

**IMMEDIATE
ATTENTION**

SM/09/32

February 4, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **The SDR Interest Rate Basket—Change of the Representative Interest Rate for the Japanese Yen—Amendment to Rule T-1 (c)**

Attached for consideration by the Executive Directors is a paper on the SDR interest rate basket—change of the representative interest rate for the Japanese Yen—amendment to rule T-1 (c).

Is it not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by the **close of business on Thursday, February 5, 2009**. In the absence of such a request, the draft decision that appears on page 2 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter. The short lapse of time period is due to the impending change in the designation of the Japanese yen interest rate instrument used to calculate the SDR interest rate, as explained in the paper.

It is not intended to publish this paper on the Fund's external website.

Questions may be referred to Mr. Visconti, FIN (ext. 34228).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

**The SDR Interest Rate Basket
Change of the Representative Interest Rate for the Japanese Yen
Amendment to Rule T-1 (c)**

Prepared by Finance Department

(In consultation with Legal Department)

Approved by Andrew Tweedie

February 3, 2009

The Bank of Japan (BOJ) has informed the staff of an impending change in debt management under which the Japanese government will consolidate the separate issuance of Japanese government treasury bills and Japanese government financing bills into a new series of bills, collectively designated as Treasury Discount Bills. The first auction of Treasury Discount Bills is scheduled to take place on February 4, 2009.

The thirteen-week Japanese Government financing bills have been the Japanese yen representative interest rate instrument for the SDR interest rate basket since the 2000 Review of the Method of Valuation of the SDR (SM/00/180, 07/24/00). As a consequence of the above consolidation, the designation of the current thirteen-week financing bill will change to the three-month Treasury Discount Bill, with no change in the financial characteristics of these instruments.

Staff has consulted with the Japanese authorities about the implications of replacing the thirteen-week Japanese government financing bills in the SDR interest rate basket with the three-month Japanese Treasury Discount Bill. The Japanese authorities consider that the new three-month Japanese Treasury Discount Bill has the characteristics necessary to meet the criteria agreed by the Executive Board in reviews of the method of valuation of the SDR, i.e., that the financial instruments in the SDR interest rate basket should:

- be broadly representative of the range of financial instruments that are actually available to investors in a particular currency, and the interest rate on the instrument should be responsive to changes in underlying credit conditions in the corresponding money market; and
- have risk characteristics that are similar to the official standing of the SDR itself, i.e., have a credit risk profile of the highest quality, fully comparable to that of government paper available in the market or, in the absence of appropriate official

paper, comparable to the credit risk on prime financial instruments. Instruments should also reflect the actual reserve asset choice of reserve managers, for example, as regards the form of the financial instrument, its liquidity, and maturity.

Staff concurs with this assessment. As there is only a change in the designation of the current thirteen-week financing bill, the new three-month Treasury Discount Bill is expected to preserve the characteristics of former, including those for its inclusion in the SDR interest rate basket.

Proposed Decision

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

Rule T-1(c) shall be amended by replacing "Thirteen-week Japanese Government financing bills" with "Three-Month Japanese Treasury Discount Bills."