondent bank that the amount of the specified currency has been transferred to its account by the buyer, it sends the following cable confirming the receipt of currency to the Fund.

SDR NO.  
 TEST NO.  
 REFERENCE FUND CABLE SDR NO. (CABLE NUMBER) DATED (DATE) CONCERNING (SELLER'S) SALE OF SDR (AMOUNT). (SPECIFIED CURRENCY) (AMOUNT) WAS RECEIVED VALUE (DATE). ACCORDINGLY, PLEASE DEBIT (SELLER'S) SDR ACCOUNT WITH SDR (AMOUNT) AND CREDIT SAME TO SDR ACCOUNT OF (BUYER), SAME VALUE.  
 CENTRAL BANK OF (SELLER)

*(v) Fund cable to seller confirming debit to its SDR account*

SDR NO.  
 TEST NO.  
 REFERENCE YOUR CABLE NO. (CABLE NUMBER) DATED (DATE) AND FUND CABLE SDR NO. (CABLE NUMBER) DATED (DATE) CONCERNING YOUR SALE OF SDRS IN A TRANSACTION BY AGREEMENT WITH (BUYER).  
 THE SDR ACCOUNT OF (SELLER) HAS BEEN DEBITED WITH SDR (AMOUNT) VALUE (DATE).  
 TREASURER'S  
 INTERFUND

***(c) Transactions by Agreement Without Fund Assistance***

As noted earlier, participants and prescribed holders can use SDRs freely in transactions by agreement among themselves. Upon completion of such a transaction by agreement, the holder that provided the SDRs must notify the Fund, in accordance with Rule P-8, indicating the amount of SDRs used, the amount of currency received and the exchange rate used, the participant with which the transaction was undertaken, and the value date of the transaction.

An example of such a notification cable follows:

SDR NO.  
 TEST NO.  
 VALUE (DATE), (CURRENCY AMOUNT) HAS BEEN RECEIVED IN EXCHANGE FOR SDR (AMOUNT) FROM (BUYER) IN A TRANSACTION BY AGREEMENT. CURRENCY CALCULATED AT THE RATE OF ONE (SPECIFIED CURRENCY) EQUALS SDR (AMOUNT) ON (DATE). ACCORDINGLY, PLEASE DEBIT (SELLER'S) SDR ACCOUNT WITH SDR (AMOUNT) AND CREDIT SAME TO SDR ACCOUNT OF (BUYER), SAME VALUE.  
 CENTRAL BANK OF (SELLER)

## 2. Prescribed Operations

### *(a) Use of SDRs in Settlement of Financial Obligations*

A holder may use SDRs in settlement of financial obligations by agreement with another holder. Both parties to this operation must inform the Fund of the denomination and amount of the obligation and the intended value date of the operation. As required by Rule P-7, both parties shall declare that the intended use of SDRs is in accordance with this prescription.

SDR NO.

TEST NO.

1. (NAME OF HOLDER) INTENDS TO TRANSFER [OR ACQUIRE] SDR TO [FROM] (OTHER PARTY) IN ACCORDANCE WITH THE FUND'S DECISION AUTHORIZING THE USE OF SDRS IN SETTLEMENT OF FINANCIAL OBLIGATIONS.

2. THE OBLIGATION IS DENOMINATED IN (CURRENCY/OR UNIT) AND AMOUNTS TO (AMOUNT OF OBLIGATION IN CURRENCY OR UNIT OF OBLIGATION). ON THE BASIS OF THE SDR/(CURRENCY OR UNIT) RATE OF (RATE) ON (DATE, TWO OR THREE BUSINESS DAYS BEFORE VALUE DATE), THIS CORRESPONDS TO SDR (AMOUNT).

3. ACCORDINGLY, PLEASE DEBIT THE SDR ACCOUNT OF (NAME OF PROVIDER) WITH SDR (AMOUNT) AND CREDIT SAME TO THE SDR ACCOUNT OF (NAME OF RECIPIENT), VALUE (DATE).

FISCAL AGENCY

### *(b) Use of SDRs in Loans*

A holder by agreement with another holder may make a loan of SDRs to another holder. Both parties to this operation must inform the Fund of the denomination, amount, rate of interest, maturity, means of repayment, and the intended value date of the operation. As required by Rule P-7, both parties shall declare that the intended use of SDRs is in accordance with this prescription.

SDR NO.

TEST NO.

1. (NAME OF HOLDER) INTENDS TO LEND [OR BORROW] SDRS IN ACCORDANCE WITH THE FUND'S DECISION AUTHORIZING LOANS OF SDRS.

2. THE LOAN IS DENOMINATED IN (CURRENCY OR UNIT). INTEREST IS TO BE PAID IN (CURRENCY OR UNIT) AT THE RATE OF (RATE OF INTEREST) PERCENT PER ANNUM. THE LOAN MATURES ON (DATE) AT WHICH TIME IT WILL BE REPAYED IN EQUIVALENT VALUE OF (CURRENCY OR UNIT).

3. ACCORDINGLY, PLEASE DEBIT THE SDR ACCOUNT OF (NAME OF LENDER) WITH SDR (AMOUNT) AND CREDIT SAME TO ACCOUNT OF (BORROWER), VALUE (DATE).

FISCAL AGENCY

***(c) Use of SDRs in Pledges***

A holder, by agreement with another holder, may pledge SDRs to secure a financial obligation. Both parties to this operation must inform the Fund of the amount and the denomination of the obligation to be secured by the pledge, the amount of SDRs to be pledged, the effective date of the pledge, and the party or entity designated by the parties to the operation to give instructions to the Fund with regard to the pledge. As required by Rule P-7, both parties shall declare that the intended use of SDRs is in accordance with this prescription.

SDR NO.

TEST NO.

1. (NAME OF HOLDER) INTENDS TO USE SDRS IN ACCORDANCE WITH FUND'S DECISION AUTHORIZING USE OF SDRS AS A PLEDGE.

2. THE OBLIGATION TO BE SECURED IS IN (CURRENCY OR UNIT) AND AMOUNTS TO (AMOUNT OF OBLIGATION). THE SDRS ARE TO BE PLEDGED FROM (DATE) TO (DATE).

3. THE PARTY [OR OTHER ENTITY] DESIGNATED TO GIVE INSTRUCTIONS TO THE FUND TO TERMINATE THE PLEDGE OR TO TRANSFER THE SDRS TO THE PLEDGEE IS (NAME OF THE PARTY) [OR OTHER ENTITY].

4. ACCORDINGLY, PLEASE RECORD SDR (AMOUNT) AS PLEDGED BY (NAME OF HOLDER) IN FAVOR OF (NAME OF PLEDGEE).

FISCAL AGENCY

***(d) Use of SDRs in Transfers as Security for Performance of Financial Obligations***

A holder, by agreement with another holder, may transfer SDRs to that holder in order to secure the performance of a financial obligation to that holder. Both parties involved in the transfer of SDRs as a security must inform the Fund of the amount and denomination of the obligation to be secured, the amount of SDRs to be transferred, the effective date of the transfer, any agreement by the parties regarding SDRs received from the Fund as interest in respect of the transferred SDRs, and the party or other entity designated by the parties to the operation to give instructions to the Fund for the retransfer. As required by Rule P-7, both parties shall declare that the intended use of SDRs is in accordance with this prescription.

SDR NO.

TEST NO.

1. (NAME OF HOLDER) INTENDS TO TRANSFER [RECEIVE] SDRS IN ACCORDANCE WITH THE FUND'S DECISION AUTHORIZING USE OF SDRS AS SECURITY FOR THE PERFORMANCE OF A FINANCIAL OBLIGATION.

2. THE OBLIGATION TO BE SECURED IS IN (CURRENCY OR UNIT) AND AMOUNTS TO (AMOUNT OF OBLIGATION). [IF APPLICABLE, ADD DESCRIPTION OF ANY AGREEMENT BY THE PARTIES REGARDING SDRS RECEIVED FROM THE FUND AS INTEREST IN RESPECT TO THE TRANSFERRED SDRS.]

3. THE PARTY [OR OTHER ENTITY] DESIGNATED TO GIVE INSTRUCTIONS TO THE FUND FOR RETRANSFER OF THE SDRS IS (NAME OF THE PARTY) [OR OTHER ENTITY].

4. ACCORDINGLY, PLEASE DEBIT THE SDR ACCOUNT OF (NAME OF TRANSFEROR) WITH SDR (AMOUNT) AND CREDIT THE SAME TO (NAME OF RECIPIENT), VALUE (DATE).

FISCAL AGENCY

*(e) Use of SDRs in Swaps*

A holder may swap SDRs for an equivalent amount of currency by agreement with another holder and undertake to reverse the exchange of SDRs for currency within an agreed period and at an exchange rate agreed between the two parties. Both parties to this operation must inform the Fund of the amount of SDRs and the period of the swap, the monetary asset, the exchange rate, and the value date for the reversal of the swap. As required by Rule P-7, both parties shall declare that the intended use of SDRs is in accordance with this prescription. This information should be furnished prior to the value date of the initial exchange. Upon completion of the first stage, the party using SDRs must confirm by telex to the Fund that the appropriate amount of currency (or other monetary asset) has been received on the value date specified in the first telex. When the transaction is reversed, the other party must inform the Fund by cable in the same way. Examples are set forth below.

*(i) Cable to be sent by both parties at the outset of the operation*

SDR NO.

TEST NO.

1. (NAME OF HOLDER) INTENDS TO SWAP SDR (AMOUNT) WITH (OTHER PARTY) AGAINST (CURRENCY OR UNIT) IN ACCORDANCE WITH THE FUND'S DECISION AUTHORIZING USE OF SDRS IN SWAPS.

**SAMPLE**

2. ON THE BASIS OF THE SDR/(CURRENCY OR UNIT) RATE OF (RATE) ON (DATE, TWO OR THREE BUSINESS DAYS BEFORE VALUE DATE), THIS AMOUNT OF SDRS CORRESPONDS TO (AMOUNT OF CURRENCY OR UNIT).

3. IT IS INTENDED THAT THE SWAP WILL BE REVERSED ON (DATE) ON THE BASIS OF THE SDR/(CURRENCY OR UNIT) RATE OF (RATE). WE SHALL CONFIRM THE REVERSAL AT THAT TIME.

4. IF THE TERMS OF THE ARRANGEMENT ARE MODIFIED IN ANY WAY, WE SHALL NOTIFY THE FUND ACCORDINGLY.

FISCAL AGENCY

(ii) *Cable to be sent by user of SDRs upon completion of first stage*

**SAMPLE**

SDR NO.  
TEST NO.  
REFERENCE SDR SWAP WITH (OTHER PARTY), VALUE (DATE). THIS IS TO CONFIRM THAT WE RECEIVED (AMOUNT OF CURRENCY) FROM (OTHER PARTY), VALUE (DATE). ACCORDINGLY, PLEASE DEBIT OUR SDR ACCOUNT WITH SDR (AMOUNT) AND CREDIT SAME TO ACCOUNT OF (OTHER PARTY), SAME VALUE.

FISCAL AGENCY

(iii) *Cable to be sent by other party upon completion of reversal*

**SAMPLE**

SDR NO.  
TEST NO.  
REFERENCE REVERSAL OF SDR SWAP WITH (NAME OF ORIGINAL PROVIDER). THIS IS TO CONFIRM THAT WE RECEIVED (AMOUNT AND DENOMINATION OF CURRENCY) FROM (NAME), VALUE (DATE) AS PER PARAGRAPH 3 OF OUR CABLE SDR NO. (CABLE NUMBER) [REFERENCE TO ORIGINAL NOTIFICATION]. ACCORDINGLY, PLEASE DEBIT OUR SDR ACCOUNT WITH SDR (AMOUNT) AND CREDIT SAME TO ACCOUNT OF (NAME), SAME VALUE.

FISCAL AGENCY

**(f) Use of SDRs in Forward Operations**

A holder, by agreement with another holder, may transfer SDRs at an agreed future date in exchange for an agreed amount of currency or other monetary asset. Both parties must inform the Fund of the amount of SDRs and the period of the operation, the monetary asset, the exchange rate, and the value date for the exchange and any subsequent modification of the terms of the operation. As required by Rule P-7, both parties shall declare that the intended use of SDRs is in accordance with this prescription.



*(i) Cable to be sent by both parties*

SDR NO.  
 TEST NO.

1. (NAME OF HOLDER) INTENDS TO TRANSFER [OR ACQUIRE] SDR (AMOUNT) TO [FROM] (OTHER PARTY) IN A FORWARD OPERATION AGAINST (NAME OF CURRENCY), VALUE (DATE), IN ACCORDANCE WITH THE FUND'S DECISION AUTHORIZING USE OF SDRS IN FORWARD OPERATIONS.

2. ON THE BASIS OF THE EXCHANGE RATE AGREED BETWEEN OURSELVES AND (OTHER PARTY), NAMELY (SDR RATE PER UNIT OF CURRENCY), THE (CURRENCY) EQUIVALENT IS (AMOUNT).

3. WE SHALL CONFIRM BY CABLE UPON RECEIPT OF CURRENCY.

FISCAL AGENCY

*(ii) Cable to be sent by user of SDRs upon completion*

SDR NO.  
 TEST NO.

REFERENCE FORWARD OPERATION WITH (NAME). THIS IS TO CONFIRM THAT WE RECEIVED (AMOUNT OF CURRENCY) FROM (NAME), VALUE (DATE). ACCORDINGLY, PLEASE DEBIT OUR SDR ACCOUNT WITH SDR (AMOUNT) AND CREDIT SAME TO SDR ACCOUNT OF (NAME), SAME VALUE.

FISCAL AGENCY

*(g) Use of SDRs in Donations*

A holder by agreement with another holder may donate or receive SDRs. Both parties shall inform the Fund of the amount of SDRs and the value date for the transfer. As required by Rule P-7, both parties shall declare that the intended use of SDRs is in accordance with this prescription.

SDR NO.  
 TEST NO.

1. (NAME OF HOLDER) INTENDS TO DONATE [RECEIVE] SDR (AMOUNT) IN ACCORDANCE WITH THE FUND'S DECISION AUTHORIZING THE USE OF SDRS IN DONATIONS.

2. ACCORDINGLY, PLEASE DEBIT THE SDR ACCOUNT OF (NAME OF DONOR) WITH SDR (AMOUNT) AND CREDIT THE SAME TO (RECIPIENT), VALUE (DATE).

FISCAL AGENCY

### 3. Transactions and Operations Through General Resources Account

#### *(a) Ad Hoc Authorization for Payment of Charges to General Resources Account*

All charges payable to the GRA are normally settled in SDRs in accordance with Article V, Section 8(e). The cable to be received by the Fund should read as follows:

SAMPLE SDR NO.  
 SAMPLE TEST NO.  
 SAMPLE VALUE (DATE), PLEASE DEBIT (PARTICIPANT'S) SDR ACCOUNT WITH SDR (AMOUNT) IN PAYMENT OF (DESCRIBE NATURE OF CHARGE).  
 SAMPLE FISCAL AGENCY

#### *(b) Standing Authorization for Periodic Charges Only*

Participants may give the Fund standing authorization specifically for the payment of periodic charges in SDRs as follows:

SAMPLE SDR NO.  
 SAMPLE TEST NO.  
 SAMPLE UNTIL FURTHER NOTICE, THE FUND IS AUTHORIZED TO DEBIT THE SDR ACCOUNT OF (PARTICIPANT) WITH THE AMOUNT OF PERIODIC CHARGES ON THE DUE DATE, AS NOTIFIED BY THE FUND PROMPTLY AFTER THE END OF THE PERIOD TO WHICH THEY RELATE.  
 SAMPLE FISCAL AGENCY

#### *(c) Use of SDRs in Repurchases*

Repurchases may be made with SDRs in accordance with Article V, Section 7(i). The cable to be received by the Fund from the fiscal agency should read as follows:

SAMPLE SDR NO.  
 SAMPLE TEST NO.  
 SAMPLE VALUE (DATE), PLEASE DEBIT (PARTICIPANT'S) SDR ACCOUNT WITH SDR (AMOUNT) IN DISCHARGE OF REPURCHASE DUE NOT LATER THAN (DATE).  
 SAMPLE FISCAL AGENCY

or

SAMPLE SDR NO.  
 SAMPLE TEST NO.  
 SAMPLE UNTIL FURTHER NOTICE, THE FUND IS AUTHORIZED TO DEBIT (PARTICIPANT'S) SDR ACCOUNT WITH THE AMOUNTS OF REPURCHASES ON THEIR DUE DATES.  
 SAMPLE FISCAL AGENCY

*(d) Standing Authorization for All Fund Obligations*

Participants may provide the Fund with standing authorization to debit their SDR account to discharge all Fund obligations as follows:

SDR NO.

TEST NO.

UNTIL FURTHER NOTICE, THE FUND IS AUTHORIZED TO DEBIT  
(PARTICIPANT'S) SDR ACCOUNT WITH ALL THE AMOUNTS OF  
FINANCIAL OBLIGATIONS AS THEY FALL DUE TO THE FUND.

FISCAL AGENCY

## APPENDIX I

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# SDRs: Allocation, Valuation, Interest Rate, Arrangements for Transactions, and Accounting

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### A. Allocation of SDRs

Article XVIII, Section 2(a) provides that “Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration.” It also allows the Fund to provide for the duration of a basic period to be other than five years. On the first occasion to allocate SDRs, it was decided that the basic period would be for three years starting on January 1, 1970.

The Board of Governors, on a proposal by the Managing Director, decided on October 3, 1969 at its Annual Meeting to provide for a total allocation of approximately SDR 9.5 billion over the three years 1970–72. Three annual allocations were made to participants on January 1 of each year 1970 to 1972, calculated as a uniform percentage of each participant’s quota in the Fund on the day before each allocation.

The second basic period began on January 1, 1973 and was for five years. The Fund did not decide to allocate SDRs during the second basic period.

The third basic period, which started on January 1, 1978, had a duration of four years, and it was decided to allocate SDRs for three years of this period. Based on a proposal by the Managing Director, the Board of Governors adopted a resolution,<sup>38</sup> which became effective on December 11, 1978, to make allocations of SDR 4 billion each year from 1979 through 1981. The Fund allocated SDR 4,032.7 million on January 1, 1979, SDR 4,033.3 million on January 1, 1980, and SDR 4,052.5 million on January 1, 1981 in proportion to the quotas. These allocations and those in the first basic period bring total SDRs in existence to SDR 21,433 million.

In the fourth and fifth basic periods, each of which had a duration of five years (January 1, 1982–December 31, 1986 and January 1, 1987–December 31, 1991, respectively), the Fund did not allocate SDRs.

In the current basic period, which began on January 1, 1992, the question of an allocation of SDRs is still under examination.

### B. Valuation of SDRs

On January 1, 1981, the Fund began to use a basket of five currencies for determining the SDR’s valuation. As noted below, the same basket is also used to determine the interest rate on the SDR. A basket of 16 currencies had been in use from July 1, 1974 to December 31, 1980.

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<sup>38</sup>Resolution No. 34-3, International Monetary Fund, *Selected Decisions and Selected Documents of the International Monetary Fund*, Nineteenth Issue (Washington, 1994), pp. 503–13.

The currencies that determine the value of the SDR are reviewed every five years so as to ensure that the currencies included in the basket are those of the five member countries of the Fund with the largest exports of goods and services during the five-year period ending 12 months before the effective date of the revision. The weight of each of these currencies in the basket is reviewed at the same time to ensure that they broadly reflect the relative importance of each currency in international trade and reserves, based on the value of exports of goods and services of each country and the balances of these currencies held as reserves by members of the Fund over the same five-year period. The value of the new basket must equal the value of the old one on the last business day preceding the day the new basket becomes effective.

Using the above-mentioned guidelines, the basket that was in effect for the period January 1, 1981–December 31, 1985 was replaced with another basket on January 1, 1986, which remained in effect through December 31, 1990. It was then replaced with a new one on January 1, 1991, which will be in effect through December 31, 1995. Although the currencies composing the baskets have remained unchanged, namely the U.S. dollar, the deutsche mark, the Japanese yen, the French franc, and the pound sterling, the amounts of these currencies have been revised reflecting the above-mentioned factors. The weights of these currencies in the present basket (i.e., the weights on December 31, 1990) and the derived currency amounts (which will remain fixed until December 31, 1995) are as follows:

Currency	Weight (percent)	Currency Amount
U.S. dollar	40	0.5720
Deutsche mark	21	0.4530
Japanese yen	17	31.8000
French franc	11	0.8000
Pound sterling	11	0.0812

The above currency amounts were derived by converting the percentage weights into units of each of the five currencies using exchange rates in London at noon averaged over the three months ended December 31, 1990. The set of currency units so determined satisfied the condition that the value of the SDR in terms of any currency on December 31, 1990 be the same under the valuation in effect before and after the revision.

The SDR/U.S. dollar exchange rate is determined by converting the amount of each currency making up the basket into U.S. dollar equivalents, using the market rates of exchange each day.<sup>39</sup> The U.S. dollar equivalents are added up, and the reciprocal of the total, rounded to six significant figures, establishes the SDR value of the U.S. dollar. Table 1 illustrates the calculation of the SDR value for September 1, 1995. Being a weighted average of the exchange rates of the five major currencies, the value of the SDR tends to be more stable than any single currency in the basket.

Once the SDR value for the U.S. dollar has been determined, the exchange rate for any other currency in terms of the SDR is calculated by using the SDR value of the U.S. dollar and the representative rate for the currency in terms of the U.S. dollar, as required under Rule O-2 of the Fund's Rules and Regulations and as defined by the Fund after consultation with the currency issuer.

<sup>39</sup>The market rates used in this calculation are the midpoints between buying and selling rates at noon in the London foreign exchange market. When the London market is closed, the rates used are from New York at noon. If both the London and New York markets are closed, fixing rates from the Frankfurt market are used.

Table 1. SDR Valuation on September 1, 1995

Currency	Currency Amount (1)	Exchange Rate on September 1, 1995 (2)	U.S. Dollar Equivalent (3)
Deutsche mark	0.4530	1.46750	0.308688
French franc	0.8000	5.05850	0.158150
Japanese yen	31.8000	97.67000	0.325586
Pound sterling	0.0812	1.55150	0.125982
U.S. dollar	0.5720	1.00000	0.572000
			1.490406
		SDR value of US\$1.00 =	0.670958

Note:

Column 1: The currency components of the basket under Rule O-1.

Column 2: Exchange rates in terms of currency units per U.S. dollar, except for the pound sterling, which is expressed as U.S. dollars per pound sterling.

Column 3: The U.S. dollar equivalents of the currency amounts in Column 1 at the exchange rates in Column 2; that is, Column 1 divided by Column 2 except for the pound sterling, for which the amounts in the two columns are multiplied.

SDR rates for more than forty currencies are made available to the public each day. These rates are carried daily by several wire services, for example, Reuters, AP Dow Jones, AFP, and UPI, and are published monthly in *International Financial Statistics*. Some daily newspapers and financial periodicals also publish the SDR rates for major currencies, for example, *Journal of Commerce*, *Financial Times* of London, *London Times*, *Agence économique et financière*, *Neue Zuercher Zeitung*, *Asian Wall Street Journal*, *The Economist*, and the *Wall Street Journal*. The daily SDR value of the U.S. dollar is also available by calling the telephone number (202) 623-7171.

### C. Rate of Interest on SDRs

Since July 1974, the rate of interest on the SDR has been based on a combined market rate of interest calculated by using interest rates on selected short-term instruments in the domestic money markets of five countries. Since January 1981, these five countries have been the same as those whose currencies are included in the SDR valuation basket.<sup>40</sup> The rates and instruments are as follows: the market yield on three-month U.S. treasury bills, the three-month interbank deposit rate in Germany, the three-month rate for treasury bills in France, the three-month rate on certificates of deposit in Japan, and the market yield on three-month U.K. treasury bills.<sup>41</sup>

The SDR interest rate is a specified percentage of the combined market rate. The method used to calculate the combined market rate is as follows: the reported yield or interest rate on the instrument for each component currency is multiplied by the number of units of that currency in the basket, and the product is then multiplied by the value of the currency unit in terms of the SDR; the resulting products for the five currencies are then added together. The total is rounded to two decimal places. Since May 1981, the SDR interest rate has been 100 percent of the combined market rate thus calculated.

<sup>40</sup>Prior to 1981, the SDR valuation basket included 16 countries' currencies.

<sup>41</sup>See Rule T-1(c), p. 73.

Until August 1, 1983, the SDR interest rate was set quarterly on the basis of average interest rates on the 15 business days preceding the last 2 business days of the month before the calendar quarter for which the SDR interest rate applied. Since then, the SDR interest rate has been calculated weekly each Friday for the week beginning on the ensuing Monday. Table 2 illustrates the calculation of the SDR interest rate for the week of September 4, 1995–September 10, 1995.

**Table 2. Calculation of the Combined Market Rate of Interest Under Rule T-1(c), and SDR Interest Rate for the Week September 4, 1995 to September 10, 1995**

Currency	Currency Amount (1)	Interest Rate on Friday September 1, 1995 (2)	Exchange Rate Against the SDR on Friday September 1, 1995 (3)	Product (1x2x3)
Deutsche mark	0.4530	4.3090	0.45721200	0.8925
French franc	0.8000	5.8200	0.13252200	0.6170
Japanese yen	31.8000	0.7800	0.00687457	0.1705
Pound sterling	0.0812	6.6717	1.04099000	0.5639
U.S. dollar	0.5720	5.4500	0.67095800	2.0916
			Total	4.3355
SDR interest rate 4.34				

Note:

Column 1: The currency components of the valuation basket.

Column 2: The reported yield or interest rate on the instrument for each component currency.

Column 3: The SDR value of each unit of component currency.

Column 4: The product of the first three columns.

## D. Arrangements for SDR Transactions

### 1. Introduction

Participants and prescribed holders of SDRs wishing to buy or sell SDRs generally seek the Fund's assistance in arranging SDR transactions. The Fund arranges such transactions in a manner that, to the greatest extent possible, meets the requirements or preferences of the transactors involved. The Fund has been aided, in this respect, by standing arrangements that some holders of SDRs, in a spirit of cooperation with the Fund and with the aim of contributing to the SDR's liquidity, have established with the Fund. These arrangements authorize the Fund to arrange transactions on behalf of the parties establishing them subject to the terms and conditions specified by these holders. When these standing arrangements authorize the Fund to arrange both sales and purchases of SDRs on behalf of the parties to the arrangements, they are called two-way (or buying and selling) arrangements for SDR transactions. Other standing arrangements may authorize the Fund to arrange either sales or purchases of SDRs on behalf of the parties to the arrangements, and they are called one-way arrangements (or selling or buying arrangements, as appropriate) for SDR transactions.<sup>42</sup> Standing arrangements can have a revolving or nonrevolving character (see Section 2.a below).

<sup>42</sup>See footnote 17, p. 8.

These buying and/or selling arrangements have facilitated transactions by agreement requested by participants or prescribed holders by eliminating the time-consuming need to consult prospective buyers or sellers about each transaction. Such arrangements have also provided the Fund with a large degree of flexibility in matching the desired sales and/or purchases of SDRs by participants and prescribed holders. This applies, for example, to participants who wish to use SDRs without recourse to the designation mechanism and also to prescribed holders who cannot use SDRs in transactions with designation and must, therefore, rely on transactions by agreement to obtain currency. Since September 1987, it has been possible to meet all requests by members for sales of their SDRs (from their holdings or from purchases made from the Fund) through transactions by agreement, and, thus, no recourse to designation has been necessary. The relegation of the designation mechanism to a precautionary and contingency device has been made possible by the existence of SDR buying arrangements. Increasing the ability of prescribed holders to use SDRs, when needed, makes it more attractive for them to hold SDRs.

## *2. Operational Features of SDR Buying and/or Selling Arrangements*

Arrangements for SDR transactions normally determine the range within which the member's SDR holdings are to be maintained, the minimum and maximum amounts of SDRs available for purchase and/or sale in any individual transaction, the currency or currencies acceptable in exchange for SDRs, the exchange rate to be used, and the effective period of the arrangement.

### *(a) Range of arrangements*

In revolving one-way arrangements, members having the arrangements agree to sell or buy SDRs (depending on whether they have a selling or buying arrangement) provided that their SDR holdings remain above certain levels (in selling arrangements) or do not exceed certain levels (in buying arrangements). In revolving two-way arrangements, members having the arrangements specify both the maximum and minimum levels of their SDR holdings and hence the ranges within which the members are willing to buy and sell SDRs. In nonrevolving arrangements, members having the arrangements specify certain amounts of SDRs that they are willing to sell or buy.

### *(b) Currency*

In both one-way and two-way arrangements, members specify the currency or currencies against which they are willing to buy and/or sell SDRs.<sup>43</sup>

### *(c) Exchange rate and settlement provisions*

In accordance with Rule P-6 of the Fund's Rules and Regulations, the exchange rate in SDR transactions by agreement shall be the Fund's official SDR

<sup>43</sup>Of the 13 standing arrangements in effect as of September 1, 1995, all accept U.S. dollars against which SDRs are to be bought or sold, 6 also accept deutsche mark, 2 also accept yen, 2 also accept French francs, and 1 also accepts pounds sterling.



exchange rate (unless otherwise authorized by the Fund), and the settlement<sup>44</sup> shall take place on the date of the agreement or any business day within three business days from that date, as agreed by participants. Thus, members having the arrangements can specify whether they are willing to buy and/or sell SDRs by using the exchange rate on the same day as the value date or the exchange rate of one day, two days, or three days prior to the value date.

*(d) Size of individual transactions*

Members having the arrangements can specify the minimum and/or maximum size for a single transaction.

*(e) Period of arrangement*

Members who are parties to the arrangements can determine the periods within which the arrangements remain in effect (although thus far they have generally opted for open-ended arrangements).

### **3. Effects of Arrangements**

Arrangements for SDR transactions have facilitated the Fund's financial operations in a number of ways. For example, buying and/or selling arrangements have facilitated sales of SDRs by members received in purchases and the acquisition of SDRs required by members for settlement of obligations to the Fund. Moreover, Fund repayments of its borrowing can be made in SDRs, and often creditors would like to use all or part of the SDRs thus received. The existence of the arrangements for SDR transactions has facilitated these sales by creditors and has therefore enhanced the ability of the Fund to assign the SDR as a medium for repayments of its borrowings, providing another element of flexibility to the Fund's financial operations. Another effect of the arrangements for SDR transactions has been the increased sense of security they have provided to prescribed holders. As a result, these holders have become more active in SDR sales, purchases, and other operations.

## **E. Accounting for SDR Allocations and Holdings**

Transactions and operations in SDRs are recorded and administered in the SDR Department. Although there are no currency counterparts to allocations and holdings in the SDR Department, members are encouraged to account in a transparent manner for the assets and liabilities arising out of their participation in the SDR Department in the balance sheet of the depository (usually the member's central bank).

Although the Fund does not recommend any particular accounting treatment for SDR allocations and holdings by participants and prescribed holders, it does recommend that holders be guided mainly by generally accepted accounting standards, and their own legislation, policies, and practices with respect to the accounts of SDRs and other external reserve assets. However, new participants and prescribed holders may find it useful to consider the examples reproduced below in

<sup>44</sup>The settlement date is also called the value date.

determining their own methods of accounting for SDRs. Included in these examples are accruals and their treatment in the financial statements to reflect the participants' true positions vis-à-vis the Fund at any time.

SDRs allocated by the Fund to a participant (prescribed holders do not receive allocations) are owned by the participant, and the Fund expects the participant to undertake the ensuing legal and financial obligations. If the participant's central bank is authorized to act as fiscal agency under Article V, Section 1 on behalf of the government, it would normally act in this capacity with respect to SDRs. Such a central bank may be required, by whatever domestic legal steps are necessary, to meet the government's obligations under the Fund's Articles of Agreement, including those arising because of participation in the SDR Department, and may exercise the rights of the member as a participant. If appropriate domestic arrangements are made along these lines, the central bank can consider these rights and obligations as its immediate assets and liabilities. Sample entries set out below are based on the assumption that such arrangements have been made and that the allocations and movements of SDRs are recorded in the accounts of the central bank, thereby avoiding any duplicate accounting through the government's records. However, if a participant, in accordance with its domestic laws and practices, decides that its accounts of SDRs should be in the accounts of the appropriate government ministry or of some combination of the ministry and the central bank, these sample entries will need to be modified and adapted to meet the participant's particular legal and accounting requirements.

The following accounting entries and the sample balance sheets are shown in a simplified form and do not include the possible accounts and entries in a central bank's accounting of transactions with respect to the GRA. Also, the entries are not exhaustive and would be subject to various modifications by participants who may wish to record other information, such as a description of the type of transaction or operation, the foreign exchange received or used, and prevailing exchange rates. The item "Allocations of SDRs" that appears on the liabilities side of the central bank's balance sheet as shorthand for "net cumulative allocations" will vary only when allocations or cancellations are made. The item "Holdings of SDRs" will change with every operation or transaction, and the central bank's asset, liability, and income or expense accounts will be affected by the various movements of SDRs in respect of such operations or transactions. The impact of some common transactions and operations in SDRs on a central bank's balance sheet is illustrated below:

### 1. Allocations of SDRs

- The accounting entry for an allocation of SDRs to a participant can be recorded as follows (assuming an allocation of SDR 50):

	<i>Debit</i>	<i>Credit</i>
Holdings of SDRs	50	
Allocations of SDRs		50

- The accounts in which these are recorded are indicated by asterisks (\*) in the following sample balance sheets.

**CENTRAL BANK  
BALANCE SHEET**

ASSETS		LIABILITIES	
External assets		Currency issue	185
Gold	50	Gov't deposits	20
*Holdings of SDRs	50	Other deposits	<u>150</u> 355
Foreign exchange	250		
Other securities	<u>50</u> 400	*Allocations of SDRs	50
Other assets	<u>250</u>	Other liabilities	100
		CAPITAL AND PROFIT (OR LOSS)	
		Capital	45
		Profit (or loss)	<u>100</u> <u>145</u>
		TOTAL LIABILITIES AND CAPITAL	
TOTAL ASSETS	<u>650</u>		<u>650</u>

- The above entries are suggested as they would correspond to the account titles that the Fund uses in the accounts of the SDR Department. Thus, when the central bank sets up its asset account "Holdings of SDRs" to record the receipt of SDRs under allocations, the entry will correspond to the entry in the SDR Department "Holdings of SDRs by Participants." The entry in the central bank's records in its liability account "Allocations of SDRs" will correspond to the entry in the SDR Department "Net Cumulative Allocations of SDRs to Participants." This procedure may facilitate a participant's reconciliation of the balances of its SDR holdings with the monthly statements it will receive from the Fund.
- The asset item "Holdings of SDRs" should be included as an external asset because of the reserve characteristics of the SDR. With regard to the corresponding liability entry, this represents the obligations of the participant that would arise, for example, if its participation in the SDR Department were to be terminated in accordance with Article XXIV, or upon the liquidation of that Department under Article XXV.

## *2. Transfers Among Participants and Prescribed Holders*

In addition to receiving allocations from the Fund, a participant may use or obtain SDRs in transactions or operations with other participants or prescribed holders.

If a participant receives SDRs from another participant in a transaction with designation or by agreement, it must provide currency in exchange and its foreign exchange holdings will be reduced accordingly. Conversely, the participant that has sold the SDRs will add to its foreign exchange holdings.

- If a participant or prescribed holder receives SDRs from another holder in exchange for currency (or in discharge of a financial obligation), its SDR holdings would increase while its foreign exchange holdings (or the appropriate "item due from...") would decrease. In converting values to the unit of account used by the participant receiving SDR 10, for example, care must be exercised in choosing the appropriate exchange rate. In accordance with Rule P-6(a), as amended, the exchange rate for a transaction by agreement is the rate determined under Rule O-2 for any business day within three business days before the value date of the transaction. The exchange rate in SDR operations prescribed by the Fund is generally determined by the parties involved. The entry would be as follows:

	<i>Debit</i>	<i>Credit</i>
Holdings of SDRs	10	
Foreign exchange		10

- It would have the following effect on the balance sheet of the participant acquiring SDRs:

<b>CENTRAL BANK BALANCE SHEET</b>			
<b>ASSETS</b>		<b>LIABILITIES</b>	
External assets		Currency issue	185
Gold	50	Gov't deposits	20
*Holdings of SDRs	60	Other deposits	<u>150</u>
*Foreign exchange	240	Allocations of SDRs	50
Other securities	<u>50</u>	Other liabilities	100
Other assets	<u>250</u>	<b>CAPITAL AND PROFIT (OR LOSS)</b>	
		Capital	45
		Profit (or loss)	<u>100</u>
			<u>145</u>
<b>TOTAL ASSETS</b>	<b><u>650</u></b>	<b>TOTAL LIABILITIES AND CAPITAL</b>	<b><u>650</u></b>

- If a participant sells its SDRs to acquire foreign exchange, or to discharge a financial obligation, its holdings of SDRs would be reduced and foreign exchange reserves would increase. In other words, the reverse of the previous example should be reflected.

### 3. Interest and Charges

All holders of SDRs earn interest on their actual daily holdings, and all participants that have received allocations of SDRs incur charges on those allocations. Because the rate of interest on holdings is the same as the rate of charge on allocations, a participant whose holdings matched its net cumulative allocation over the financial quarter would earn and owe offsetting, equal amounts of interest and charges; that is, no net income or expense would be generated. However, in most cases, such interest and charges do not offset each other, and the profit and loss account must reflect the actual situation. For the participant depicted above whose holdings exceed allocations, the entries would be as shown below. (Prescribed holders, by definition, will receive interest only on their SDR holdings; they are not subject to charges because they do not receive SDR allocations.)

#### (a) Accruals

Examples of accrual accounting entries to be made when generally accepted accounting principles are used are shown below.

Entries related to accrued interest on SDR holdings and accrued charges on net cumulative allocations are as follows:

	<i>Debit</i>	<i>Credit</i>
<b>Interest to be received on SDR holdings</b>		
Accrued interest receivable	3	
Interest income		3
<b>Charges to be paid on net cumulative allocations</b>		
Interest expense	2	
Accrued interest payable		2

**CENTRAL BANK  
BALANCE SHEET**

ASSETS		LIABILITIES	
External assets		Currency issue	185
Gold	50	Gov't deposits	20
Holdings of SDRs	60	Other deposits	<u>150</u> 355
*Accrued interest on SDR holdings	3	*Accrued interest payable	2
Foreign exchange	240	Allocations of SDRs	50
Other securities	<u>50</u> 403	Other liabilities	100
Other assets	<u>250</u>	CAPITAL AND PROFIT (OR LOSS)	
		Capital	45
		*Profit (or loss)	<u>101</u> <u>146</u>
TOTAL ASSETS	<u>653</u>	TOTAL LIABILITIES AND CAPITAL	<u>653</u>

*(b) Actual transfers*

Entries relating to the receipt of interest on SDR holdings and the payment of charges on net cumulative allocations are as follows:

	Debit	Credit
<b>Receipt of interest on SDR holdings</b>		
Holdings of SDRs	3	
Accrued interest receivable		3
<b>Payment of charges on net cumulative allocation</b>		
Accrued interest payable	2	
Holdings of SDRs		2

The entries would have the following effect on the balance sheet:

**CENTRAL BANK  
BALANCE SHEET**

ASSETS		LIABILITIES	
External assets		Currency issue	185
Gold	50	Gov't deposits	20
*Holdings of SDRs	61	Other deposits	<u>150</u> 355
Foreign exchange	240	Allocations of SDRs	50
Other securities	<u>50</u> 401	Other liabilities	100
Other assets	<u>250</u>	CAPITAL AND PROFIT (OR LOSS)	
		Capital	45
		Profit (or loss)	<u>101</u> <u>146</u>
TOTAL ASSETS	<u>651</u>	TOTAL LIABILITIES AND CAPITAL	<u>651</u>

If the participant had used SDRs to the point where its holdings during the financial quarter were less than its allocation, it would have incurred charges in excess of interest received. Holdings of SDRs and reported profits would have been reduced rather than increased as shown in the example above.

#### 4. Transfers Between Participants and General Resources Account

Participants transfer SDRs to the GRA to discharge certain obligations, such as the payment of charges and assessments, or to make repurchases and quota payments. Examples of entries and their effect on the balance sheet are as follows:

	<i>Debit</i>	<i>Credit</i>
<b>Payment of charges on the use of Fund resources<sup>45</sup></b>		
Accrued charges payable	10	
Holdings of SDRs		10
		<i>Balance Sheet</i>
	<i>Assets</i>	<i>Liabilities/Capital</i>
Holdings of SDRs	(10)	
Profit (or loss)		(10)
	<i>Debit</i>	<i>Credit</i>
<b>Assessment due to the Fund</b>		
Assessment expense	3	
Holdings of SDRs		3
		<i>Balance Sheet</i>
	<i>Assets</i>	<i>Liabilities/Capital</i>
Holdings of SDRs	(3)	
Profit (or loss)		(3)
	<i>Debit</i>	<i>Credit</i>
<b>Repurchase (in SDRs)</b>		
Demand deposit	10	
Holdings of SDRs		10
		<i>Balance Sheet</i>
	<i>Assets</i>	<i>Liabilities/Capital</i>
Holdings of SDRs	(10)	
Demand deposit		(10)
	<i>Debit</i>	<i>Credit</i>
<b>Quota increase (if 25 percent of increase is paid in SDRs)</b>		
IMF subscription	100	
Holdings of SDRs		25
Demand deposit		75
		<i>Balance Sheet</i>
	<i>Assets</i>	<i>Liabilities/Capital</i>
Holdings of SDRs	(25)	
IMF subscription	100	
Demand deposit		75

Participants may receive SDRs from the GRA for remuneration earned, in purchases, interest and repayments of Fund borrowing, acquisition of SDRs, and refunds and replenishment of members' currencies. Entries and the effect on balance sheet items are as follow:

	<i>Debit</i>	<i>Credit</i>
<b>Receipt of remuneration and interest<sup>46</sup></b>		
Holdings of SDRs	10	
Accrued interest income		10

<sup>45</sup>To reflect accrued charges, the entries would be similar to the examples in Section 3(a).

<sup>46</sup>To reflect the accrued remuneration and accrued interest, the entries would be similar to the examples in Section 3(a).

	<i>Assets</i>	<i>Balance Sheet</i> <i>Liabilities/Capital</i>
Holdings of SDRs	10	
Profit (or loss)		10
	<i>Debit</i>	<i>Credit</i>
<b>Purchase in SDRs</b>		
Holdings of SDRs	10	
Demand deposit		10
	<i>Debit</i>	<i>Credit</i>
	<i>Assets</i>	<i>Balance Sheet</i> <i>Liabilities/Capital</i>
Holdings of SDRs	10	
Demand deposit		10
	<i>Debit</i>	<i>Credit</i>
<b>Repayment of borrowing in SDRs by the IMF</b>		
Holdings of SDRs	20	
Loans receivable		20
	<i>Debit</i>	<i>Credit</i>
	<i>Assets</i>	<i>Balance Sheet</i> <i>Liabilities/Capital</i>
Loans receivable	(20)	
Holdings of SDRs	20	
	<i>Debit</i>	<i>Credit</i>
<b>Acquisition of SDRs</b>		
Holdings of SDRs	10	
Foreign exchange		10
	<i>Debit</i>	<i>Credit</i>
	<i>Assets</i>	<i>Balance Sheet</i> <i>Liabilities/Capital</i>
Holdings of SDRs	10	
Foreign exchange	(10)	
	<i>Debit</i>	<i>Credit</i>
<b>Refunds (e.g., burden sharing, stand-by charges)</b>		
Holdings of SDRs	5	
Refunds		5
	<i>Debit</i>	<i>Credit</i>
	<i>Assets</i>	<i>Balance Sheet</i> <i>Liabilities/Capital</i>
Holdings of SDRs	5	
Profit (or loss)		5
	<i>Debit</i>	<i>Credit</i>
<b>Replenishment of member's currency by the GRA</b>		
Holdings of SDRs	10	
Other deposits		10
	<i>Debit</i>	<i>Credit</i>
	<i>Assets</i>	<i>Balance Sheet</i> <i>Liabilities/Capital</i>
Holdings of SDRs	10	
Other deposits		10

# Transactions with Designation: Use and Receipts of SDRs, Designation Plan, and Forms of Communication

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## A. Use and Receipts of SDRs in Transactions with Designation

### 1. *Use of SDRs with Designation*

#### (a) *Requirement of need*

Use of SDRs in designation is governed by Article XIX, Section 3(a), which reads in part that “a participant will be expected to use its special drawing rights only if it has a need because of its balance of payments or its reserve position or developments in its reserves, and not for the sole purpose of changing the composition of its reserves.” A participant that wished to use SDRs in a transaction with designation must state that the intended use is in accordance with Article XIX, Section 3(a).

A participant’s use of SDRs with designation cannot be challenged at the time of use, but the Fund examines recent developments in the participant’s balance of payments and reserve position immediately thereafter to ascertain that the requirement of need has been met. If, in the judgment of the Fund, the transaction was not justified by need, that is, it was not in accordance with Article XIX, Section 3(a), the participant may be subject to designation in order to offset the effect of the transaction.

In considering whether a use of SDRs would be in accordance with the requirement of need, participants should be guided by the general principle that they may use SDRs whenever they have a need to use reserves. Adherence to this principle ensures that SDRs are not used for the sole purpose of changing the composition of reserves. It should, however, be noted that the requirement of need is the same as the requirement of need that applies to the use of resources from the Fund’s GRA. Accordingly, if a participant receives SDRs in a purchase from the Fund’s GRA, it would be able to use them immediately through the designation process to obtain foreign exchange. A participant intending to use SDRs in a transaction with designation must inform the Fund of the amount of SDRs it wishes to use and the freely usable currency it wishes to receive in exchange.



*(b) Freely usable currency*

Participants using SDRs in transactions with designation may receive any “freely usable currency” or a combination of freely usable currencies. A freely usable currency is a member’s currency that the Fund determines (a) is, in fact, widely used to make payments for international transactions, and (b) is widely traded in the principal exchange markets. The Fund has determined that there are five freely usable currencies, namely, the U.S. dollar, the deutsche mark, the Japanese yen, the French franc, and the pound sterling. If a currency requested by the user of SDRs is not directly available from the participant designated by the Fund, the Fund will initiate exchange arrangements in order to have the requested currency delivered to the user of SDRs.

*(c) Procedures for use of SDRs in designation*

Transactions in SDRs will normally be executed by crediting currency to the account of the appropriate official agency of the participant using SDRs that is maintained with the official agency of the issuer of the currency that the participant desires to receive.<sup>47</sup> The participant using SDRs must inform the Fund of the currency desired, the name and location of the account to which the desired currency should be provided, and the value date desired.

The form of the cable communication a participant should send to the Fund regarding the use of SDRs in a transaction with designation is set out in Section C of this Appendix. On receipt of such a communication, the Fund designates one or more participants from a current designation plan to provide currency. The Fund’s communication to the designated participant indicates a value date on which currency should be provided and instructs the participant to arrange for the freely usable currency to be held at the Fund’s disposal. The exchange rate applied to this transaction is determined under Rule O-2. The Fund must receive payment instructions from the participant not later than the date on which the Fund issues instructions for the execution of the transaction. If a participant particularly wishes to have a transaction executed on a certain date, or if the amount of SDRs to be used is large in relation to the current designation plan, advance notification to the Fund would greatly facilitate the procedures. When the Fund acknowledges the receipt of a participant’s notification of its intended use of SDRs, the Fund indicates the date on which it has instructed the designated participant and, when applicable, the central bank making the currency exchange to execute the transaction and the amount of currency to be provided. Transfers of SDRs are recorded as of the date the currency is provided, and the Fund notifies the user and the recipient of SDRs when the transaction is completed.

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<sup>47</sup>For example, U.S. dollars will be credited to the account that the user’s central bank maintains with the Federal Reserve Bank of New York. If the user of SDRs wishes the funds to be credited to its account with a commercial bank, the Fund will instruct the official agency accordingly.

*(d) Procedures for using SDRs in designation and with voluntary acquisitions*

Another way of obtaining foreign exchange against the sale of SDRs that participants may wish to consider involves combining use through designation with that of agreed transfers (see "Transactions by Agreement," p. 7). This approach combines a participant's request for currency under the designation procedure with its authorization to the Fund to substitute, to the extent possible, transactions by agreement against the same currency for value either on or before the same date to be applied to the transaction with designation. The participant would still have the assurance, made possible by the designation guarantee, that the amount of currency required will be obtained by the date specified, but this approach is more flexible for the system as a whole because it allows some or all of the SDRs to be sold to go to those wanting them.

If the Fund is authorized to attempt to substitute transactions by agreement for delivery on the same date, the same amount of currency would be delivered as with designation alone, as the same exchange rate would be used for both transactions. If the authorization is to provide currency on or before a specified date, transactions by agreement could be arranged for delivery of currency at earlier dates, and currency amounts would be determined by the exchange rates appropriate to those dates. The extent to which the Fund is able to exercise this option may depend on the Fund's receiving instructions far enough in advance of the final value date to permit it to make the necessary arrangements with potential purchasers of SDRs.

While the use of this option may not affect the participant selling its SDRs, its use would help broaden the range of SDR transfers and thus enhance the liquidity and acceptability of the SDR.

## **2. Receipts of SDRs with Designation**

*(a) Designation plan*

To ensure that potential users of SDRs can obtain freely usable currency when the need arises, the Fund establishes in advance a list of participants whose balance of payments and reserve positions are sufficiently strong for them to be called upon to provide currency in these exchanges. This list as well as the amounts for which participants are included is known as the "designation plan" and is established each quarter by the Executive Board on the basis of recommendations by the Fund staff. A participant, through its Executive Director, may present its views at the time of the quarterly review, and these will be taken into account by the Executive Board. If a participant is judged to be sufficiently strong to be included in the designation plan, the amount for which it will be included is determined by a mathematical formula in order to achieve a balanced distribution of SDRs among participants. When a participant subject to designation is actually called upon to provide currency, it is obligated to do so; the obligation to provide currency on the specified value date is of the highest order. If the Fund makes a finding that a participant has failed to meet this obligation, the participant's right to use its SDRs shall be suspended unless the Fund decides otherwise (Article XXIII, Section 2(a)).

(b) *Inclusion in the designation plan*

The procedure the Fund uses to determine which participants should be subject to designation and the amounts of SDRs the participants could be called upon to accept in exchange for freely usable currency is governed by Article XIX, Section 5(a)(i).<sup>48</sup> The principle for inclusion in the designation plan is that a participant shall be subject to designation if its balance of payments and gross reserve position is considered “sufficiently strong.” This does not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. The general rationale of this criterion is that members whose balance of payments and reserve positions are relatively strong should be prepared to make currency available in exchange for SDRs to members whose positions are relatively weak. Moreover, to the extent that the Fund directs the distribution of Fund-related assets, these should move to relatively strong holders.

The Executive Board’s assessment of a member’s strength is guided by the following considerations.

- Because the acquisition of SDRs and other Fund-related assets by designation changes only the composition of a member’s reserves and not their amount and because Fund-related assets can be used in the event of need, there is a less compelling need to set a stringent criterion of “sufficient strength” in determining which members should receive reserve tranche positions and SDRs.
- The criterion of “sufficient strength” is applied to *all* members, and, for the purpose of determining which members should increase their holdings of SDRs, the component element of a member’s overall balance of payments and reserves is not usually very important.
- Having a broad list of members included in the designation plans stresses the cooperative nature of the Fund and improves the effective functioning of the SDR Department.
- Members are not automatically judged to be insufficiently strong solely because they obtain a stand-by arrangement from the Fund, have recently made a purchase from the Fund, or have satisfied the requirement of need when using SDRs with designation. Special attention is, however, given to the positions of these members on a case-by-case basis.
- Although certain indicators of strength are used to maintain a reasonable degree of consistency and equity among members, the assessment of a member’s combined balance of payments and gross reserve position is bound to involve elements of judgment. In marginal cases, where judgment could go either way, an attempt is made to resolve the issue in a manner that the members concerned find acceptable.

<sup>48</sup>Designation may also occur under Article XIX, Section 5(a)(ii), under which participants shall be subject to designation for specified purposes, that is, to reduce negative balances of SDRs or to offset the use of SDRs in transactions with designation when there was no balance of payments need. There have been no designations under this provision.

- In assessing the strength of a member's gross reserves, the Fund staff examines gross reserves in relation to imports and the historical development in this ratio, although it is recognized that the latter is not necessarily a reliable measure of reserve strength. Gross reserves are also considered in relation to Fund quotas, and a low ratio is usually considered *prima facie* evidence of weakness.
- In assessing the overall balance of payments, the lack of recent data on liabilities generally makes it necessary to rely on movements in gross reserves as an indicator of the balance of payments position. This has certain disadvantages but has generally proved adequate for this purpose. To the extent that recent movements in net reserves are available, they are taken into account in assessing a member's balance of payments position.
- A member's "balance of payments and gross reserve position" is a unified concept, with strength in one element being weighed against any weakness in the other. A full assessment of all relevant information is made in arriving at a judgment of a member's position.

## B. Preparation and Execution of the Designation Plan

### 1. *Calculating Designation Amounts*

The principle governing the amounts for which participants can be designated once they are included in the plan is that they must be designated "in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them."<sup>49</sup>

Under Schedule F, designation is to be aimed at equalizing over time the ratios of participants' excess holdings of SDRs (i.e., holdings in excess of their net cumulative allocations) to their gross official holdings of gold and foreign exchange. The present method of calculating amounts of maximum designation for individual participants is a combination of the two approaches on which attention was focused prior to and after the introduction of the SDR scheme. These are known as the "filling-up" method and the "proportional" method.

The filling-up method directs designation first to the participant with the lowest excess holdings ratio.<sup>50</sup> When designation has raised the participant's ratio to the same level as that of the one with the next higher ratio, designation would be divided between those two participants until the ratios of both participants are raised to the level of the participant with the next higher ratio. These three participants would then be designated until their ratios are raised to that of the next participant, and so on. This method, if followed strictly, concentrates designation, at least for certain periods, on relatively few participants. It raises participants' ratios at the fastest possible speed, and, thus, the amounts of SDRs acquired by these participants may be substantial and concentrated within a fairly short period. This seems an undesirable feature of this method, particularly if a participant's balance of payments and reserve position had only just reached the stage where it could be considered sufficiently strong for designation.

<sup>49</sup>See Article XIX, Section 5(a)(i), p. 63.

<sup>50</sup>Because the designation plan almost always includes participants with SDR holdings below their net cumulative allocations, and thus with no excess holdings of SDRs, the filling-up method would, in practice, first direct designation to the participant with the largest negative excess holdings ratio, that is, the participant whose net use is the largest proportion of its gold and foreign exchange holdings.

The proportional method consists essentially of choosing some average or target excess holdings ratio and determining what amounts of designation would be necessary to move the ratio of each participant to that average. The amounts of designation would then be distributed among participants in proportion to these amounts. This procedure has the advantage of preserving a wide distribution of designation among participants, but the promotion of equality in excess holdings ratios tends to be rather slow.

Drawbacks were seen in both these methods, and the present hybrid method was adopted as a compromise between the two. It can best be explained as a proportional method in which a target or common ratio is established by using the filling-up method to distribute a relatively large notional amount of designation among all the participants subject to designation. The amounts that result, which measure how far away each participant is from the common ratio, are then proportionately reduced to yield the maximum amounts for the quarterly designation plan. Participants whose excess holdings ratios already exceed the common ratio receive no amounts of designation.

Table 3 shows the calculation of the designation plan for the period August 15–November 30, 1995.<sup>51</sup> The listing includes all those participants whose balance of payments and reserve positions were judged “sufficiently strong.” The calculation may best be explained as follows:

**Column 1.** This column lists the participants’ latest official gold and foreign exchange holdings as reported by the participant and published in *International Financial Statistics*. The use of official gold and foreign exchange holdings in the calculation is required by Schedule F of the Fund’s Articles. Gold is valued at SDR 35 per fine ounce.

**Column 2.** This lists the amounts by which the participants’ holdings of SDR are above or below their total allocations. Amounts with a minus sign show the extent of the participants’ net use of SDRs.

**Column 3.** This shows the participants’ excess holdings of SDRs as percentages of their gold and foreign exchange holdings. Schedule F requires that the Fund promote equality in these ratios over time.

**Column 4.** This shows the distribution of a notional amount of designation of SDR 1.5 billion on the basis of the filling-up method described above. As the heading of the column indicates, the underlying assumption is that this amount of designation would occur over eight quarters. The amounts for individual participants are notional and are not indicative of anticipated designation of the participants concerned.

**Column 5.** This shows that the distribution of the notional amount of SDR 1.5 billion would lead to a common excess holdings ratio of –1.79 percent. At this point, the excess holdings ratio of 6 participants would have been raised by this notional designation to the level of the common ratio. At the same time, the excess holdings ratio of 23 participants is already higher than the common ratio.

**Column 6.** This column reflects the proportional reduction—by a factor of 5—of the amounts in column 4.

<sup>51</sup>The beginning of the quarterly period was advanced from September 1, 1995 to August 15, 1995, to accommodate unanticipated purchases under the operational budget, which was also set to cover this period.

**Table 3. Designation Plan: August 15–November 30, 1995**  
**Calculation of Designation Amounts**

(In millions of SDRs, unless otherwise indicated)

Country	Gold and Foreign Exchange Holdings (1)	Excess Holdings of SDRs <sup>1</sup> (2)	Excess Holdings Ratios (Percent) (3)	Assumed Designation over Eight Quarters (4)	Projected Excess Holdings Ratios <sup>2</sup> (Percent) (5)	Designation Amounts <sup>3</sup> (6)	Excess Holdings Ratios <sup>4</sup> (Percent) (7)
Austria	14,331	-54.8	-0.38	—	-0.38	—	-0.38
Belgium <sup>5</sup>	10,532	-157.2	-1.55	—	-1.55	—	-1.55
Botswana	2,981	22.3	0.75	—	0.75	— <sup>6</sup>	0.75
Canada	7,894	7.6	0.10	—	0.10	—	0.10
China	38,538	149.0	0.39	—	0.39	—	0.39
Colombia	5,025	3.7	0.07	—	0.07	—	0.07
Denmark	5,409	-75.3	-1.39	—	-1.39	—	-1.39
Finland	6,548	69.7	1.06	—	1.06	—	1.06
France	17,726	-445.4	-2.51	130	-1.79	26	-2.37
Germany	51,583	123.5	0.24	—	0.24	—	0.24
Indonesia	8,064	-238.3	-2.96	95	-1.79	19	-2.73
Ireland	4,466	18.3	0.41	—	0.41	—	0.41
Japan	94,097	1,019.4	1.08	—	1.08	—	1.08
Korea	17,614	-10.9	-0.06	—	-0.06	—	-0.06
Luxembourg <sup>5</sup>	...	-9.6	-2.55	3	-1.79	1	-2.28
Malaysia	15,710	-40.5	-0.26	—	-0.26	—	-0.26
Malta	1,090	25.8	2.37	—	2.37	— <sup>6</sup>	2.37
Netherlands	22,920	53.7	0.23	—	0.23	—	0.23
New Zealand	2,423	-141.2	-5.83	100	-1.79	20	-5.04
Norway	13,648	108.4	0.79	—	0.79	—	0.79
Portugal	9,526	1.1	0.01	—	0.01	—	0.01
Qatar	430	8.1	1.88	—	1.88	—	1.88
Singapore	40,748	13.9	0.03	—	0.03	—	0.03
Spain	20,707	-30.1	-0.15	—	-0.15	—	-0.15
Switzerland	23,530	40.2	... <sup>6</sup>	—	... <sup>6</sup>	— <sup>6</sup>	... <sup>6</sup>
Thailand	21,375	-56.2	-0.26	—	-0.26	—	-0.26
United Arab Emirates	4,599	18.4	0.40	—	0.40	—	0.40
United Kingdom	26,253	-1,621.0	-6.17	1,172	-1.79	234	-5.33
United States	42,861	2,567.6	5.99	—	5.99	—	5.99
Total	530,628	1,370.2		1,500		300	

<sup>1</sup>Adjusted for transactions that are expected to be completed by August 14, 1995.

<sup>2</sup>Assuming designation of amounts shown in column (4).

<sup>3</sup>Derived by proportionately reducing amounts shown in column (4).

<sup>4</sup>Assuming designation of amounts shown in column (6).

<sup>5</sup>To calculate the designation amount, an imputed amount of gold and foreign exchange based on the proportionate quota shares between Belgium and Luxembourg is used.

<sup>6</sup>Holdings of the participant are above its acceptance limit. Switzerland has not received SDRs in allocation.

**Column 7.** The percentages in this column indicate the extent to which harmonization would be promoted during the quarterly plan if the maximum amounts for all participants (column 6) were fully used and if there were no other changes in the participants' holdings of SDRs and gold and foreign exchange.

The amounts of designation for all participants in the plan are calculated on the basis of a single formula, but the effects of the formula for participants with negative excess holdings ratios are different from those for participants with ratios that are positive. This can be explained as follows. If the common ratio were zero, only participants with negative excess holdings would be assigned amounts of designation. The amount assigned to each participant would be exactly proportional to the absolute amount of its negative excess holdings of SDRs, and its gold and foreign exchange holdings would have no effect on the calculated amount of designation.<sup>52</sup> However, when the notional amount of designation is large enough to produce a common ratio above zero, designation amounts are also assigned to participants with positive ratios in addition to the amounts assigned to participants whose ratios were initially negative. These additional amounts are distributed on the basis of participants' absolute amounts of excess holdings of SDRs as a percentage of their holdings of gold and foreign exchange.

If a participant's balance of payments and reserve position deteriorates during a quarterly period covered by a designation plan, the Executive Board may amend the plan in response to a request from a member, an Executive Director, or the Managing Director. If there were a proposal pending before the Executive Board to exclude a participant from designation, by either an amendment of the current plan or the adoption of a new plan, the staff would refrain from designating the participant concerned to the extent that this could be done while executing transactions under the current designation plan. Until such a proposal were made, however, the staff would continue to execute transactions with designation on the basis of broad proportionality as described below.

The proposed designation plan is normally issued by the staff two weeks before the scheduled considerations of the Executive Board. During this period, a large amount of transactions may occur that would significantly affect the distribution of SDR holdings among participants. The volume of such transactions is usually small, but on occasion these transactions have been large and the staff has issued a revised designation plan for consideration by the Executive Board.

## *2. Execution of the Designation Plan*

The method of execution of the plan, that is, the way in which actual designations are to be made by the staff, is proposed in each plan put forward for consideration by the Executive Board. The general approach is to designate participants in broad proportion to the amounts for which they are included in a plan, while avoiding undue fragmentation of individual transactions. A participant that is included for SDR 5 million or less may be designated for the full amount for which it is included in the plan in a single transaction. The reason for this approach is to avoid the inconvenience to the members of repeated, small amounts of designation. However, there have been departures from this approach, for example, to give some priority in designation (a) to participants that had made net use of SDRs, particularly at times when the volume of designations has been low; (b) to participants included in successive plans for small amounts but not actually designated in any of them; or (c) to participants that have lower excess holdings ratios in comparison with other participants included for about the same maximum amount in the plan.

<sup>52</sup>If the notional amount of designation were five times the total of the quarterly plan, the amount of designation for each participant in the plan would be one-fifth of its negative excess holdings of SDRs.

Since September 1987, the quarterly designation plans have been precautionary because the scope for meeting requests for sales of SDRs has been sufficient under the standing arrangements to buy and sell SDRs in transactions by agreement.

## C. Forms of Communication for Transactions with Designation

### 1. *Use of SDRs in Transactions with Designation*

In accordance with Article XIX, Sections 2(a) and 3(a), a participant can use SDRs in a transaction with designation to obtain freely usable currency. For this purpose the following cable should be sent to the Fund:

SAMPLE

SDR NO.

TEST NO.

1. PLEASE ARRANGE TO CREDIT ACCOUNT OF (OFFICIAL AGENCY) WITH (NAME AND LOCATION OF BANK WHERE ACCOUNT MAINTAINED) WITH (FREELY USABLE CURRENCY)<sup>53</sup> EQUIVALENT TO SDR (AMOUNT).

2. WE STATE THAT THIS INTENDED USE OF SDRS IS IN ACCORDANCE WITH ARTICLE XIX, SECTIONS 2(A) AND 3(A).

FISCAL AGENCY

### 2. *Fund Cable to Participants Designated by the Fund*

SAMPLE

SDR NO.

TEST NO.

1. UNDER CURRENT SDR DESIGNATION PLAN (PARTICIPANT) IS HEREBY DESIGNATED IN AMOUNT OF SDR (AMOUNT).

2. AT RATE OF SDR (AMOUNT) PER U.S. DOLLAR ON (DATE), THIS AMOUNT IS EQUIVALENT TO U.S. DOLLARS (AMOUNT). PLEASE PLACE THIS AMOUNT OF U.S. DOLLARS AT THE FUND'S DISPOSAL AT FEDERAL RESERVE BANK OF NEW YORK, NEW YORK,<sup>54</sup> VALUE (DATE). WOULD APPRECIATE CABLE ADVICE INDICATING ARRANGEMENTS MADE FOR PAYMENT.

3. THE SDR ACCOUNT OF (PARTICIPANT) WILL BE CREDITED ON DATE CURRENCY IS PROVIDED.

TREASURER'S

INTERFUND

<sup>53</sup>Participants using SDRs may choose to receive any of the following currencies: U.S. dollars, deutsche mark, Japanese yen, French francs, or pounds sterling.

<sup>54</sup>The designated participant may provide another freely usable currency, but in practice most participants choose to provide U.S. dollars. Because the funds are to be deposited to the account of the participant using SDRs in designation, they must *not* be deposited to the Fund's No. 1 Account.



### 3. Use of SDRs in Transactions with Designation and by Agreement

A participant may instruct the Fund to sell with designation whatever part of its SDRs the Fund was unable to arrange to sell by agreement. For this purpose the following cable should be sent to the Fund at least four business days before the specified value date:

SAMPLE

SDR NO.

TEST NO.

1. PLEASE ARRANGE TO CREDIT ACCOUNT OF (OFFICIAL AGENCY) WITH (NAME AND LOCATION OF BANK WHERE ACCOUNT MAINTAINED) WITH (NAME OF FREELY USABLE CURRENCY) EQUIVALENT TO SDR (AMOUNT), FOR VALUE (ON/OR BEFORE) (DATE). WE AUTHORIZE YOU TO ARRANGE ON OUR BEHALF FOR ALL OR PART OF THIS AMOUNT TO BE SOLD TO PARTICIPANTS OR PRESCRIBED HOLDERS IN TRANSACTIONS BY AGREEMENT FOR VALUE (ON/OR BEFORE) (DATE).

2. WE STATE THAT ANY USE OF SDRS AT THIS TIME UNDER ARTICLE XIX, SECTION 2(A) IS IN ACCORDANCE WITH SECTION 3(A) OF THIS ARTICLE.

FISCAL AGENCY

**Extracts from Articles of Agreement,  
By-Laws, Rules and Regulations,  
Executive Board Decisions, and Memoranda**

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**A. Articles of Agreement**

**ARTICLE III. QUOTAS AND SUBSCRIPTIONS**

*Section 3. Payments when quotas are changed*

(a) Each member which consents to an increase in its quota under Section 2(a) of this Article shall, within a period determined by the Fund, pay to the Fund twenty-five percent of the increase in special drawing rights, but the Board of Governors may prescribe that this payment may be made, on the same basis for all members, in whole or in part in the currencies of other members specified, with their concurrence, by the Fund, or in the member's own currency. A non-participant shall pay in the currencies of other members specified by the Fund, with their concurrence, a proportion of the increase corresponding to the proportion to be paid in special drawing rights by participants. The balance of the increase shall be paid by the member in its own currency. The Fund's holdings of a member's currency shall not be increased above the level at which they would be subject to charges under Article V, Section 8(b)(ii), as a result of payments by other members under this provision.

**ARTICLE V. OPERATIONS AND TRANSACTIONS OF THE FUND**

*Section 6. Other purchases and sales of special drawing rights by the Fund*

(a) The Fund may accept special drawing rights offered by a participant in exchange for an equivalent amount of the currencies of other members.

(b) The Fund may provide a participant, at its request, with special drawing rights for an equivalent amount of the currencies of other members. The Fund's holdings of a member's currency shall not be increased as a result of these transactions above the level at which the holdings would be subject to charges under Section 8(b)(ii) of this Article.

(c) The currencies provided or accepted by the Fund under this Section shall be selected in accordance with policies that take into account the principles of Section 3(d) or 7(i) of this Article. The Fund may enter into transactions under this Section only if a member whose currency is provided or accepted by the Fund concurs in that use of its currency.

*Section 7. Repurchase by a member of its currency held by the Fund*

(i) All repurchases under this Section shall be made with special drawing rights or with the currencies of other members specified by the Fund. The Fund shall adopt policies and procedures with regard to the currencies to be used by members in making repurchases that take into account the principles in Section 3(d) of this Article. The Fund's holdings of a member's currency that is used in repurchase shall not be increased by the repurchase above the level at which they would be subject to charges under Section 8(b)(ii) of this Article.

*Section 8. Charges*

(e) A member shall pay all charges in special drawing rights, provided that in exceptional circumstances the Fund may permit a member to pay charges in the currencies of other members specified by the Fund, after consultation with them, or in its own currency. The Fund's holdings of a member's currency shall not be increased as a result of payments by other members under this provision above the level at which they would be subject to charges under (b)(ii) above.

*Section 9. Remuneration*

(d) Remuneration shall be paid in special drawing rights, provided that either the Fund or the member may decide that the payment to the member shall be made in its own currency.

**ARTICLE VII. REPLENISHMENT AND SCARCE CURRENCIES**

*Section 1. Measures to replenish the Fund's holdings of currencies*

The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency in the General Resources Account needed in connection with its transactions, take either or both of the following steps: . . . .

(ii) require the member, if it is a participant, to sell its currency to the Fund for special drawing rights held in the General Resources Account, subject to Article XIX, Section 4. In replenishing with special drawing rights, the Fund shall pay due regard to the principles of designation under Article XIX, Section 5.

**ARTICLE XII. ORGANIZATION AND MANAGEMENT**

*Section 6. Reserves, distribution of net income, and investment*

(c) If any distribution is made of the net income of any year, it shall be made to all members in proportion to their quotas.

(d) The Fund, by a seventy percent majority of the total voting power, may decide at any time to distribute any part of the general reserve. Any such distribution shall be made to all members in proportion to their quotas.

(e) Payments under (c) and (d) above shall be made in special drawing rights, provided that either the Fund or the member may decide that the payment to the member shall be made in its own currency.

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## ARTICLE XV. SPECIAL DRAWING RIGHTS

### *Section 1. Authority to allocate special drawing rights*

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Rights Department.

### *Section 2. Valuation of the special drawing right*

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.

## ARTICLE XVI. GENERAL DEPARTMENT AND SPECIAL DRAWING RIGHTS DEPARTMENT

### *Section 1. Separation of operations and transactions*

All operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department. All other operations and transactions on the account of the Fund authorized by or under this Agreement shall be conducted through the General Department. Operations and transactions pursuant to Article XVII, Section 2 shall be conducted through the General Department as well as the Special Drawing Rights Department. . . .

### *Section 3. Recording and information*

All changes in holdings of special drawing rights shall take effect only when recorded by the Fund in the Special Drawing Rights Department. Participants shall notify the Fund of the provisions of this Agreement under which special drawing rights are used. The Fund may require participants to furnish it with such other information as it deems necessary for its functions.

## ARTICLE XVII. PARTICIPANTS AND OTHER HOLDERS OF SPECIAL DRAWING RIGHTS

### *Section 1. Participants*

Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Rights Department in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Rights Department as of the date the instrument is deposited, except that no member shall become a participant before the provisions of this Agreement pertaining exclusively to the Special Drawing Rights Department have entered into force and instruments have been deposited under this Section by members that have at least seventy-five percent of the total of quotas.

### *Section 2. Fund as a holder*

The Fund may hold special drawing rights in the General Resources Account and may accept and use them in operations and transactions conducted through the General Resources Account with participants in accordance with the provisions of this Agreement or with prescribed holders in accordance with the terms and conditions prescribed under Section 3 of this Article.

### *Section 3. Other holders*

The Fund may prescribe:

- (i) as holders, non-members, members that are non-participants, institutions that perform functions of a central bank for more than one member, and other official entities;
- (ii) the terms and conditions on which prescribed holders may be permitted to hold special drawing rights and may accept and use them in operations and transactions with participants and other prescribed holders; and
- (iii) the terms and conditions on which participants and the Fund through the General Resources Account may enter into operations and transactions in special drawing rights with prescribed holders.

An eighty-five percent majority of the total voting power shall be required for prescriptions under (i) above. The terms and conditions prescribed by the Fund shall be consistent with the provisions of this Agreement and the effective functioning of the Special Drawing Rights Department.

## **ARTICLE XVIII. ALLOCATION AND CANCELLATION OF SPECIAL DRAWING RIGHTS**

### *Section 1. Principles and considerations governing allocation and cancellation*

(a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

(b) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

### *Section 2. Allocation and cancellation*

(a) Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration. The first basic period shall begin on the date of the first decision to allocate special drawing rights or such later date as may be specified in that decision. Any allocations or cancellations shall take place at yearly intervals.

(b) The rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate. The rates at which special drawing rights are to be cancelled shall be expressed as percentages of net cumulative allocations of special drawing rights on the date of each decision to cancel. The percentages shall be the same for all participants.

(c) In its decision for any basic period the Fund may provide, notwithstanding (a) and (b) above, that:

- (i) the duration of the basic period shall be other than five years; or
- (ii) the allocations or cancellations shall take place at other than yearly intervals; or
- (iii) the basis for allocations or cancellations shall be the quotas or net cumulative allocations on dates other than the dates of decisions to allocate or cancel.

(d) A member that becomes a participant after a basic period starts shall receive allocations beginning with the next basic period in which allocations are made after it becomes a participant unless the Fund decides that the new participant shall start to receive allocations beginning with the next allocation after it becomes a participant. If the Fund decides that a member that becomes a participant during a basic period shall receive allocations during the remainder of that basic period and the participant was not a member on the dates established under (b) or (c) above, the Fund shall determine the basis on which these allocations to the participant shall be made.

(e) A participant shall receive allocations of special drawing rights made pursuant to any decision to allocate unless:

- (i) the Governor for the participant did not vote in favor of the decision; and
- (ii) the participant has notified the Fund in writing prior to the first allocation of special drawing rights under that decision that it does not wish special drawing rights to be allocated to it under the decision. On the request of a participant, the Fund may decide to terminate the effect of the notice with respect to allocations of special drawing rights subsequent to the termination.

## ARTICLE XIX. OPERATIONS AND TRANSACTIONS IN SPECIAL DRAWING RIGHTS

### *Section 1. Use of special drawing rights*

Special drawing rights may be used in the operations and transactions authorized by or under this Agreement.

### *Section 2. Operations and transactions between participants*

(a) A participant shall be entitled to use its special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article.

(b) A participant, in agreement with another participant, may use its special drawing rights to obtain an equivalent amount of currency from the other participant.

(c) The Fund, by a seventy percent majority of the total voting power, may prescribe operations in which a participant is authorized to engage in agreement with another participant on such terms and conditions as the Fund deems appropriate. The terms and conditions shall be consistent with the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement.

(d) The Fund may make representations to a participant that enters into any operation or transaction under (b) or (c) above that in the judgment of the Fund may be prejudicial to the process of designation according to the principles of Section 5 of this Article or is otherwise inconsistent with Article XXII. A participant that persists in entering into such operations or transactions shall be subject to Article XXIII, Section 2(b).

### *Section 3. Requirement of need*

(a) In transactions under Section 2(a) of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only if it has a need because of its balance of payments or its reserve position or developments in its reserves, and not for the sole purpose of changing the composition of its reserves.

(b) The use of special drawing rights shall not be subject to challenge on the basis of the expectation in (a) above, but the Fund may make representations to a participant that fails to fulfill this expectation. A participant that persists in failing to fulfill this expectation shall be subject to Article XXIII, Section 2(b).

(c) The Fund may waive the expectation in (a) above in any transactions in which a participant uses special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article that would promote reconstitution by the other participant under Section 6(a) of this Article; prevent or reduce a negative balance of the other participant; or offset the effect of a failure by the other participant to fulfill the expectation in (a) above.

### *Section 4. Obligation to provide currency*

(a) A participant designated by the Fund under Section 5 of this Article shall provide on demand a freely usable currency to a participant using special drawing rights under Section 2(a) of this Article. A participant's obligation to provide currency shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund.

(b) A participant may provide currency in excess of the obligatory limit or any agreed higher limit.

### *Section 5. Designation of participants to provide currency*

(a) The Fund shall ensure that a participant will be able to use its special drawing rights by designating participants to provide currency for specified amounts of special drawing rights for the purposes of Sections 2(a) and 4 of this Article. Designations shall be made in accordance with the following general principles supplemented by such other principles as the Fund may adopt from time to time:

- (i) A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. Participants shall be designated in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them.
- (ii) Participants shall be subject to designation in order to promote reconstitution under Section 6(a) of this Article, to reduce negative balances in holdings of special drawing rights, or to offset the effect of failures to fulfill the expectation in Section 3(a) of this Article.
- (iii) In designating participants, the Fund normally shall give priority to those that need to acquire special drawing rights to meet the objectives of designation under (ii) above.

(b) In order to promote over time a balanced distribution of holdings of special drawing rights under (a)(i) above, the Fund shall apply the rules for designation in Schedule F or such rules as may be adopted under (c) below.

(c) The rules for designation may be reviewed at any time and new rules shall be adopted if necessary. Unless new rules are adopted, the rules in force at the time of the review shall continue to apply. . . .

### *Section 7. Exchange rates*

(a) Except as otherwise provided in (b) below, the exchange rates for transactions between participants under Section 2(a) and (b) of this Article shall be such that participants using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies, and the Fund shall adopt regulations to give effect to this principle.

(b) The Fund, by an eighty-five percent majority of the total voting power, may adopt policies under which in exceptional circumstances the Fund, by a seventy percent majority of the total voting power, may authorize participants entering into transactions under Section 2(b) of this Article to agree on exchange rates other than those applicable under (a) above.

(c) The Fund shall consult a participant on the procedure for determining rates of exchange for its currency.

(d) For the purpose of this provision the term participant includes a terminating participant.



## ARTICLE XX. SPECIAL DRAWING RIGHTS DEPARTMENT INTEREST AND CHARGES

### *Section 1. Interest*

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

### *Section 2. Charges*

Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

### *Section 3. Rate of interest and charges*

The Fund shall determine the rate of interest by a seventy percent majority of the total voting power. The rate of charges shall be equal to the rate of interest.

### *Section 4. Assessments*

When it is decided under Article XVI, Section 2 that reimbursement shall be made, the Fund shall levy assessments for this purpose at the same rate for all participants on their net cumulative allocations.

### *Section 5. Payment of interest, charges, and assessments*

Interest, charges, and assessments shall be paid in special drawing rights. A participant that needs special drawing rights to pay any charge or assessment shall be obligated and entitled to obtain them, for currency acceptable to the Fund, in a transaction with the Fund conducted through the General Resources Account. If sufficient special drawing rights cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with a freely usable currency from a participant which the Fund shall specify. Special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled.

## ARTICLE XXII. GENERAL OBLIGATIONS OF PARTICIPANTS

In addition to the obligations assumed with respect to special drawing rights under other articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement and with the objective of making the special drawing right the principal reserve asset in the international monetary system.

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### ARTICLE XXX. EXPLANATION OF TERMS

In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following provisions: . . .

(e) Net cumulative allocation of special drawing rights means the total amount of special drawing rights allocated to a participant less its share of special drawing rights that have been cancelled under Article XVIII, Section 2(a).

(f) A freely usable currency means a member's currency that the Fund determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets. . . .

(i) Transactions in special drawing rights means exchanges of special drawing rights for other monetary assets. Operations in special drawing rights means other uses of special drawing rights.

### SCHEDULE F. DESIGNATION

During the first basic period the rules for designation shall be as follows:

(a) Participants subject to designation under Article XIX, Section 5(a)(i) shall be designated for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net cumulative allocations to their official holdings of gold and foreign exchange.

(b) The formula to give effect to (a) above shall be such that participants subject to designation shall be designated:

(i) in proportion to their official holdings of gold and foreign exchange when the ratios described in (a) above are equal; and

(ii) in such manner as gradually to reduce the difference between the ratios described in (a) above that are low and the ratios that are high.

## B. By-Laws, Rules and Regulations

### RULE G—OPERATIONS AND TRANSACTIONS

G-1. Each member shall designate a fiscal agency in accordance with Article V, Section 1, and may change the agency after notifying the Fund.

G-2. Instructions from a member for the transfer of currency, SDRs, or gold between it and the General Department and for transfers of SDRs through the Special Drawing Rights Department shall be given by the fiscal agency of the member. Instructions shall be authenticated in the manner agreed upon by the Fund and the fiscal agency.

G-3. In its operations on behalf of the Fund a depository will act only on instructions authenticated in such manner as may be agreed upon by the Fund and the depository.

### RULE I—CHARGES IN RESPECT OF GENERAL RESOURCES ACCOUNT TRANSACTIONS AND REMUNERATION

I-6. (1) Deleted.

(2) Deleted.

(3) Deleted.

(4) The rate of charge on holdings (i) acquired as a result of a purchase under a policy that has been the subject of an exclusion under Article XXX(c), or (ii) that exceed the amount of the member's quota after excluding any balances referred to in (i), shall be determined in accordance with (a), (b), and (c) below.

(a) The rate of charge shall be determined at the beginning of each financial year as a proportion of the SDR interest rate under Rule T-1. The proportion shall be determined on the basis of the estimated income and expense of the Fund during the year, and the target amount of net income for the year. The latter shall be 5 percent of the Fund's reserves at the beginning of the year or such other percentage as the Executive Board may determine particularly in the light of the results in the previous financial year.

(b) A mid-year review of the Fund's income position shall be held shortly after October 31 of each year. If actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year by an amount equal to, or greater than, two percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If by December 15 no agreement has been reached as a result of this consideration, the proportion of the SDR interest rate under Rule T-1 determined under (a) at the beginning of the year shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

- (c) A review of the Fund's income position shall be held shortly after the end of each financial year. If the net income for the year just ended is in excess of the target amount for the year, the Executive Board will consider whether the whole or a part of the excess should be used to reduce the rate of charge retroactively for the year just ended, or to place all or part of the excess to reserve.
- (d) If the Fund's net income for a financial year is in excess of the target amount for that year, the Executive Board may for the purposes of the determinations and estimates referred to in (a) and (b) above in respect of the immediately subsequent financial year, decide to deem any part of the excess over the target amount that has been placed to reserve as income for that subsequent financial year.

(5) Deleted.

(6) Deleted.

(7) Deleted.

(8) Deleted.

(9) Deleted.

(10) Deleted.

(11) Deleted.

I-7. Deleted.

I-8. The following provisions shall apply to stand-by and extended arrangements:

- (a) A charge of  $\frac{1}{4}$  of 1 percent per annum shall be payable at the beginning of each twelve-month period of an arrangement on the total amount of the arrangement that could be purchased during that period.
- (b) When a purchase is made under an arrangement, the amount of the charge paid shall be reduced in the proportion the amount of the purchase bears to the total amount that can be purchased under the arrangement during the period of twelve months or less in which the purchase was made. A refund equal to the reduction shall be made.
- (c) If a member notifies the Fund that it wishes to cancel an arrangement, the Fund shall repay to the member a portion of the charge. The portion repaid shall represent the charge for the period remaining unexpired at the date of cancellation for the amount that could still be purchased under the arrangement at the date of cancellation for which the member has paid a charge.
- (d) Refunds for reductions under subparagraph (b) above and repayments under subparagraph (c) above of a charge paid for an arrangement shall be made in the media selected by the Fund.

I-9. (a) Remuneration shall accrue daily. The amount that has accrued during each quarter of the financial year of the Fund shall be paid as of the beginning of the following quarter.

- (b) A member that wishes to receive in its own currency the whole or a specified portion of the remuneration payable to it shall so notify the Fund.

- I-10. (a) The rate of remuneration shall be equal to 100 percent of the rate of interest on holdings of SDRs under Rule T-1 (hereafter referred to as "SDR interest rate").
- (b) The relationship of the rate of remuneration to the SDR interest rate will be referred to as the "remuneration coefficient."

### RULE J—ACCOUNTING AND REPORTING

- J-1. (b) The accounts of the Special Drawing Rights Department shall be kept in terms of the SDR. . . .
- J-3. (b) A summary statement of the operations and transactions conducted through the Special Drawing Rights Department, and of the position of each participant and each other holder, shall be issued at intervals of three months or less. A statement shall be sent periodically to each participant and each other holder, setting forth the position of the participant or the other holder in the Special Drawing Rights Department and the details of operations and transactions involving the participant or the other holder.

### RULE O—VALUATION OF THE SDR, VALUATION OF CURRENCIES IN TERMS OF THE SDR, FREELY USABLE CURRENCY, PROCEDURES FOR EXCHANGE OF CURRENCY, AND OPERATIONAL BUDGET

#### *Valuation of the SDR*

O-1. The value of the SDR shall be the sum of the values of the following amounts of the following currencies:

U.S. dollar	0.572
Deutsche mark	0.453
Japanese yen	31.8
French franc	0.800
Pound sterling	0.0812

#### *Valuation of Currencies in Terms of the SDR*

- O-2. (a) The value of the United States dollar in terms of the SDR shall be equal to the reciprocal of the sum of the equivalents in United States dollars of the amounts of the currencies specified in Rule O-1, calculated on the basis of exchange rates established in accordance with procedures decided from time to time by the Fund.
- (b) The value of a currency other than the United States dollar in terms of the SDR shall be determined on the basis of the value of the United States dollar in terms of the SDR in accordance with (a) above and an exchange rate for that other currency determined as follows:
- (i) for the currency of a member having an exchange market in which the Fund finds that a representative spot rate for the United States dollar can be readily ascertained, that representative rate;

- (ii) for the currency of a member having an exchange market in which the Fund finds that a representative spot rate for the United States dollar cannot be readily ascertained but in which a representative spot rate can be readily ascertained for a currency as described in (i), the rate calculated by reference to the representative spot rate for that currency and the rate ascertained pursuant to (i) above for the United States dollar in terms of that currency;
  - (iii) for the currency of any other member, a rate determined by the Fund.
- (c) Procedures to establish exchange rates under (b) above shall be determined by the Fund in consultation with members.

#### *Freely Usable Currency*

- O-3. (a) The Fund shall determine the currencies that are freely usable in accordance with Article XXX(f).
- (b) The Fund shall consult a member before placing its currency on, or removing it from, the list of freely usable currencies.

#### *Procedures for Exchange of Currency*

- O-4. (a) The Fund shall consult all members with respect to procedures for the prompt exchange of currency, or to facilitate such exchange, in connection with
- (i) the operations and transactions of the Fund conducted through the General Resources Account, and
  - (ii) transactions with designation conducted through the Special Drawing Rights Department.
- (b) On the request of any member, an Executive Director, or the Managing Director, the Executive Board shall decide whether procedures under (a) above for the exchange of currency are in accordance with the obligations of members.
- (c) The Fund shall inform all members of the procedures for the exchange of each freely usable currency.
- O-5. A member requesting an exchange of currency in accordance with the procedures under Rule O-4(a) shall make its request to the Fund not later than the date on which the Fund issues instructions for the execution of the operation or transaction that gives rise to the request.
- O-6. (a) An exchange of currency in accordance with the procedures under Rule O-4(a) shall be made at an exchange rate between the two currencies corresponding to their exchange rates in terms of the SDR as determined under Rule O-2, if
- (i) the exchange is requested under Article V, Section 3(e)(i) or (iv) or under Article V, Section 7(j)(i) or (iv), or
  - (ii) the procedures for the exchange of currency under Rule O-4(a) so provide.

- (b) The exchange rate for each currency for the purposes of (a) above shall be determined as of the date of dispatch of the Fund's instruction for the execution of the transaction or operation under (a) above.
  - (c) The value date for an exchange of currency under (a) above shall be the third business day after the date of dispatch of the Fund's instruction under (b) above, or as close thereto as is practicable.
- O-7. No member shall levy any charge or commission in respect of an exchange of currency to which Rule O-6 applies.
- O-8. (a) An exchange of currency to which Rule O-6 applies shall be made by an official agency of the member issuing the currency, unless the members exchanging currency agree otherwise.
- (b) Instruction for an exchange by an official agency under (a) above shall be given by the Fund.
- O-9. (a) In an exchange pursuant to Article V, Section 7(j)(iv), the freely usable currency to be provided by the repurchasing member in the exchange shall be the freely usable currency agreed between the members exchanging currency.
- (b) In the absence of agreement under (a) above, the Fund shall specify the freely usable currency to be provided by the repurchasing member. In making any such specification, the Fund shall take into account the circumstances of the members exchanging currency.

#### *Operational Budget*

- O-10. (a) At quarterly intervals the Executive Board shall decide on the budget, including amounts, for the use of currencies and SDRs in the operations and transactions of the Fund conducted through the General Resources Account until the next decision takes effect.
- (b) The Executive Board may decide at any time to adopt a special budget.
  - (c) On the request of any member, an Executive Director, or the Managing Director, the Executive Board shall review, and if necessary amend, any budget adopted pursuant to (a) or (b) above.

### **RULE P—PROCEDURES FOR OPERATIONS AND TRANSACTIONS INVOLVING SDRS**

#### *Transactions with Designation*

- P-1. (a) A participant shall inform the Fund of its intention to use SDRs in a transaction with designation. If it desires a particular freely usable currency the participant shall indicate this not later than the date on which the Fund issues instructions for the execution of the transaction.
- (b) Instructions for a transaction pursuant to (a) above shall be given by the Fund in accordance with Rule P-2 and the procedures under Rule O-4(a), and shall be carried out promptly.

P-2. In a transaction with designation the freely usable currency shall be provided at an exchange rate determined under Rule O-2, and at an official agency of the participant issuing the currency.

P-3. No participant shall levy any charge or commission in respect of the provision of currency in a transaction with designation.

P-4. A participant using SDRs in a transaction with designation shall declare that the use is in accordance with Article XIX, Section 3(a), or a waiver under Article XIX, Section 3(c).

#### *Designation of Participants to Provide Currency*

P-5. At quarterly intervals the Executive Board shall decide, in accordance with Article XIX, Section 5, and Schedule F, on the plan, including amounts, by which designations will be made until the next decision takes effect.

On the request of any participant, an Executive Director, or the Managing Director, the Executive Board shall review, and if necessary amend, any plan adopted pursuant to this Rule.

#### *Transactions by Agreement Between Participants*

P-6. (a) The exchange rate in a transaction by agreement between participants shall be determined under Rule O-2 as of the date of the agreement, unless the transaction is carried out at another exchange rate pursuant to authorization by the Fund under Article XIX, Section 7(b). Settlement shall take place on the date of the agreement or any business day within three business days from that date, as agreed between the participants.

(b) No participant shall levy any charge or commission in respect of a transaction under Article XIX, Section 2(b).

#### *Prescribed Operations*

P-7. The parties to an operation pursuant to a prescription under Article XIX, Section 2(c) shall declare that the operation is in accordance with the prescription.

#### *Recording*

P-8. A participant using SDRs in a transaction shall inform the Fund immediately of the receipt of currency in accordance with the Articles of Agreement and these Rules and Regulations.

P-9. The Fund shall record a transaction or an operation in the Special Drawing Rights Department when it is satisfied that the transaction or the operation is in conformity with the obligations of participants under the Articles of Agreement and with the Rules and Regulations and any applicable decisions of the Fund. A transaction shall be recorded as of the date on which currency is provided, and an operation shall be recorded as of the date on which it is carried out.



### RULE Q—OTHER HOLDERS

Q-1. An application for prescription by the Fund as a holder of SDRs, and of the terms and conditions for holding, accepting, and using SDRs in operations and transactions, shall be filed with the Fund with all relevant facts. Terms and conditions shall be prescribed by the Executive Board after consultation with the applicant.

### RULE S—SUSPENSION OF USE OF SDRS

S-1. The Managing Director shall report to the Executive Board any facts on the basis of which it appears to him that a participant is not fulfilling obligations under the Articles that could lead to suspension under Article XXIII, Section 2, and may include a complaint in his report.

S-2. A participant may complain that another participant is not fulfilling obligations under the Articles that could lead to suspension under Article XXIII, Section 2, and the Managing Director shall transmit the complaint to the Executive Board with his comments. Any complaint shall be made in writing or by any rapid means of communication, and it shall be accompanied by a statement of the facts on which the participant bases its complaint.

S-3. The Managing Director shall immediately inform a participant of any complaint against it and the statement of the facts on which the complaint is based.

S-4. If the complaint is that the participant has failed to fulfill its obligations under Article XIX, Section 4, the participant shall not use SDRs and this limitation shall continue pending the disposition of the complaint.

S-5. A participant against which a complaint has been made under Rule S-1 or Rule S-2, the Managing Director, or an Executive Director may request the Executive Board to dismiss the complaint. The Executive Board shall consider the request forthwith.

S-6. If the right of a participant to use SDRs has been limited under Rule S-4, and a request under Rule S-5 has been made by a participant, the complaint shall be deemed to have been dismissed at the end of ten business days after the request, or at the end of such longer period as the participant states in the request, unless within this time the Executive Board has taken a decision disposing of the complaint.

S-7. If the right of a participant to use its SDRs has been suspended under Article XXIII, Section 2, the participant may request the Executive Board to terminate the suspension. If the Executive Board decides not to terminate the suspension, a written report shall be made to the participant stating the circumstances under which the suspension would be terminated.

S-8. All procedures under Rules S-1 through S-7 shall be conducted as expeditiously as possible, and shall allow the participant an adequate opportunity to state its case both orally and in writing.

**RULE T—INTEREST, CHARGES, AND ASSESSMENTS IN RESPECT OF SDRs**

- T-1. (a) Interest and charges in respect of SDRs shall accrue daily at the rate referred to in (b) below. The amount that has accrued during each quarter of the financial year of the Fund shall be paid promptly as of the beginning of the following quarter. The accounts of participants shall be credited with the excess of interest due over charges or debited with the excess of charges over the interest due. The accounts of holders that are not participants shall be credited with the interest due.
- (b) The rate of interest on holdings of SDRs for each weekly period commencing each Monday shall be equal to the combined market interest rate as determined by the Fund at the beginning of the period in the manner described in (c) below.
- (c) The combined market interest rate shall be the sum, rounded to the two nearest decimal places, of the products that result from multiplying each yield or rate listed below, expressed as an equivalent annual bond yield, for the preceding Friday by the value in terms of the SDR on that Friday of the amount of the corresponding currency specified in Rule O-1, as determined pursuant to Rule O-2(b). If a yield or rate is not available for a particular Friday, the calculation shall be made on the basis of the latest available yield or rate.

U.S. dollar	Market yield for three-month U.S. treasury bills
Deutsche mark	Three-month interbank deposit rate in Germany
French franc	Three-month rate for treasury bills
Japanese yen	Three-month rate on certificates of deposit
Pound sterling	Market yield for three-month U.K. treasury bills

(d) Deleted.

T-2. Assessments shall be levied promptly, as of the end of each financial year of the Fund, on the basis of a reasonable estimate of the expenses of conducting the business of the Special Drawing Rights Department for the financial year, and the accounts of participants shall be debited with the amounts of the assessments.

## C. Executive Board Decisions

### TRANSFER OF SPECIAL DRAWING RIGHTS HELD IN GENERAL ACCOUNT TO PARTICIPANTS MAKING PURCHASES FROM FUND

Executive Board Decision No. 3414-(71/98) G/S adopted September 10, 1971 is amended to read as follows:

When a member which is a participant in the Special Drawing Account consults in accordance with the Executive Board Decision No. 1371-(62/36), adopted July 20, 1962, on Currencies to Be Drawn and to Be Used in Repurchases, the Managing Director may propose that the participant request the purchase of special drawing rights not in excess of the amount which he shall indicate.

*Decision No. 5355-(77/36) G/S  
March 15, 1977*

### CHARGES: MEDIA OF PAYMENT IN GENERAL RESOURCES ACCOUNT

1. A member whose holdings of SDRs are insufficient for the payment of the total of estimated charges due and payable by it within the next thirty days may:
  - (a) obtain SDRs from the General Resources Account up to a reasonable estimate of the balance of SDRs needed for the payment; or
  - (b) pay the balance of the charges in the currencies of other members.
2. A member that is unable to pay charges in SDRs because it is not a participant in the Special Drawing Rights Department and has not been prescribed as an other holder may pay all charges payable under Article V, Section 8 in the currencies of other members.
3. The currencies for which the SDRs would be sold under paragraph 1(a) or that would be paid under paragraph 1(b) and paragraph 2 shall be selected by the Fund from those currencies that the Fund would receive in accordance with the operational budget in effect at the time.

*Decision No. 5702-(78/39) G/S  
March 22, 1978, effective April 1, 1978,  
as amended by  
Decision No. 7096-(82/57) G/S  
April 23, 1982*

## USE OF SDRs IN REPURCHASES

1. (a) Repurchases of the outstanding amount of a member's currency that results from a purchase under the credit tranches and is subject to charges under Article V, Section 8(b), or under the decision on Compensatory Financing of Export Fluctuations (Decision No. 4912-(75/207), as amended) or the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended), or the decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports (Decision No. 6860-(81/81), as amended), or the decision on the Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126), as amended), shall be completed, pursuant to Article V, Section 7(c), five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of the purchase unless the Fund approves a different schedule.

(b) A member that has outstanding purchases under the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended) will be expected to make a repurchase at an earlier date than would be required under (a) above when, and to the extent that, the international buffer stock for the financing of which the purchase was made makes distributions in currency to the member.

2. Decisions with respect to the timing of repurchases shall be understood to permit a member to combine all repurchases to be made within a calendar month and to complete them not later than the last business day of the month, provided however that the maximum period for use of the Fund's resources according to the policy under which a repurchase is to be made shall not be exceeded.

3. If a member that has an outstanding obligation to pay gold in repurchase has made an equivalent repurchase with special drawing rights in discharge of a commitment the member shall be regarded as having discharged its obligation in accordance with Schedule B, paragraph 2.

4. If a member that has an outstanding obligation to pay gold in repurchase has made an equivalent repurchase with currencies of other members in discharge of a commitment, the member shall be regarded as having discharged its obligations in accordance with Schedule B, paragraph 2, provided that if the currencies paid are not acceptable in repurchase as of the date of the Second Amendment, the member shall substitute an equivalent amount of the currencies of other members specified by the Fund in accordance with Article V, Section 7(i).

5. If a member that has an outstanding obligation to pay gold in repurchase has not made an equivalent repurchase with special drawing rights or with the currencies of other members in discharge of a commitment, within two months after the date of the Second Amendment of the Articles of Agreement, the member shall make a repurchase equivalent to the outstanding obligation in gold with special drawing rights or, at its option, with the currencies of other members specified by the Fund in accordance with Article V, Section 7(i). The repurchase shall be regarded as a discharge of the member's obligation in accordance with Schedule B, paragraph 2.

6. The dates for the payment of special drawing rights or currencies of other members in discharge of any obligation to pay gold to the Fund in repurchase, and for any substitution under paragraph 5 above, after the date of the Second Amendment of the Articles of Agreement shall be determined in accordance with Schedule B, paragraph 1.

7. Repurchase under Schedule B, paragraph 4 shall be completed four years after the date of the Second Amendment of the Articles of Agreement. If the Fund's holdings of a member's currency that are subject to paragraph 4(ii) are in excess of 10 percent of the member's quota on the date of the Second Amendment, the member shall be requested to agree to make the repurchase in four equal installments beginning not later than one year after that date.

*Decision No. 5703-(78/39)*  
*March 22, 1978, effective April 1, 1978*  
*as amended by*  
*Decision No. 6862-(81/81)*  
*May 13, 1981, and*  
*Decision No. 8955-(88/126)*  
*August 23, 1988*

A member shall discharge any repurchase obligation that accrued in gold before the date of the Second Amendment with special drawing rights or, at its option, with the currencies of other members specified by the Fund in accordance with Article V, Section 7(i).

*Decision No. 5809-(78/88)*  
*June 12, 1978*

#### USE OF SDRs IN SETTLEMENT OF FINANCIAL OBLIGATIONS

A. In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may use SDRs to settle a financial obligation to the other participant, if
  - (a) the obligation is denominated in
    - (i) SDRs, or
    - (ii) the currency of a member, or
    - (iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2; and
  - (b) the amount of SDRs to be used in settlement of an obligation referred to in (a)(ii) or (a)(iii) above is equal in value, in terms of the SDR, at the time of settlement, to the amount of the obligation.
2. The calculations under 1(b) above shall be made at the exchange rate of the third business day preceding the value date or of the second business day preceding the value date if agreed between the parties.

3. Participants intending to use or acquire SDRs under 1(a) above shall inform the Fund of the denomination and amount of the obligation and the intended value date of the operation. As required by Rule P-7 the lender and the borrower shall declare that the intended use of SDRs will be in accordance with this prescription.
  4. Transfers of SDRs under this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.
- B. The Fund shall record operations under this prescription in accordance with Rule P-9.
- C. The Fund shall review this decision prior to June 30 of each year.

*Decision No. 6000-(79/1) S*  
*December 28, 1978,*  
*as amended by*  
*Decision No. 6438-(80/37) S*  
*March 5, 1980*

#### USE OF SDRs IN LOANS

- A. In accordance with Article XIX, Section 2(c), the Fund prescribes that:
1. A participant, by agreement with another participant, may make a loan of SDRs to the other participant, if:
    - (a) the principle amount of the loan is denominated in
      - (i) SDRs, or
      - (ii) the currency of a member, or
      - (iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2; and
    - (b) the amount of SDRs used in a loan referred to in (a)(ii) or (a)(iii) above is equal in value, in terms of the SDR, at the time of the use, to the amount of the loan; and
    - (c) the borrower has undertaken the following obligations under the loan agreement:
      - (i) if the loan is denominated in SDRs, to repay with the same amount of SDRs, or the equivalent, at the time of repayment, in the currency of a member on the basis of Article XIX, Section 7(a) and Rule O-2, or in the currency of a nonmember or another unit of account under (a)(iii) above in accordance with the arrangements for valuation referred to therein;

- (ii) if the loan is denominated in the currency of a member and is to be repaid in SDRs, to repay with the equivalent in SDRs, at the time of repayment, on the basis of Article XIX, Section 7(a) and Rule O-2;
  - (iii) if the loan is under (a)(iii) above and is to be repaid in SDRs, to repay with the equivalent in SDRs, at the time of repayment, in accordance with the arrangements for valuation referred to in (a)(iii) above.
2. The calculations under 1(b) and (c) above shall be made at the exchange rate of the third business day preceding the value date or of the second business day preceding the value date if agreed between the parties.
  3. Repayment and the payment of interest with SDRs shall be made in accordance with the prescription of the use of SDRs in the settlement of financial obligations.
  4. Participants intending to lend or borrow SDRs under this prescription shall inform the Fund of the amount and value date of the loan, the denomination, rate of interest, maturity, and means of repayment agreed between the parties. As required by Rule P-7 the lender and the borrower shall declare that the intended use of SDRs will be in accordance with this prescription.
  5. Transfers of SDRs under this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.
- B. The Fund shall record operations under this prescription in accordance with Rule P-9.
- C. The Fund shall review this decision prior to June 30 of each year.

*Decision No. 6001-(79/1) S*  
*December 28, 1978*

### USE OF SDRs IN PLEDGES

In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may pledge SDRs to secure the performance of a financial obligation to the other participant, if the obligation is denominated in
  - (i) SDRs, or
  - (ii) the currency of a member, or
  - (iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2.

2. Participants intending to engage in an operation involving the pledge of SDRs as pledgor or pledgee shall inform the Fund of the terms of the pledge relating to the amount and denomination of the obligation to be secured by the pledge, the amount of SDRs to be pledged, the effective date of the pledge, and the party or other entity designated by the parties to the operation to give instructions to the Fund to terminate the pledge in whole or in part or to transfer the pledged SDRs to the pledgee. As required by Rule P-7 the parties to the operation shall declare that the intended use of SDRs will be in accordance with this prescription.
3. The Fund shall record a pledge of SDRs under this prescription only upon receipt by the Fund of instructions from the parties to the operation. A change in the terms of the pledge referred to in 2 above, if consistent with this prescription, shall take effect upon receipt by the Fund of instructions from the parties to the operation. The amount of SDRs to be pledged shall be set aside and shall not be used during the period of the pledge except in accordance with instructions authorized by the terms of the pledge or in order to discharge an obligation of the pledgor under the Articles of Agreement.
4. The amount of SDRs to be transferred to the pledgee in accordance with instructions authorized by the terms of the pledge in satisfaction of the secured obligation shall discharge an equal amount, in terms of the SDR, of the secured obligation at the time of the transfer. Calculations for this purpose shall be made at the exchange rate of the third business day preceding the date of the transfer or of the second business day preceding the date of the transfer if agreed between the parties.
5. The Fund shall give adequate notice to the parties to an operation under this prescription before pledged SDRs are to be transferred
  - (a) in accordance with the terms of the pledge; or
  - (b) in order to discharge an obligation of the pledgor under the Articles of Agreement.
6. The notice under 5(b) above may include advice on the ways in which the obligation could be discharged without the use of pledged SDRs, or in which the pledge of SDRs could be restored.
7. The Fund shall record operations under this prescription in accordance with Rule P-9.
8. The Fund shall review this decision prior to June 30 of each year.

*Decision No. 6053-(79/34) S*  
*February 26, 1979,*  
*as amended by*  
*Decision No. 6438-(80/37) S*  
*March 5, 1980*



## USE OF SDRs IN TRANSFERS AS SECURITY FOR THE PERFORMANCE OF FINANCIAL OBLIGATIONS

In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may transfer SDRs to the other participant in order to secure the performance of a financial obligation to the other participant, if the obligation is denominated in
  - (i) SDRs, or
  - (ii) the currency of a member, or
  - (iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2.
2. Participants intending to engage, as transferor or transferee, in an operation involving the transfer of SDRs as security shall inform the Fund of the terms of the security arrangement relating to the amount and denomination of the obligation to be secured, the amount of SDRs to be transferred, the effective date of the transfer, any agreement by the parties regarding SDRs received from the Fund as interest in respect of the transferred SDRs, and the party or other entity designated by the parties to the operation to give instructions to the Fund for the retransfer. As required by Rule P-7 the parties to the operation shall declare that the intended use of SDRs will be in accordance with this prescription.
3. The Fund shall record a transfer of SDRs under this prescription upon the receipt by the Fund of instructions from the parties to the operation. A change in the terms of the security arrangement referred to in 2 above, if consistent with this prescription, shall take effect upon receipt by the Fund of instructions from the parties to the arrangement. At the request of the parties, the amount of SDRs transferred as security shall be set aside and shall not be used during the period of the security arrangement except in accordance with instructions authorized by the terms of the arrangement or in order to discharge an obligation of the transferee under the Articles of Agreement.
4. The amount of SDRs transferred as security shall be retransferred in accordance with instructions authorized by the terms of the security arrangement, or retained in the absence of such instructions. The amount of SDRs retained shall discharge an equal amount, in terms of the SDR, of the secured obligation at the time of the retention. Calculations for this purpose shall be made at the exchange rate of the third business day preceding the date of retention or of the second business day preceding the date of retention if agreed between the parties.
5. The Fund shall give adequate notice to the parties to an operation under this prescription before the amount of SDRs held by the transferee as security are to be
  - (a) retransferred in accordance with the terms of the arrangement; or
  - (b) reduced in order to discharge an obligation of the transferee under the Articles of Agreement.

6. The notice under 5(b) above may include advice on the ways in which the obligation could be discharged without the use of the SDRs held as security, or in which these holdings could be restored.
7. The Fund shall record operations under this prescription in accordance with Rule P-9.
8. The Fund shall review this decision prior to June 30 of each year.

*Decision No. 6054-(79/34) S*  
*February 26, 1979,*  
*as amended by*  
*Decision No. 6438-(80/37) S*  
*March 5, 1980*

### USE OF SDRs IN SWAP OPERATIONS

In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may engage in an operation by which (a) one of the parties transfers to the other party SDRs in exchange for an equivalent amount of currency or another monetary asset, other than gold, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2, and (b) the parties undertake to reverse the exchange within a period and at an exchange rate agreed by them.
2. Calculations for the purpose of 1(a) above shall be made at the exchange rate of the third business day preceding the date of the transfer or of the second business day preceding the date of the transfer if agreed by the parties.
3. The parties may agree on the terms of the operation, and may modify those terms, provided that the terms and any modification of them would be consistent with this prescription.
4. The parties may agree on the payment of the compensation in the event that, for any reason, the reversal of the transfer in accordance with 1(b) above is not carried out.
5. Participants intending to use or receive SDRs pursuant to this prescription shall inform the Fund of
  - (a) the amount of SDRs and the period of the operation;
  - (b) the monetary asset, the exchange rate and the value date for the exchange under 1(a) above;
  - (c) the monetary asset, the exchange rate and the value date for the reversal of the exchange;
  - (d) any agreement for the payment of interest, or compensation in accordance with 4 above; and
  - (e) any modification of these terms.
6. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.

7. Transfers of SDRs pursuant to this prescription shall be made only upon receipt by the Fund of instructions from the transferor and the transferee.
8. If the Fund decides to change any of the terms and conditions of this prescription, any outstanding operation that is inconsistent with the new terms and conditions shall be completed within 12 months from the date of the Fund's decision.
9. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

*Decision No. 6336-(79/178) S*  
*November 28, 1979*

### USE OF SDRs IN FORWARD OPERATIONS

In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, in agreement with another participant, may engage in an operation by which the participant undertakes to transfer to the other participant SDRs at a specified future date more than three business days after the date of the agreement, in exchange for an agreed amount of currency or another monetary asset, other than gold.
2. The parties may agree on the terms of the operation, and may modify those terms, provided that the terms and any modification of them would be consistent with this prescription.
3. Participants intending to use or receive SDRs pursuant to this prescription shall inform the Fund of
  - (a) the amount of SDRs and the period of the operation;
  - (b) the monetary asset, the exchange rate and the value date for the exchange; and
  - (c) any modification of these terms.
4. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.
5. Transfers of SDRs pursuant to this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.
6. If the Fund decides to change any of the terms and conditions of this prescription, any outstanding operation that is inconsistent with the new terms and conditions shall be completed within 12 months from the date of the Fund's decision.
7. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

*Decision No. 6337-(79/178) S*  
*November 28, 1979*

### USE OF SDRs IN DONATIONS

In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may donate SDRs to the other participant.
2. Participants intending to donate or receive SDRs pursuant to this prescription shall inform the Fund of the amount of SDRs and the value date for the transfer.
3. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.
4. Transfers of SDRs pursuant to this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.
5. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

*Decision No. 6437-(80/37) S*  
*March 5, 1980*

### SPECIAL DRAWING RIGHTS: OTHER HOLDERS

The terms and conditions on which other holders prescribed by the Fund may accept, hold or use SDRs are as follows:

#### 1. Acceptance, Holding, and Use by Prescribed Holders

##### (a) Acceptance and use

A prescribed holder may accept or use special drawing rights (i) in exchange for an equivalent amount of a monetary asset other than gold in a transaction entered into by agreement with a participant, or another prescribed holder, or (ii) in an operation entered into by agreement with a participant or another prescribed holder in accordance with and on the same terms and conditions established at that time for participants by decisions of the Fund under Article XIX, Section 2(c).

##### (b) Holding

A prescribed holder may hold special drawing rights, subject to the provisions of this decision, accepted in accordance with (a) above or received as interest paid on its holdings of special drawing rights in accordance with Article XX, Section 1.

#### 2. Acceptance and Use by Participants in Transactions and Operations with Prescribed Holders

Participants may enter into transactions and operations by agreement with a prescribed holder in accordance with the prescriptions in paragraph 1(a) of this decision.

### 3. Application of General Provisions

The holding of special drawing rights and the acceptance and use of them in transactions and operations by a prescribed holder shall be governed by the provisions of the Articles, By-Laws, Rules and Regulations, and decisions of the Fund that apply from time to time to all holders of special drawing rights.

### 4. Exchange Rates

The Rules and Regulations and decisions of the Fund that determine the exchange rates applicable at the time of each use or acceptance of special drawing rights by a participant shall apply to each use or acceptance of them by a prescribed holder. A prescribed holder shall not levy any charge or commission in respect of a transaction involving special drawing rights.

### 5. Information and Recording

The Fund shall inform prescribed holders of matters relevant to the acceptance, holding, and use of special drawing rights by them. A prescribed holder shall inform the Fund promptly of the facts necessary to record any transactions or operations in which a prescribed holder accepts or uses special drawing rights.

### 6. Consultation and Review

- (a) Consultation between the Fund and a prescribed holder shall be held at the request of the Fund or the prescribed holder with respect to the application of this decision or the decision prescribing the holder or with respect to transactions or operations entered into involving special drawing rights.
- (b) The Executive Board shall review periodically this decision and decisions prescribing holders.

### 7. General Undertaking

Each prescribed holder shall collaborate with the Fund, participants, and other prescribed holders with respect to its acceptance, holding, and use of special drawing rights in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with the Articles and the terms and conditions prescribed by the Fund now or in the future for the acceptance, holding, and use of special drawing rights by prescribed holders.

### 8. Suspension

During any period in which a suspension is in effect under Article XXIII, Section 1 with respect to participants, the suspension shall apply to the same extent to prescribed holders.

### 9. Termination

- (a) The prescription of a holder of special drawing rights may be terminated by the Fund by a decision of the Executive Board or by a notice from the prescribed holder in writing to the Fund at its principal office. Termination shall become effective on the date specified in the decision of the Executive Board but not earlier than the date of the decision, or when notice from the prescribed holder is received by the Fund at its principal office.

- (b) A prescribed holder whose status as such has been terminated may continue to hold the special drawing rights it held on termination and to receive special drawing rights as interest on its holdings and may continue to use special drawing rights to dispose of them in transactions or operations in accordance with paragraph 1(a) above. A prescribed holder whose status has been terminated shall make arrangements, with the concurrence of the Fund, to dispose of its holdings of special drawing rights as expeditiously as possible, and shall exchange special drawing rights for a freely usable currency selected by the prescribed holder when requested by the Fund.

*Decision No. 6467-(80/71) S*

*April 14, 1980*

### REVIEW OF RULES FOR DESIGNATION AND METHOD OF CALCULATING DESIGNATION AMOUNTS

The Executive Directors approve the summary and conclusions set out [below] on the understanding that if during the first year after a participant receives an allocation for the first time, designation would bring the participant close to the acceptance limit, the staff will take steps to moderate the rate at which the limit is approached.

*Decision No. 6209-(79/124) S*

*July 24, 1979*

### SUMMARY AND CONCLUSIONS

1. The designation system has a key role in guaranteeing the usability of the SDR. However, provided that the SDR is regarded as an attractive reserve asset, participants may make less use of their SDR holdings in transactions with designation and may rely more on transactions and operations by agreement between participants, as well as payments to the Fund. The volume of transactions with designation would then depend mainly on the extent to which the Fund transfers SDRs to purchasing members that use the SDRs to obtain foreign exchange in transactions with designation.
2. The general structure of the more important provisions relating to designation is as follows:
  - (a) The major principles of designation are contained in Article XIX, Section 5. A participant whose balance of payments and gross reserve position is sufficiently strong shall be subject to designation; and the Fund shall designate these participants "in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them." These principles can be supplemented by other principles that the Fund may adopt at any time.

- (b) To promote a balanced distribution of SDR holdings, the Fund implements the rules for designation in Schedule F. These rules embody the so-called “excess holdings” principle, which aims to promote over time equality in participants’ “excess holding ratios,” i.e., their holdings of SDRs in excess of their net cumulative allocations as a proportion of their gold and foreign exchange holdings. The rules for designation can be reviewed at any time and changed, if necessary, by a decision of the Executive Board taken by a majority of votes cast.
3. The following conclusions are suggested as regards the principles on which the calculation of the designation amounts is based.
- (a) The choice of “excess holdings” rather than total holdings of SDRs tends to concentrate designation on net users of SDRs to restore their holdings to the level of their allocations. The alternative “holdings” principle would tend to shift the incidence of designation away from participants that have used SDRs to those that have relatively large holdings of gold and foreign exchange. The latter approach may become more suitable as the attractiveness of the SDR increases, but it is not recommended at this time.
  - (b) Participants’ gold and foreign exchange holdings are used as a basis for harmonizing excess holdings of SDRs, consistent with the approach that the staff has suggested for preparing the operational budgets. An alternative technique would be to distribute amounts of designation on the basis of participants’ unused acceptance obligations in relation to their allocations. It would seem preferable, however, not to divorce the designation amounts from participants’ reserve holdings as these are considered to be the best available measure of the ability of participants to provide currency when designated by the Fund.
  - (c) The speed at which the harmonization of ratios proceeds depends importantly on the particular method adopted for calculating designation amounts for individual participants. The present method has promoted harmonization at a moderate pace, striking a balance between the objective of restoring the holdings of net users of SDRs and the desire to maintain a fairly broad list of participants for designation. The method has the advantage of flexibility and has been adjusted successfully from time to time to meet changing circumstances.
4. Under the Articles of Agreement, the amount of SDRs a participant can be required to accept in designation is restricted to the point where its excess holdings are twice its allocation, i.e., the acceptance limit. For certain participants, this limit is reached rather more rapidly than for others because their reserves are very large in relation to their SDR allocations. While it would be possible to conceive of arrangements that would slow down the approach to the acceptance limit, the staff’s view is that such action is neither necessary nor desirable.

5. The method of executing designation plans is established for each quarterly period at the time the plan is adopted by the Executive Board. It is proposed that this procedure be continued. The approach generally followed in the execution of designation plans has been to designate participants in broad proportion to the maximum amounts for which they are included in the plan, while avoiding undue fragmentation of individual transactions. From time to time exceptions may be proposed, such as have been agreed by the Executive Board in the past when circumstances warranted. If during the quarterly period covered by a designation plan a proposal is pending with the Executive Board for the exclusion of a participant from designation, further designation of the participant concerned would be avoided to the extent practicable.
6. Over more than nine years of actual experience, the designation mechanism has functioned satisfactorily. Actual designations have borne out the general emphasis that was expected to result from the "excess holdings" principle. About four fifths of total designation has been directed to participants whose holdings of SDRs were below their allocations as a result of prior uses. At the same time, a wide range of both developed and less developed countries has been called upon to provide currency in the designation process.
7. The major volume of transactions with designation over the last two and a half years has resulted from transfers of SDRs to participants making purchases from the General Resources Account; these participants have generally used the SDRs in transactions with designation, although a not insignificant proportion has been retained by the recipients, mainly to meet the reconstitution obligation or to make payments to the Fund.
8. In the future, the attractiveness of the SDR, and the increasing scope for transactions and operations by agreement, may reduce the use of SDRs from participants' own holdings in transactions with designation. However, with the Fund receiving approximately SDR 5 billion as a result of quota increases under the Seventh Review, there is likely to be a continuing volume of transactions with designation as a result of transfers of SDRs by the Fund to members making purchases, as a way of channeling SDRs back into participants' reserves.
9. In the light of the generally satisfactory experience with the designation system, the staff does not feel it necessary to propose any changes in the present principles and procedures for designation.

#### USE OF CURRENCIES AND SDRs IN THE GENERAL RESOURCES ACCOUNT AND PRINCIPLES AND PROCEDURES FOR DESIGNATION

##### *(a) Assessment of Strength of Members' Balance of Payments and Gross Reserve Position for the Purposes of Designation Plans, Operational Budgets and Repurchases Under Article V, Section 7(b)*

This decision sets forth guidelines for the assessment of the strength of the balance of payments and gross reserve position of a participant under Article XIX, Section 5(a)(i) (designation plans), and of the balance of payments and reserve position of a member under Article V, Section 3(d) (operational budgets) and, in accordance with Executive Board Decisions No. 5704-(78/39) and No. 6172-(79/101), under Article V, Section 7(b) (early repurchases).



1. Assessments of strength for the purposes of Article V, Sections 3(d) and 7(b) will be based on a member's balance of payments and gross reserve position, and shall take into account developments in the exchange markets.

2. A member's "balance of payments and gross reserve position" is a combined concept, under which strength in one element may compensate for moderate weakness in the other.

3. In the Fund's assessment of whether a member's balance of payments and gross reserve position is sufficiently strong for the purposes of the designation plans, operational budgets, and early repurchases, all relevant factors and data on the member's position shall be considered, including the following: recent and prospective movements in gross reserves, balance of payments developments, the relationship of gross reserves to a member's imports and Fund quota, and developments in exchange markets. To the extent that recent data on changes in a member's net reserves are available, these shall be taken into account as an indicator of the member's balance of payments position.

4. If a member has outstanding purchases in the General Resources Account, the assessment of its balance of payments and gross reserve position will include judgments on whether the member's position shows an improvement in comparison with the position at the time it made its last purchase from the Fund, on the extent of the improvement, and on whether it is likely to be sustained in the foreseeable future. Special attention will be given to the recent and prospective evolution in the various components of the member's balance of payments, including developments in the member's net reserves to the extent that data are available.

*Decision No. 6273-(79/158) G/S  
September 14, 1979*

*(c) Transfers of SDRs under Article V, Section 3(f)*

Pursuant to Article V, Section 3(f), the Fund shall provide SDRs instead of the currencies of other members to a participant making a purchase in accordance with decisions on the operational budgets taken under Rule O-10. For this purpose, the Executive Board shall keep under review the amount of the Fund's holdings of SDRs in the General Resources Account in the light of all relevant considerations, including the relationship of SDR holdings to its other assets, and will determine from time to time the approximate range within which the Fund will aim to maintain these holdings.

*Decision No. 6275-(79/158) G/S  
September 14, 1979*

#### METHOD OF VALUATION OF THE SPECIAL DRAWING RIGHT

1. Effective January 1, 1981, the value of one special drawing right shall be the sum of the values of specified amounts of the currencies listed in 2 below, the amounts of these currencies to be determined on December 31, 1980 in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of the currencies in the value of the special drawing right correspond to the weights specified for each currency in 2 below.

2. On the basis of changes in members' exports of goods and services and in official balances of members' currencies held by other members since the previous review of the method of valuation of the SDR conducted in March 1978, the currencies and weights referred to in 1 above shall be as follows:

Currency	Weight (In percent)
U.S. dollar	42
Deutsche mark	19
French franc	13
Japanese yen	13
Pound sterling	13

3. 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 January 1, 1986 and 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 the currencies of the five members whose exports of goods and services during the five-year period ending 12 months before the effective date of the revision had the largest value, provided that a currency shall not replace another currency included in the list at the time of the determination unless the value of the exports of goods and services of the issuer of the former currency during the relevant period exceeds that of the issuer of the latter currency by at least 1 percent.
- (b) The amounts 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 reflect the value of the balances of that currency held at the end of each year by the monetary authorities of other members and the value of the exports of goods and services of the issuer of the currency over the relevant five-year period referred to in a. above, in a manner that would maintain broadly the relative significance of the factors that underlie the percentage weights in paragraph 2 above. The percentage weights shall be rounded to the nearest 1 percent or as may be convenient.

4. The determination of the amounts of the currencies in accordance with 1 and 3 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.

*Decision No. 6631-(80/145) G/S*

*September 17, 1980*

### SDR VALUATION BASKET

The Executive Board, having reviewed the list of the currencies, and the weights of these currencies, that determine the value of the special drawing right, in accordance with Decision No. 6631-(80/145) G/S, adopted September 17, 1980, decides that, with effect from January 1, 1991, the list of the currencies in the SDR valuation basket shall remain the same, and the weight of each of these currencies to be used to calculate the amount of each of these currencies in the basket will be as follows:

Currency	Weight (In percent)
U.S. dollar	40
Deutsche mark	21
Japanese yen	17
French franc	11
Pound sterling	11

*Decision No. 9549-(90/146) G/S*

*October 5, 1990*

### SALES OF SDRs BY THE FUND

1. Pursuant to Article V, Section 6(b) and (c), the Fund shall provide a member at its request with SDRs from the General Resources Account in exchange for an equivalent amount of the currencies of other members to enable the member to pay SDRs in order to increase its quota under Board of Governors Resolution No. 34-2 on the Seventh General Review of Quotas or in accordance with the provisions of that Resolution.

2. The amount of SDRs a member may receive under this decision shall not exceed the difference between the amount of the member's SDR holdings and the amount of its quota payment due in SDRs at the time of payment.

*Decision No. 6663-(80/160) S*

*October 31, 1980*

### METHOD OF COLLECTING EXCHANGE RATES FOR THE CALCULATION OF THE VALUE OF THE SDR FOR THE PURPOSES OF RULE O-2(a)

1. For the purpose of determining the value of the United States dollar in terms of the special drawing right pursuant to Rule O-2(a), the equivalents in United States dollars of the amounts of currencies specified in Rule O-1 shall be based on spot exchange rates against the United States dollar. For each currency the exchange rate shall be the middle rate between the buying and selling rates at noon in the London exchange market as determined by the Bank of England.

2. If the exchange rate for any currency cannot be obtained from the London exchange market, the rate shall be the middle rate at noon in the New York exchange market determined by the Fund on the basis of the buying and selling rates communicated by the Federal Reserve Bank of New York or, if not available there, the middle rate determined by the Fund on the basis of the buying and selling rates at the fixing in the Frankfurt exchange market communicated by the Deutsche Bundesbank. If the rate for any currency against the United States dollar cannot be obtained directly in any of these markets, the rate shall be calculated indirectly by use of a cross rate against another currency specified in Rule O-1.

3. If on any day the exchange rate for a currency cannot be obtained in accordance with 1 or 2 above, the rate for that day shall be the latest rate determined in accordance with 1 or 2 above, provided that after the second business day the Fund shall determine the rate.

*Decision No. 6709-(80/189) S  
December 19, 1980*

#### **SDR VALUATION BASKET—GUIDELINES FOR THE CALCULATION OF CURRENCY AMOUNTS**

1. Under all circumstances, the currency units will be determined in a manner which would ensure that the value of the SDR calculated on December 31 on the basis of the new basket will be the same as that actually prevailing on that day.

2. 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 SDR, resulting from the application of the average exchange rates for October-December, from the percentage weight as determined under paragraph 3(c) of Executive Board Decision No. 6631-(80/145) adopted September 17, 1980 is the minimum on average and will not exceed one half percentage point for any currency.

3. If a solution cannot be obtained by the application of the principles set forth in (2) above, the calculation shall be made applying the same principles 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 principles but expressing the amount of each currency in four significant digits.

4. 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.

*Decision No. 8160-(85/186) G/S  
December 23, 1985*

**USE OF SDRs IN OPERATIONS UNDER STRUCTURAL ADJUSTMENT FACILITY**

In accordance with Article XVII, Section 3, the Fund prescribes that:

1. A prescribed holder, by agreement with a participant and at the instruction of the Fund, may transfer SDRs to the participant in disbursement of a loan payable from the Structural Adjustment Facility within the Special Disbursement Account ("the Facility").
2. A participant, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to the prescribed holder in repayment of loans, and/or payment of interest on loans, under the Facility.
3. The Fund shall record operations pursuant to these prescriptions in accordance with Rule P-9.

*Decision No. 8239-(86/56) SAF  
March 26, 1986*

**USE OF SDRs IN FINANCIAL OPERATIONS UNDER THE ENHANCED  
STRUCTURAL ADJUSTMENT FACILITY TRUST OR  
UNDER AN ADMINISTERED ACCOUNT**

In accordance with Article XVII, Section 3, the Fund prescribes that:

1. A participant or prescribed holder, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to that prescribed holder in effecting a payment due to the Fund in connection with financial operations under the Enhanced Structural Adjustment Facility Trust or under an administered account established for the benefit of the Enhanced Structural Adjustment Facility Trust.
2. A prescribed holder, by agreement with a participant or another prescribed holder and at the instruction of the Fund, may transfer SDRs to that participant or other prescribed holder in effecting a payment due from the Fund in connection with financial operations under the Enhanced Structural Adjustment Facility Trust or under an administered account established for the benefit of the Enhanced Structural Adjustment Facility Trust.
3. The Fund shall record operations pursuant to these prescriptions in accordance with Rule P-9.

*Decision No. 8937-(88/118) ESAF/S  
July 28, 1988*

## D. Summary of Procedures for Exchange of Freely Usable Currencies

On March 31, 1978, the Fund determined that, until further notice, the deutsche mark, the French franc, the Japanese yen, the pound sterling, and the U.S. dollar would be freely usable currencies. The procedures to be followed for exchange of the above currencies, as communicated to the Fund, are briefly summarized below:

1. The French, German, Japanese, and United States authorities will make their best efforts to exchange their currencies, or make the necessary arrangements for such exchanges, at the most favorable exchange rate available at the time they are informed of a request for an exchange.

2. The French and German authorities express a preference for a member wishing to make an exchange of currency to do so through their central banks.

3. The United Kingdom, pursuant to Article V, Sections 3(e)(iv) and 7(j)(iv), requests that members wishing to make exchanges of currency involving the pound sterling do so through the Bank of England. As a result of this request, members wishing to make such exchanges are required to do so with the Bank of England, and the Bank is required to make the exchanges at the "equal value" exchange rate.

4. The procedures established by the United States authorities make provision for the exchange of relevant balances of U.S. dollars for other freely usable currencies. The French, German, Japanese, and United Kingdom authorities will exchange their currencies for U.S. dollars: in addition, by mutual agreement, the French authorities will exchange relevant balances of French francs for other freely usable currencies.

5. The French, German, Japanese, and United Kingdom authorities will provide their respective currencies to members needing them to make payments to the Fund against U.S. dollars: in addition, by mutual agreement, the French authorities will provide French francs to a member for another freely usable currency. The United States authorities will arrange for the provision of U.S. dollars against other freely usable currencies.

6. The United Kingdom and French authorities also express their willingness to provide balances of their currencies to members that need them to acquire other currencies for payment to the Fund.