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To: Members of the Executive Board
From: The Secretary
Subject: The Development of Voluntary Transfers of SDRs
Among Participants and Prescribed Holders

Attached for consideration by the Executive Directors is a paper on the development of voluntary transfers of SDRs among participants and prescribed holders.

Mr. Coats (ext. 8249) is available to answer technical or factual questions relating to this paper prior to the Board discussion which is scheduled for Monday, August 4, 1986.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

The Development of Voluntary Transfers of SDRs
Among Participants and Prescribed Holders

Prepared by the Treasurer's Department

Approved by W. O. Habermeier

June 17, 1986

| | <u>Contents</u> | <u>Page</u> |
|-------------|---|-------------|
| I. | Introduction | 1 |
| II. | The Development of Voluntary Transfers of SDRs | 2 |
| III. | Transactions By Agreement: The Role of Buying and Selling Arrangements | 10 |
| | 1. Selling arrangements | 11 |
| | 2. Buying arrangements | 11 |
| | 3. Two-way arrangements | 14 |
| IV. | Prescribed Operations in SDRs | 16 |
| V. | Summary and Concluding Remarks | 17 |
| Text Tables | | |
| | 1. Selected SDR Transfers, 1970-85 | 4 |
| | 2. Increase in SDR Transfers Following Second Amendment, by Major Categories of Transfer | 5 |
| | 3. Selected Indicators of Relative SDR Use Following Second Amendment | 6 |
| | 4. Sales of SDRs in Transactions by Agreement | 12 |
| | 5. Standing Arrangements to Buy SDRs | 13 |
| | 6. Potential for Sales of SDRs in Transactions by Agreement | 15 |
| Appendix: | Background on Developments Regarding Voluntary Transfers of SDRs | |
| | I. Introduction | 19 |
| | II. 1970 to Mid-1976 | 19 |

| | <u>Contents</u> | <u>Page</u> |
|-----------------------|--|-------------|
| Appendix: (Concluded) | | |
| III. | Mid-1976 to Early 1978 | 20 |
| | 1. General prescription of transactions without requirement of need | 21 |
| | 2. The early development of selling arrangements | 21 |
| IV. | The Initial Period Under the Second Amendment: Early 1978 to End-1981 | 22 |
| V. | Recent Activities: 1982-May 1986 | 23 |
| | 1. Periodic surveys and new selling arrangements | 23 |
| | 2. Buying arrangements | 24 |
| | 3. Two-way arrangements | 24 |
| | 4. Special arrangements and unusual transfers | 24 |
| | a. Purchase of official SDRs with private SDRs | 24 |
| | b. Transactions by agreement in lieu of designation | 24 |
| | c. Use of SDRs for quota payments | 24 |
| | d. Withdrawal in official SDRs from a currency-denominated special account | 25 |
| | e. Sales of SDRs at preset price | 25 |
| Appendix Tables | | |
| | 1. SDR Uses by Periods: Total Transfers and Transactions by Agreement | 20 |
| | 2. Annual Transfers of SDRs | 26 |

I. Introduction

The use of SDRs in transactions by agreement is reviewed annually in the Fund's Annual Report. The decisions prescribing uses in operations among participants and prescribed holders generally require an annual review and these have also been carried out in the context of the Annual Report. Now that a number of years of experience have been gained, it seems desirable to review the development of these uses of SDRs in greater detail and over the longer period. This memorandum provides such a review.

The usability of the SDR is assured for Fund members that are participants in the SDR Department by their right to sell SDRs to other participants in exchange for currency through the designation mechanism when they have a balance of payments need. ^{1/} The usability of the SDR for members that have financial obligations to the Fund is further assured by their right to use SDRs in the settlement of those obligations. Moreover, SDRs can be exchanged for currency in transactions by agreement (i.e., in voluntary transactions) among participants and prescribed holders, ^{2/} and can be transferred among these entities in voluntary operations prescribed by the Fund (e.g., in loans and settlement of financial obligations).

Increased scope for voluntary transfers of SDRs (i.e., transactions by agreement and prescribed operations) and the continuous presence of buyers and sellers of SDRs can enhance the liquidity of the SDR and thus may reduce the need for reliance on the "involuntary" designation mechanism in assuring its liquidity. For participants, the possibility of voluntary transfers provides opportunities for uses of SDRs without a representation of a balance of payments need and helps to diminish the use of designation by those to whom it is available. It also allows prescribed holders of SDRs, for whom the designation mechanism is not available, and who have not as a class been granted access to dealing with the Fund in SDRs, to use SDRs, which, of course, is a condition for their accepting them in the first place. For both participants and prescribed holders, it develops and extends the capability to use SDRs in less regulated (hence in generally more convenient) ways

^{1/} Countries with a balance of payments need to use reserves may ask the Fund to arrange for the exchange of any SDRs they hold into a freely usable currency by designating a participant judged by the Fund to be in a strong balance of payments and reserve position, which is then obligated to accept the SDRs and to provide freely usable currency at the Fund's official value of the SDR on that day. A participant's obligation to accept SDRs and provide currency does not extend beyond the point at which its holdings of SDRs are three times its net cumulative allocation.

^{2/} In addition to the Fund's members, all of whom participate in the SDR Department, 14 international financial institutions have been prescribed by the Fund to hold, accept, and use SDRs.

and helps bring the range of uses of the asset more in line with those of other reserve assets.

Voluntary transfers of SDRs have increased substantially and have exceeded designated transactions in recent years. It is of interest to analyze the relative growth of the various types of transfers in SDRs and, in particular, to assess the nature of the supply and demand for SDRs that has supported the growth of voluntary transfers.

This paper examines the growth of SDR transfers in Section II, focusing in particular on factors contributing to the increase in voluntary transactions in recent years. Section III describes the role of standing arrangements to buy and sell SDRs in the development of transactions by agreement. Section IV outlines developments with respect to prescribed operations in SDRs, and Section V provides a summary and some concluding remarks. An appendix provides additional background on the evolution of voluntary transfers and the development of buying and selling arrangements.

II. The Development of Voluntary Transfers of SDRs

Before the Second Amendment to the Fund's Articles of Agreement, the two permissible types of transfers of SDRs between participants--i.e., transactions with designation and by agreement--were generally subject to the requirement that the user have a need to use reserves. ^{1/} The few transactions by agreement that were recorded in 1970-75 (about nine per annum on average) were limited to transfers between industrial countries involving mainly the purchase of balances of the user's currency held by the recipient (in a number of cases such balances had been acquired pursuant to the exchange rate arrangements of the European Economic Community for maintaining narrow margins in exchange rate movements).

Under the Second Amendment, which became effective in April 1978, the range of possible uses of the SDR was increased substantially, and the Fund took steps to make use of the authority granted by this amendment to make the asset more market-oriented. Most importantly, transactions by agreement no longer were subject to a balance of payments need, the list of SDR holders was expanded to include certain official financial institutions, certain operations (other than transactions) were authorized, and greater reliance was placed on financial incentives (such as increases of the SDR interest rate toward market levels and its calculation on a weekly rather than quarterly basis) as a means of ensuring the effective functioning of the SDR

^{1/} The Fund was authorized to prescribe certain transactions by agreement without a balance of payments need, and such transactions took place increasingly in the period immediately preceding the Second Amendment (see Appendix).

system. Possible further improvements have been discussed, but beyond the move to a weekly calculation of the SDR interest rate no further steps have been taken since 1981. 1/ However, the SDR's attractiveness depends not only on its formal characteristics (such as its rate of interest and range of permissible uses) but also on its liquidity, i.e., its actual and potential usability in transactions and operations. The more ready buyers there are, the more liquid the SDR will be.

Since the adoption of the Second Amendment, there has been considerable growth in the number and amount of SDR transfers of all types, and of transactions by agreement in particular. This growth has by and large reflected increases in the financial transactions and operations of the Fund with its members, in which the SDR plays an important role. However, it may also reflect to some extent increased familiarity and experience of holders with the broadened potential uses of the SDR. In addition, increased use of SDRs has in some cases resulted from decisions of some members to use (and receive) them more actively as a matter of policy. The principal factors in the growth of SDR transfers are discussed further below.

Table 1 reports the annual averages of selected SDR transfers, aggregated into four periods of several years each. 2/ The two most recent years are also shown individually. The first period, 1970-75, was the period of most restrictive rules governing the SDR's uses as originally set out in the First Amendment to the Fund's Articles of Agreement. The second period, 1976-78, was a transition period during which a few less restrictive rules were adopted in anticipation of the Second Amendment, which came into effect in April 1978. The period 1979-81 was the initial period under the Second Amendment, during which the Fund adapted its rules and the attributes of the SDR toward making it more competitive with other reserve assets and during which there were annual allocations. The most recent period, 1982-85, follows on the basic completion of these enhancements but included no allocations or substantial changes in the characteristics of the SDR.

From the first of these four periods to the most recent one, average annual transfers of SDRs of all types increased from almost SDR 1.2 billion to SDR 16.1 billion. The intensity with which the existing stock of SDRs has been used, as measured by the value of transfers as a

1/ "Possible Further Improvements in the Existing SDR," SM/82/92 (5/7/82).

2/ In order to assess patterns of SDR uses over time, annual periods are the minimum meaningful periods of comparison because of the highly seasonal pattern of SDR transactions during each year. Large transactions, however, can occasionally distort the annual figures, as can special events such as quota increases. Overall trends can be seen more clearly by comparing annual averages over longer periods. The differing environments which led the staff to choose these four periods for comparison did not fall exactly into the annual periods aggregated here. More precise dates are used in the Appendix.

Table 1. Selected SDR Transfers, 1970-85

(In millions of SDRs)

| | Annual Averages | | | | 1984 | 1985 |
|---|-----------------|--------------|--------------|---------------|---------------|---------------|
| | 1970-75 | 1976-78 | 1979-81 | 1982-85 | | |
| 1. <u>Transfers among participants and prescribed holders</u> | <u>661</u> | <u>1,475</u> | <u>2,150</u> | <u>5,613</u> | <u>5,782</u> | <u>5,026</u> |
| Of which: | | | | | | |
| Transactions with designation | 261 | 446 | 1,458 | 2,466 | 2,308 | 1,950 |
| Transactions by agreement | 377 | 960 | 520 | 2,339 | 2,950 | 2,593 |
| Operations | -- | -- | 10 | 491 | 176 | 183 |
| Net SDR charges | 23 | 69 | 161 | 316 | 347 | 299 |
| 2. <u>Transfers to the Fund</u> | <u>296</u> | <u>1,381</u> | <u>3,406</u> | <u>5,015</u> | <u>3,941</u> | <u>4,502</u> |
| Of which: | | | | | | |
| GRA charges | 84 | 733 | 619 | 2,197 | 2,652 | 2,960 |
| SDR charges <u>1/</u> | 9 | 28 | 135 | 526 | 586 | 355 |
| Repurchases | 202 | 545 | 867 | 716 | 538 | 1,170 |
| Quota payments | -- | 73 | 1,786 | 1,574 | 161 | 14 |
| 3. <u>Transfers from the Fund</u> | <u>204</u> | <u>1,163</u> | <u>2,135</u> | <u>5,503</u> | <u>5,983</u> | <u>6,391</u> |
| Of which: | | | | | | |
| Purchases (against own currency) | 89 | 661 | 1,595 | 2,823 | 3,265 | 2,154 |
| Acquisitions (against currencies of other members) | 66 | 381 | 115 | 597 | 453 | 1,585 |
| Of which: | | | | | | |
| To pay charges | 0.1 | 2.8 | 1.5 | 597 | 453 | 1,585 |
| 4. <u>Total transfers</u> | <u>1,162</u> | <u>4,019</u> | <u>7,692</u> | <u>16,130</u> | <u>15,706</u> | <u>15,918</u> |

Note: Totals may not add due to rounding. For details, see Appendix Table 1.

1/ Interest received by the Fund on its holdings of SDRs.

percent of net cumulative allocations, rose from 15 percent to 75 percent over the same period. Transfers to and from the Fund accounted for about two thirds of the increase and for a similar proportion of total transfers in the latest period, reflecting increases in the Fund's financial activities and the important role of the SDR in Fund transactions and operations. Transfers among participants and prescribed holders have increased steadily since the early 1970s, but have risen much more rapidly in the more recent years, with the bulk of the increase accounted for by voluntary transfers.

The first period following the Second Amendment, as noted, involved a number of steps to enhance the usability and attractiveness of the SDR. Between the two post-amendment periods, the annual average of total transfers of SDRs approximately doubled. Among participants and prescribed holders, transactions with designation increased at a slower rate than the overall total, while voluntary transfers (transactions by agreement plus operations) rose more rapidly than the overall total (from SDR 0.5 billion to SDR 2.8 billion). Table 2 summarizes the increase in SDR transfers by major categories between the periods, and Table 3 presents selected indicators of relative SDR use.

Table 2. Increase in SDR Transfers Following Second Amendment
by Major Categories of Transfer

| Type of Transfer | Annual Averages | | Change (SDR millions) | Change, as percent of total change |
|---|---------------------------|---------------------------|--------------------------|---|
| | 1979-81 (SDR millions) | 1982-85 (SDR millions) | | |
| 1. With Fund and net SDR charges <u>1/</u> | 5,702 | 10,834 | 5,132 | 61 |
| 2. Transactions with designation | 1,458 | 2,466 | 1,008 | 12 |
| 3. Voluntary transfers | 531 | 2,830 | 2,299 | 27 |
| Transactions | (520) | (2,339) | (1,819) | (22) |
| Operations | <u>(10)</u> | <u>(491)</u> | <u>(481)</u> | <u>(6)</u> |
| Total | 7,692 | 16,130 | 8,438 | 100 |

Note: Components may not add to totals due to rounding.

1/ Combines transfers to and from the Fund and settlement of net SDR charges among participants and prescribed holders.

Table 3. Selected Indicators of Relative SDR
Use Following Second Amendment

(In percent)

| | 1979-81 | 1982-85 |
|---|---------|---------|
| <hr/> | | |
| 1. Voluntary transfers as a percent of: | | |
| (a) total transfers | 7 | 18 |
| (b) total transactions among participants and prescribed holders | 25 | 50 |
| 2. Transactions with designation as a percent of purchases of SDRs from the Fund | 91 | 87 |
| 3. Transactions by agreement as a percent of: | | |
| (a) total charges payable in SDRs | 57 | 77 |
| (b) total charges payable in SDRs less acquisitions from the Fund for charges | 57 | 96 |
| 4. Voluntary transfers involving prescribed holders as percent of total voluntary transfers | 4 | 8 |

The following paragraphs discuss the main factors that have contributed to the growth of various kinds of transfers of SDRs between the two post-amendment periods. While the factors underlying certain types of transfers, primarily those to which the Fund is a party, are known, information is often not available on the motivation underlying other transfers and explanations must be inferred to some extent. ^{1/} With this qualification, the staff considers that the development of SDR transfers between the two periods following the Second Amendment can be

^{1/} A fair amount of information is currently required by the Fund in connection with the use of SDRs in prescribed operations (loans, swaps, etc.). However, so as to avoid creating a reporting burden that might discourage the use of SDRs in transactions by agreement, the only information requirement for such uses is to identify the use as a transaction by agreement and to state the value date and the amount of currency to be paid. Therefore, the Fund does not generally know the purpose for which SDRs are bought or sold in such transactions, though it may request further information if that were considered desirable.

explained largely by the following factors related to transactions with the Fund.

1. As noted, transfers of SDRs directly to and from the Fund account for the bulk of total transfers. The increase in the Fund's financial activities between the two periods led to an approximate doubling of transfers involving the Fund. These transfers, together with the settlement of net SDR charges among participants and prescribed holders, accounted for about 61 percent of the increase in total transfers.

2. The growth in designated transactions was related closely to the increase in members' receipts of SDRs in purchases from the Fund, as such receipts of SDRs are for the most part exchanged immediately for currency in transactions with designation. ^{1/} Receipts of SDRs in purchases almost doubled between the two periods. Transactions with designation increased by almost the same amount, leading to a slight decline in the ratio of such transactions to the volume of SDR purchases from the Fund (see Table 3), and accounting for about 12 percent of the increase in total transfers.

3. Voluntary transfers accounted for the balance of the overall increase in transfers, about 27 percent of the total, of which transactions by agreement accounted for about 22 percent and operations about 6 percent. Voluntary transfers have exceeded transactions with designation for the last several years and accounted for about 18 percent of total transfers in the second post-amendment period.

a. The increase in voluntary transactions was related, though somewhat less closely than the relation between designated transactions and receipts of SDRs in purchases, to the increase in charges payable in SDRs to the Fund and in settlement of net SDR charges (see Table 3). The total of such charges increased by over three times, from SDR 0.9 billion to SDR 3.0 billion, and the need of members to obtain SDRs for the payment of these charges explains much, but not all, of the increase in voluntary transactions between the two periods. After deducting members' acquisitions of SDRs from the Fund for settlement of charges, the value of voluntary transactions as a percent of charges payable in SDRs rose from 57 percent to 96 percent between the two post-amendment periods (128 percent in 1985).

The increase in acquisitions of SDRs in voluntary transactions between the two periods may be explainable in part by the pattern of SDR allocations. In the first post-amendment period, SDRs received as the result of annual allocations (and also SDRs freed for use as

^{1/} The acceptance of SDRs in purchases is voluntary. Members' willingness to accept SDRs in purchases reflects in part the fact that SDRs so acquired may be used with certainty in transactions with designation.

a result of two reductions in the reconstitution requirement) 1/ were available to members to pay obligations to the Fund. Members paying periodic charges to the Fund on the use of its resources began the second post-amendment period with relatively high SDR holdings. 2/ In the absence of allocations, these holdings were gradually reduced over the 1982-83 period, primarily as a result of uses of SDRs with designation and to discharge obligations to the Fund. Since the payment of the last quota increase in 1983, however, the holdings of these members (i.e., those who paid periodic charges to the Fund some time during the 1984-85 period) have not declined further on average. Faced with the need to use SDRs to pay Fund-related obligations (the amount of which grew in the second period), voluntary purchases have been used on balance, since the quota payment in 1983, to maintain or in fact somewhat increase the average level of SDRs held. 3/

b. A further source of demand for SDRs in voluntary transactions, also Fund-related, has been the practice of some members of using SDRs for making repurchases (such use is optional). Data on transactions in SDRs do not identify, as such, purchases by agreement for the purpose of making repurchases, and no quantitative comparison of the importance of this factor in developments between the two periods is possible. However, the staff is aware from informal contacts with members, in part related to the development of SDR buying and selling

1/ The requirement was abrogated on April 30, 1981.

2/ While the list of members paying periodic charges has varied over time, those who paid such charges at any time during the period 1984 through 1985 held SDRs on average at 45.6 percent of their net cumulative allocation at the end of 1981, which was approximately 60 percent of that figure (76.6 percent) for all participants at that time. For the constant list of capital importing developing countries (as defined in 1986) the average holding of SDRs at the end of 1981 was 58.0 percent of their net cumulative allocation, (the highest it has ever been except for 1979) which was approximately three quarters of that figure for all participants.

3/ The SDRs held by all members that paid periodic charges on the use of Fund resources at any time during the 1984-85 period rose, following payment to the Fund of the last quota increases in 1983, from 12.0 percent of their net cumulative allocation to 20.0 percent by the end of 1985, representing about 1.8 percent of the non-gold reserves held by these countries (compared to 4.6 percent for all members). This is down from an average of about 3.3 percent over the 1979-83 period (compared to 4.5 percent for all members). The relatively low proportion of SDRs in the reserves of members that paid periodic charges, may reflect the relative unattractiveness of the SDR to them, including factors related to usability and yield, and desires to match the currency composition of liabilities not denominated in SDRs in order to avoid the risk of exchange rate changes.

arrangements as discussed further below, that in the recent period a number of members have regularly made purchases of SDRs in anticipation of repurchases, and it is considered likely that this has become an increasingly important factor supporting the development of voluntary transactions. It is possible that some members have chosen to acquire SDRs in advance of making repurchases in order to obtain a degree of protection against exchange rate risk vis-a-vis their SDR-denominated obligations to the Fund. In addition, some members appear to have found it administratively convenient to build up their SDR holdings in advance of repurchases and to give the Fund advance authorization to debit their holdings as the repurchases fall due.

c. SDRs were supplied for voluntary transactions primarily by members whose holdings were increased through the designation mechanism, receipts of remuneration of reserve tranche positions in the Fund, and servicing of loans made to the Fund. A small amount of the supply came from members with a balance of payments need that would have used their SDRs with designation if voluntary transactions had not been arranged. The magnitude of SDRs flowing to all of these members, and potentially being supplied by them in voluntary transfers, has grown with the growth in the scale of the Fund's financial activities already noted.

d. The increase in prescribed operations in SDRs (discussed further in Section IV) has also been related significantly to transactions with the Fund, primarily the payment of quota increases. The average annual amount of operations increased from virtually nothing to about SDR 0.5 billion between the two periods. Approximately SDR 0.3 billion of this increase in the annual average was associated with operations to finance certain members' SDR payments in connection with the increase in their quotas in 1983.

In sum, the vast bulk of the increase in transfers of SDRs has been related directly or indirectly to transactions with the Fund. With respect to voluntary transfers among participants and prescribed holders, on which information about the factors underlying transfers is not complete, the staff would estimate that perhaps 95 percent of the increase has been related to the settlement of obligations to the Fund and in the SDR Department, though some of these uses have not required settlement in SDRs. The increase in members' obligations payable to the Fund, while not the only factor, has been by far the most important factor in creating a rising demand for acquisition of SDRs in voluntary transactions. At the same time, a number of holders have indicated a desire or willingness to sell SDRs from their holdings, and these developments have combined to support an increasingly active "market" for voluntary transactions in SDRs.

III. Transactions by Agreement: The Role of Buying and Selling Arrangements

While the increase in transactions by agreement has been considerable, it has not been sufficiently broad to make it very likely that on a day-to-day basis the desires of buyers and sellers will approximately match in time and amount. The staff has sought to assist members in arranging desired transactions in SDRs, and these efforts have led over time to the development of more flexible arrangements for the purchase and sale of SDRs in transactions by agreement. 1/ The ease with which a seller can find a voluntary buyer, and vice versa, remains importantly dependent on the buying and selling arrangements that have evolved.

As noted above, the majority of transactions by agreement are associated with the payment of charges to the Fund and in the SDR Department. In 1984, 65.1 percent of the total number of transactions by agreement, representing 61.8 percent of the total value of such transactions (or about SDR 1.8 billion), occurred within two weeks of the due dates of these charges. 2/ The concentration decreased somewhat in 1985 because of increased acquisitions of SDRs for use in repurchases (where their use is optional), which are more evenly spread out over time. During the weeks immediately preceding the payment of charges, it is relatively easy to find buyers for those wishing to sell SDRs, but even during these periods of concentrated demand an exact matching of amounts and dates remains unlikely.

Participants and prescribed holders wishing to buy or sell SDRs generally seek the Fund's assistance in arranging SDR transactions. The staff utilizes information it obtains on the desires of holders to buy or sell SDRs to help bring buyers and sellers together, without entering into the process by buying or selling SDRs itself. 3/ The

1/ When the Executive Board extended the scope for SDR transactions by agreement in August 1976, prior to the still greater scope made possible by adoption of the Second Amendment to the Fund's Articles of Agreement, it envisaged that the staff would assist in arranging such transactions (see EBS/76/306). The first selling arrangement was entered into one month later. Staff activities in arranging voluntary transfers have also been reported to the Board in "Possible Further Improvements in the Existing SDR," (SM/82/92) and various Annual Reports.

2/ Charges on net cumulative allocations of SDRs are due on the first of February, May, August, and November. Quarterly charges are due a few days after the beginning of each of these months. Semi-annual charges are due in mid-January and mid-July.

3/ Subject to the requirement to transact at the Fund's official exchange rates, any holder or group of holders that wished to do so could make the market for SDRs. A participant recently entered into a standing arrangement with the Fund to buy or sell SDRs in order to help perform this function (see subsection 3).

staff has sought to develop alternative mechanisms to help bridge the time gaps between desires to buy and sell SDRs which, potentially at least, could be satisfied through voluntary transactions. The key has been for transactors to accept some flexibility with regard to the timing of their transactions, in order to increase the scope for matching buyers and sellers.

This effort has resulted in the establishment of a variety of standing arrangements with a number of holders that have authorized the Fund to arrange sales and purchases of SDRs on their behalf. The existence and growth of standing arrangements have reduced the difficulties raised by transactors' differing time preferences and avoided inefficiencies and loss of time in waiting for responses to inquiries about holders' willingness to buy or sell SDRs on specific dates. They have enabled the Fund, on the basis of standing preauthorizations, to initiate transactions in SDRs without further consultation by issuing payment instructions to the purchaser on behalf of the seller. 1/

1. Selling arrangements

The existence of standing arrangements to sell SDRs dates from 1976. Since that time, 19 holders have sold SDRs under such arrangements. Most arrangements have provided for the sale of SDRs in exchange for U.S. dollars though a few have specified the Deutsche mark, the French franc and the pound sterling. As shown in Table 4, the number and volume of transactions under standing arrangements to sell have grown rapidly, and sales under such arrangements accounted for about 80 percent of transactions by agreement in the annual period December 1984-November 1985. The use of these arrangements has facilitated the management of the SDR holdings of those entering into them and has also meant that in the last several years any holder wishing to buy SDRs has been able to do so in the amount and on the date desired.

2. Buying arrangements

The first standing arrangement to buy SDRs was established in 1984, and 17 holders have entered into standing arrangements to buy

1/ Standing arrangements can be established through exchanges of telexes with the Fund. In general, they specify the currency to be used and the amount the holder wishes to buy or sell, and can run for specific periods or until the specified amount has been purchased or sold. On occasion, sellers have defined amounts to be sold in variable terms, e.g., in relation to holdings in excess of allocations. The Fund informs each party to the transaction of the identity of the other party, the value date, the SDR amount, the currency equivalent of the transaction and the exchange rate used to determine it. The transfer of SDRs is recorded by the Fund upon receipt from the seller of confirmation that the appropriate amount of currency has been received from the buyer.

Table 4. Sales of SDRs in Transactions by Agreement

| Period <u>1/</u> | Under standing arrangements to sell | | | Other (SDR millions) | Total |
|-------------------------|-------------------------------------|---------------------------|---|-------------------------|--------------|
| | Number of arrangements | Number of transactions | Amount of transactions (SDR millions) | | |
| 1976 | 1 | 9 | 32 | 312 | 345 |
| 1977 | 3 | 60 | 678 | 16 | 694 |
| 1978 | 3 | 76 | 664 | 1,146 | 1,810 |
| 1979 | 2 | 40 | 298 | 43 | 341 |
| 1980 | 2 | 62 | 240 | 6 | 246 |
| 1981 | 2 | 122 | 762 | 54 | 816 |
| 1982 | | | | | |
| Dec.(81)-Feb. | 4 | 49 | 275 | 110 | 384 |
| March-May | 4 | 35 | 169 | 146 | 315 |
| June-Aug. | 3 | 26 | 148 | 147 | 295 |
| Sept.-Nov. | 3 | 29 | 136 | 110 | 246 |
| | <u>5</u> <u>2/</u> | <u>139</u> | <u>727</u> | <u>513</u> | <u>1,240</u> |
| 1983 | | | | | |
| Dec.(82)-Feb. | 5 | 24 | 174 | 215 | 389 |
| March-May | 5 | 39 | 322 | 106 | 428 |
| June-Aug. | 4 | 47 | 299 | 189 | 488 |
| Sept.-Nov. | 3 | 27 | 204 | 48 | 252 |
| | <u>5</u> <u>2/</u> | <u>137</u> | <u>999</u> | <u>558</u> | <u>1,557</u> |
| 1984 | | | | | |
| Dec.(83)-Feb. | 9 | 89 | 1,797 <u>3/</u> | 191 | 1,988 |
| March-May | 10 | 41 | 393 | 128 | 521 |
| June-Aug. | 11 | 70 | 548 | 313 | 860 |
| Sept.-Nov. | 5 | 56 | 258 | 236 | 493 |
| | <u>14</u> <u>2/</u> | <u>256</u> | <u>2,995</u> <u>3/</u> | <u>867</u> | <u>3,863</u> |
| 1985 | | | | | |
| Dec.(84)-Feb. | 8 | 55 | 576 | 325 | 901 |
| March-May | 8 | 54 | 593 | 53 | 645 |
| June-Aug. | 8 | 51 | 330 | 106 | 435 |
| Sept.-Nov. | 8 | 61 | 560 | 56 | 616 |
| | <u>10</u> <u>2/</u> | <u>221</u> | <u>2,059</u> | <u>539</u> | <u>2,598</u> |
| 1986 | | | | | |
| Dec.(85)-Feb. <u>4/</u> | 8 | 55 | 677 | 224 | 901 |
| March-May | 7 | 65 | 561 | 38 | 599 |

Note: Components may not add due to rounding.

1/ The information in this table is organized according to the periods of the SDR designation plans. Annual figures are for December of the preceding year through November and thus do not compare directly with the calendar year data presented in Table 1.

2/ Arrangements on quarterly basis do not add up to annual numbers, because individual arrangements are in effect for different periods.

3/ Includes 36 transactions amounting to SDR 1,090.4 million sold under special standing arrangements for the sale of SDRs to members needing them in connection with quota payments.

4/ Including the selling side of a standing arrangement to buy and sell (see Section III.3).

SDRs since that time. ^{1/} Table 5 shows the development of standing arrangements to buy SDRs. In the annual period December 1984–November 1985, some 59 percent of total transactions by agreement involved purchases under standing arrangements to buy SDRs, and such arrangements were in effect for 73 percent of business days during the period. Members' willingness to enter into standing arrangements to buy SDRs has been helpful in facilitating both those members' purchases and the ability of other members to sell SDRs in voluntary transactions.

Table 5. Standing Arrangements to Buy SDRs

| | Number of arrange- ments ^{1/} | Number of trans- actions | Amount of trans- actions (SDR millions) | Number of days covered by arrangements (as percent of business days) |
|-----------------------------|--|--------------------------------|---|--|
| 1984 | | | | |
| Dec.(83)-Feb. | -- | -- | -- | -- |
| March-May | 1 | 4 | 80 | 34 |
| June-Aug. | -- | -- | -- | -- |
| Sept.-Nov. | <u>3</u> | <u>5</u> | <u>70</u> | <u>39</u> |
| | <u>4</u> | <u>9</u> | <u>150</u> | <u>16</u> |
| 1985 | | | | |
| Dec.(84)-Feb. | 17 | 25 | 549 | 75 |
| March-May | 13 | 18 | 414 | 74 |
| June-Aug. | 13 | 15 | 229 | 77 |
| Sept.-Nov. | <u>10</u> | <u>13</u> | <u>333</u> | <u>64</u> |
| | <u>51</u> | <u>71</u> | <u>1,525</u> | <u>73</u> |
| 1986 | | | | |
| Dec.(85)-Feb. ^{2/} | 14 | 27 | 473 | 72 |
| March-May | 12 | 14 | 296 | 100 |

^{1/} Some holders have entered into a number of short-term arrangements within quarterly or annual periods.

^{2/} Includes the buying side of a standing arrangement to buy and sell (see Section III.3.)

^{1/} Arrangements with most of these holders involved acquisitions of SDRs in order to discharge obligations to the Fund or to prevent the level of the members' SDR holdings from falling when discharging such obligations in SDRs.

Standing arrangements to buy SDRs are somewhat more difficult for holders to operate than are arrangements to sell, because the holder must maintain on hand the currency to pay for the SDRs when instructed by the Fund, usually with two days' notice. ^{1/} Standing arrangements to sell SDRs do not involve this difficulty because the seller remains "invested" in SDRs (yielding a three-month interest rate) until it receives currency (which can normally be invested automatically on its behalf by its depository for that currency).

3. Two-way arrangements

One participant, who had earlier agreed on an ad hoc basis to buy SDRs temporarily when the Fund was unable to find other buyers, has recently entered into a standing arrangement to buy or sell SDRs within a range of approximately 25 percent on either side of its net cumulative allocation. As a result of this arrangement, it has been possible in recent months to sell modest amounts of SDRs in transactions by agreement on any day desired. The participant entered into this arrangement for the purpose of contributing to the SDR's voluntary liquidity. If such arrangements became sufficiently numerous and large, they could enhance importantly the SDR's liquidity and reduce the need for reliance on the designation mechanism. ^{2/} Acquisition of SDRs by some prescribed holders that have been reluctant to date to acquire them, because of the limited scope to sell them when desired, might also be facilitated.

As noted earlier, demand for purchases of SDRs in transactions by agreement is concentrated in periods near the dates when charges are payable to the Fund. Outside these periods, it has been much more difficult to arrange voluntary sales. Two additional developments have, however, improved the prospects for sales at other times. First, the volume of repurchases and the amount of SDRs used in repurchases are rising. Because the due dates for repurchase obligations are spread more evenly over the year than are those for charges, and because the bulk of the SDRs used for repurchases in recent years has been acquired in advance in transactions by agreement, the occasions when voluntary sales of SDRs are possible over the year have accordingly increased for this reason. In addition, without establishing standing arrangements, a number of members have begun to indicate well in advance (several weeks or months) the desired value dates and amounts of their SDR purchases, in part in response to inquiries by the staff in order to facilitate the arrangement of such purchases.

^{1/} Similar considerations in part motivated the development of the designation plan, i.e., to give advance notice to countries in the plan of maximum amounts that may be involved.

^{2/} Since June 1983, the standard designation instructions sent to the Fund by a participant with a balance of payments need and wishing to sell SDRs immediately have allowed the Fund to substitute a transaction by agreement if it is able to do so. Cumulative transactions by agreement in lieu of designation amounted to SDR 406.9 million as of the end of May 1986, which was 6.4 percent of the amount of SDRs used with designation over the same period.

As a result of the development of buying arrangements and increased demand for purchases of SDRs in ad hoc transactions, it has been possible to arrange sales in voluntary transactions on an increasing number of business days and in amounts which, while remaining relatively small, are also increasing. As shown in Table 6, there was a potential for sales in voluntary transactions on 87 percent of business days in 1985, and the potential amount that could have been sold on those days averaged SDR 63 million, more than double the figure in 1984. The longest period during which SDRs were not sold, or could not have been sold in at least some amount, in transactions by agreement, did not exceed three consecutive business days in 1985.

Table 6. Potential for Sales of SDRs
in Transactions by Agreement 1/

| | Number of days on which SDRs could be sold (as a percent of business days) | Average amount that could be sold (in SDR millions) <u>2/</u> | Longest wait to sell (in business days) <u>3/</u> |
|---------------|---|--|---|
| 1984 | | | |
| Dec.(83)-Feb. | 73 | 45 | 3 |
| March-May | 71 | 18 | 5 |
| June-Aug. | 69 | 23 | 4 |
| Sept.-Nov. | <u>96</u> | <u>17</u> | 4 |
| | 73 | 26 | |
| 1985 | | | |
| Dec.(84)-Feb. | 92 | 83 | 3 |
| March-May | 85 | 56 | 3 |
| June-Aug. | 91 | 43 | 2 |
| Sept.-Nov. | <u>82</u> | <u>69</u> | 3 |
| | 87 | 63 | |
| 1986 | | | |
| Dec.(85)-Feb. | 92 | 87 | 2 |
| March-May | 100 | 64 | 0 |

1/ The potential to sell SDRs is measured in this table by combining actual sales in transactions by agreement; acquisitions of SDRs from the Fund, which in the absence of sales by the Fund would represent potential demand for acquisitions from other holders; and sales that could have been made (but were not) under standing arrangements to buy SDRs.

2/ On days when sales were possible.

3/ The longest string of consecutive business days on which SDRs were not or could not be sold.

IV. Prescribed Operations in SDRs

While the use of SDRs in operations, such as in loans and in settling financial obligations, does not directly facilitate their use in transactions by agreement, it does provide additional ways in which the SDR can be used and thus contributes to the asset's general liquidity. By March 1980, the Fund had prescribed seven operational uses of SDRs: SDRs can be loaned, sold forward, swapped, donated, pledged, transferred as collateral, and used to settle financial obligations. Since that time, some simplification of the operational requirements for using SDRs in operations and a broadening of the range of uses that might be undertaken have been proposed but not yet acted upon by the Executive Board and two additional operations for very specific purposes have been prescribed. ^{1/} This section briefly views the development of these uses.

The first use of SDRs in a prescribed operation was in July 1981 to settle the obligation of a Fund member to contribute capital to a regional monetary institution prescribed to hold SDRs. Other uses of SDRs to settle financial obligations have included payment of interest and principal on loans, settlement of intervention credits extended in the context of the European Monetary System, and repayment of SDRs borrowed in connection with payment of the asset portion of quota increases resulting from the Eighth Review of Quotas. As of the end of May 1986, there have been 140 settlements of financial obligations amounting to SDR 1,130.8 million.

Of the remaining prescribed operations, SDRs have also been used in loans. They have been loaned by regional financial institutions to their members as a part of their regular activities. They have also been loaned to participants in connection with the payment of the asset portion of quota increases resulting from the Eighth Review of Quotas, and on several occasions by participants and prescribed holders to participants needing them to discharge other obligations to the Fund. As of the end of May 1986, there have been 74 loans of SDRs amounting to SDR 893.8 million.

Appendix Table 1 shows the uneven growth in operational uses of SDRs since 1981. They increased rapidly in 1982 as a result of two large payments in SDRs by one participant to settle EMS intervention credits denominated in ECU (SDR 235 million). The heaviest use in operations was in 1983, when SDR 540 million was borrowed for use in

^{1/} "Simplification of Operations in SDRs," SM/83/187 (8/15/83); "Establishment of Special Procedures for Operations to Set Aside SDRs to Secure the Performance of Obligations," SM/83/188 (8/16/83); "Supplementary Financing Facility Subsidy Account - Investment and Subsidy Payments in SDRs," EBS/85/284 (12/18/85); and "Structural Adjustment Facility - Use of Resources of the Special Disbursement Account," EBS/86/53, Sup. 3 (3/31/86).

paying the asset portions of quota increases and the same amount was repaid the same day from the proceeds of drawings on the newly created reserve tranche positions in the Fund. These related transfers accounted for SDR 1,080 million of that year's SDR 1,238 million in operational uses. Apart from these two relatively large-scale uses, operational uses, while remaining small, have grown steadily from 1981 to date, rising from SDR 31 million in 1981 to SDR 183 million in 1985.

V. Summary and Concluding Remarks

The usability of the SDR is assured for participants with a balance of payments need by their right to use the asset in transactions with designation, and, for members having payments obligations to the Fund, by their rights to make those payments in SDRs. The SDR's usability can be, and has been, enhanced, and the need for reliance on the designation mechanism somewhat reduced, by voluntary transfers of SDRs among participants and prescribed holders. Such transfers have expanded rapidly following the Second Amendment to the Articles of Agreement.

While the amounts remain small relative to the scale of international transactions, the development of voluntary transfers and related arrangements has facilitated management of the SDR positions of members and prescribed holders and generally increased the usability of SDRs. Voluntary exchanges of SDRs without the need for representation of balance of payments need or utilization of the designation mechanism would seem to be beneficial to the development of the SDR and holders' attitudes toward it.

It is clear, however, that the rapid growth of voluntary transactions in SDRs, has been based to date very largely on demands for SDRs arising from members' obligations, and to a lesser extent, preferences, to make payments to the Fund in SDRs. There is little evidence so far of an active demand for SDRs in voluntary transactions that is motivated by a preference to hold the asset without reference to the need to use it in transactions with the Fund. Continuing development of a voluntary market and increased familiarity with the possibilities for voluntary transactions may, of course, help to support such a demand on the part of participants and prescribed holders. It is proposed that the staff continue in its efforts to assist members in arranging desired transactions and to develop information on the desires of potential buyers and sellers in order to facilitate such transactions. Nonetheless, it would appear that unless other steps were taken by the Fund to promote the SDR, such as a resumption of allocations, improving further its attractiveness, broadened uses by the Fund, promoting its use as a unit of account, and allowing participants and other holders greater latitude in arranging operations in SDRs, the prospects for further development of voluntary transactions remain closely related to the level of Fund financial activity and, in particular, to the amounts of charges (and to a lesser extent repurchases) that are due to the Fund. The Interim Committee in its meeting

in April recommended that the Executive Board "study possible improvements in the monetary characteristics of the SDR that would increase its attraction and usefulness as a component of monetary reserves." Some possibilities were mentioned in the earlier review of such issues 1/ and others could be explored in areas desired by the Executive Board.

1/ SM/82/92 (5/7/82).

Background on Developments Regarding
Voluntary Transfers of SDRs

I. Introduction

The following description of the use of the SDR by participants and prescribed holders is divided into four stages: (i) the initial period following the First Amendment to the Articles of Agreement, which established the SDR system (1970 to mid-1976); (ii) the transitional period prior to the adoption of the Second Amendment (mid-1976 to early 1978); (iii) the initial period under the Second Amendment during which the Fund used its increased authority to make the SDR more attractive and to expand its uses (early 1978 to end-1981); and (iv) the recent period (1982 to date) which is marked by sustained growth of transactions in SDRs and an active role by the Fund in assisting members to arrange such transactions. Appendix Table 1 illustrates the growth in the total use and use in transactions by agreement over these four periods and Appendix Table 1 provides comprehensive figures on annual SDR uses by major types.

II. 1970 to Mid-1976

Under the First Amendment, which became effective July 1969 and under which the SDR was created, the permissible uses of the SDR were limited. Members could use SDRs to make repurchases from, and payments of charges to, the Fund. ^{1/} Transactions between participants (transactions with designation and by agreement) were generally subject to the requirement of need. The Fund was authorized to prescribe transactions by agreement that were not subject to the requirement of need if they promoted reconstitution, prevented or reduced negative balances, offset previous uses of SDRs that had failed to meet the requirement of need, or would bring the holdings of both user and recipient closer to their net cumulative allocations. During this initial period, the Fund used this provision only once when it prescribed a particular transaction by agreement in April 1972, free of the requirement of need, which brought the SDR holdings of the two transacting participants closer to their net cumulative allocations.

Transactions by agreement during the first six years of the SDR system were conducted almost exclusively between industrial countries, on a very occasional basis and in comparatively large amounts. Except

^{1/} The only exceptions were repurchase obligations under Article V, Section 7(b) which had to be discharged in specified means of payment. All references to the Articles in Sections II and III of this Appendix relate to the Articles following the First Amendment. All references in Sections IV and V pertain to the current Articles following the Second Agreement.

for the one prescribed transaction mentioned above, all of these uses of SDRs were to obtain balances of the seller's currency held by the buyer.

Table 1. SDR Uses by Periods: Total Transfers and Transactions by Agreement

| Period | Total transfers | | Of which: Transactions by agreement | |
|---|---------------------|------------------------|--|-----------------------|
| | Number of transfers | Amount (SDR millions) | Number of transfers | Amount (SDR millions) |
| 1. Jan. 1, 1970- <u>Aug. 31, 1976</u> (annual average) | 4,482 (673) | 8,822.7 (1,322.7) | 60 (9) | 2,410.0 (361.3) |
| 2. Sept. 1, 1976- <u>Mar. 31, 1978</u> (annual average) | 1,376 (871) | 5,570.3 (3,525.5) | 98 (62) | 1,214.2 (768.5) |
| 3. Apr. 1, 1978- <u>Dec. 31, 1981</u> (annual average) | 5,971 (1,793) | 27,710.0 (8,321.3) | 314 (94) | 3,079.6 (924.8) |
| 4. Jan. 1, 1982- <u>Dec. 31, 1985</u> (annual average) | 9,376 (2,344) | 64,520.4 (16,130.1) | 1,004 (251) | 9,356.9 (2,339.2) |

III. Mid-1976 to Early 1978

1. General prescription of transactions without requirement of need

The proposed Second Amendment to the Articles was submitted to the Board of Governors for approval in April 1976 and became effective on April 1, 1978. Anticipating the greater scope for using SDRs that would be provided by the Second Amendment, the Executive Board in August 1976 agreed on a general (rather than case-by-case) prescription that allowed participants to freely engage in transactions by agreement (i.e., without the requirement of need) provided that (a) such transfers would bring the SDR holdings of both user and recipient closer to their net cumulative allocations, or (b) such transfers would promote the reconstitution of the recipient's SDR holdings. ^{1/} The first use of

^{1/} Decision No. 5185-(76/128) S, August 25, 1976.

SDRs under this general prescription took place in October 1976, and, during the next 18 months, almost 100 voluntary transactions took place--mostly involving countries with actual or potential reconstitution needs--and exceeded SDR 1.2 billion in amount.

2. The early development of selling arrangements

The 1976 decision provided participants with somewhat greater scope for managing their SDR holdings. Countries wishing to sell SDRs generally turned to the Fund for information about potential buyers. Three industrial countries, all with holdings in excess of allocations, established selling arrangements with the Fund in the period prior to the formal adoption of the Second Amendment.

The first selling arrangement was established in September 1976 under which the Fund could arrange, on the participant's behalf, for the sale of, initially, SDR 250 million. Subsequently, it was arranged that, instead of fixed amounts, the balance available for sale would reflect the extent to which the participant's holdings exceeded allocations. As revised, the arrangement thus authorized the sale of a "revolving," rather than a fixed amount. For the most part, however, arrangements have involved fixed amounts.

Following staff inquiries of other countries regarding their interest in selling SDRs, two additional participants established standing arrangements with the Fund for the sale of fixed amounts, which became effective in January and August 1977, respectively. The staff has subsequently inquired on a number of occasions about the interest of selected SDR holders in selling SDRs, generally those countries with holdings in excess of cumulative allocations. Some holders have occasionally expressed desires to sell particular amounts, while others have been prepared to stand ready to sell in order to facilitate transactions by agreement. Where particular desires to sell have been expressed, the staff has attempted to accord priority to sales on behalf of those members, while generally allocating sales to meet remaining demands to buy SDRs in broad proportion to the amounts offered for sale.

During this period, all sellers that had standing arrangements with the Fund had opted to receive U.S. dollars, and one was prepared to accept either U.S. dollars or Deutsche mark. This was in contrast to the media for acquisitions of SDRs from the General Account, where buyers faced the possibility of having to first obtain one of a variety of currencies not normally held in their reserves. This aspect of the selling arrangements seems to have facilitated purchases of SDRs in transactions by agreement, and the SDR amounts sold by the Fund for reconstitution purposes declined from SDR 552 million in 1977 to SDR 120 million in 1978.

The development of alternative sources of SDRs reduced the need for the Fund to maintain working balances to meet the needs of participants to acquire SDRs for reconstitution. In view of anticipated increases in the Fund's holdings of SDRs, and in order to conserve the

Fund's holdings of usable currencies, the Executive Board decided in March 1977 to include SDRs in the financing of purchases from the General Account. 1/

IV. The Initial Period Under the Second Amendment:
Early 1978 to End-1981

The Second Amendment of the Fund's Articles of Agreement established for participants and prescribed holders the freedom to use SDRs in transactions by agreement in all circumstances and authorized the Fund to prescribe additional voluntary transfers among these holders (operations). The Second Amendment to the Articles also gave the Fund wider powers to improve the quality of the SDR as an international reserve asset. Major steps taken by the Fund in this direction included the following:

1. The prescription between December 1978 and March 1980 of seven operational uses of SDRs among participants and prescribed holders. As a result, they may be used in: settlement of financial obligations, loans, pledges, transfers as security for the performance of financial obligations, swaps, forward transactions, and donations.

2. Reduction on January 1, 1979 and elimination on April 30, 1981 of the reconstitution requirement (a requirement to hold a minimum average balance of SDRs), which permitted members greater freedom in using their SDR holdings.

3. The unification of the currencies and weights in the SDR interest rate and valuation baskets on January 1, 1981.

4. Several increases in the SDR's interest rate, culminating in its increase to 100 percent of the weighted average of the market rates of the instruments in the interest rate basket (the "combined market interest rate") on May 1, 1981.

5. The prescription, between January 1974 and December 1983, of 14 international financial entities to hold and use SDRs. 2/

1/ See Annual Report 1977, p. 57.

2/ These are: the Andean Reserve Fund; the Arab Monetary Fund; the Asian Development Bank; the Bank of Central African States; the Bank for International Settlements; the Central Bank of West African States; the East African Development Bank; the Eastern Caribbean Central Bank; the International Bank for Reconstruction and Development; the International Development Association; the International Fund for Agricultural Development; the Islamic Development Bank; the Nordic Investment Bank; and the Swiss National Bank.

In the period from the adoption of the Second Amendment to end-1981, the annual average number of voluntary transactions increased by some 20 percent over the preceding period, although the average size of such transactions declined somewhat. The three industrial countries that had earlier established standing arrangements with the Fund remained the principal source of sales of SDRs in voluntary transactions during this period. Voluntary transactions rose from SDR 347 million in 1980 to SDR 896 million in 1981 and included for the first time transactions by agreement involving prescribed holders. SDRs were first used in operations in 1981 in the amount of SDR 31 million.

V. Recent Activities: 1982-May 1986

The amount and number of voluntary transfers in SDRs increased considerably in the most recent period. The asset's basic characteristics have not changed further in this period, though there have been some innovations in the utilization of existing forms of transfers as well as further expansion of the Fund's assistance to members in arranging transactions. Overall during this period, 19 participants have had selling arrangements with the Fund, and transactions by agreement under such arrangements have increased threefold (from SDR 727 million to SDR 2,059 million); 17 participants have had buying arrangements with the Fund; and a number of unusual transfers were recorded, including special SDR borrowing arrangements related to quota payments to the Fund and the development of sales of SDRs in transactions by agreement in lieu of designation. The following sections describe these developments in more detail.

1. Periodic surveys and new selling arrangements

During this period, the staff increased its contacts with holders in order to have better information about their preferences and likely use of SDRs. On the basis of this information, the staff has become better able to respond to the desires of holders to buy or sell SDRs, the number of standing arrangements to sell SDRs has increased, and standing arrangements to buy SDRs have been established. When surveying holders potentially interested in arrangements to sell SDRs, the staff has generally queried participants whose holdings were high in absolute terms or in relation to their net cumulative allocations. Nineteen participants have established selling arrangements with the Fund. In most cases, the arrangements have been for fixed amounts, but four revolving arrangements are presently in existence. In total, sales under these arrangements have exceeded SDR 8 billion since 1982. In addition, several holders (including prescribed holders) have indicated a general interest in selling SDRs from time to time, but have preferred to arrange sales on an "ad hoc" basis.

2. Buying arrangements

The first buying arrangement was established in April 1984, when a participant indicated that, as its reserves had risen in general, it wished to increase its holdings of SDRs. Since then, 16 additional participants acquiring SDRs for use in settling obligations to the Fund have on one or more occasions informed the Fund well in advance of intended purchases and allowed the Fund some flexibility in arranging the timing for such purchases. Four of these members have entered into such buying arrangements on a regular basis. Purchases under buying arrangements now exceed SDR 2.4 billion.

3. Two-way arrangements

An arrangement established with one participant in February 1986 allows the Fund to sell or buy SDRs on behalf of the participant as long as its holdings are maintained within a range of SDR 40 million above and below the member's net cumulative allocation. Individual transactions are to be in the range of SDR 1-20 million.

4. Special arrangements and unusual transfers

This section describes a number of innovations in SDR uses since 1981.

a. Purchase of official SDRs with private SDRs

Exchanges of official SDRs for private SDRs have been made in connection with the reserve asset portion of a member's quota payments. The participant used SDR-denominated deposits with private banks directly to acquire from prescribed holders in transactions by agreement, official SDRs that were then used in the quota payments.

b. Transactions by agreement in lieu of designation

In mid-1983, language was introduced that could be used at the member's option, in place of the standard designation instruction, to authorize the Fund to arrange for the sale of SDRs in transactions by agreement in lieu of designation. Almost all members wishing to sell SDRs and qualifying for sales with designation now use this form of instruction to the Fund. If no voluntary buyer is available at the time of the sale, the sale is made with designation as with the traditional designation instruction. This technique has been used to arrange sales on 30 occasions for a total amount of SDR 406.9 million.

c. Use of SDRs for quota payments

To assist members with insufficient reserves in making the asset portion of their quota payments under the Eighth General Review in 1983, the Executive Board agreed that members could borrow SDRs, use

the proceeds to pay the reserve asset portion of their quota increase, purchase SDRs under their newly established reserve tranche positions, and repay the SDRs borrowed in the first instance. ^{1/} These four related transfers were conducted in sequence but on the same value date, with the effect that the SDR position of lenders was not affected by these same-day movements in their accounts. Eleven participants lent SDRs to 39 other participants for this purpose. As operations involving SDRs, these transfers were recorded as both loans and financial settlements, and totaled SDR 1.1 billion, including both sides of the operation.

d. Withdrawal in official SDRs from a currency-denominated special account

In 1983, a prescribed holder established an arrangement with a participant under which (i) the prescribed holder could receive official SDRs when drawing on deposits denominated in the participant's currency and (ii) the participant would be prepared, if other buyers were not available, to exchange SDRs for the currency desired by the prescribed holder. The official SDRs received by the prescribed holder from the participant were recorded by the Fund as a settlement of financial obligations, and any subsequent exchanges of SDRs thus received for currency would have been recorded as transactions by agreement, though none were made under this arrangement.

e. Sales of SDRs at preset price

On a number of occasions, a member wished to sell SDRs when the exchange rate had reached a certain level. Such sales were possible when the specified rate was reached due to the flexibility that buyers of SDRs allowed in the timing of their purchases.

^{1/} See ICMS/Doc/83/2 (1/14/83).

Table 2. Annual Transfers of SDRs
(In millions of SDRs)

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|--|--------------|----------------|----------------|----------------|----------------|--------------|----------------|----------------|
| <u>Transfers among participants and prescribed holders</u> | | | | | | | | |
| Transactions with designation | 291.2 | 362.2 | 230.2 | 43.8 | 448.6 | 188.7 | 220.3 | 267.3 |
| Transactions by agreement | 180.5 | 480.0 | 328.5 | 855.8 | 378.6 | 40.4 | 353.0 | 698.7 |
| Operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net SDR charges | <u>0.6</u> | <u>4.8</u> | <u>14.4</u> | <u>19.1</u> | <u>21.7</u> | <u>77.7</u> | <u>73.0</u> | <u>78.1</u> |
| Total | <u>472.2</u> | <u>847.0</u> | <u>573.1</u> | <u>918.7</u> | <u>848.9</u> | <u>306.8</u> | <u>646.3</u> | <u>1,044.0</u> |
| <u>Transfers from participants to General Resources Account</u> | | | | | | | | |
| Repurchases | 295.4 | 303.0 | 508.2 | 52.5 | 18.2 | 37.2 | 445.8 | 841.7 |
| GRA charges | 92.0 | 22.0 | 35.4 | 27.9 | 52.9 | 275.7 | 632.2 | 819.1 |
| SDR charges | 0.4 | 4.3 | 7.2 | 10.2 | 7.8 | 21.1 | 20.8 | 23.0 |
| Quota payments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Assessment on SDR allocation | <u>0.9</u> | <u>0.9</u> | <u>1.0</u> | <u>0.7</u> | <u>1.0</u> | <u>1.2</u> | <u>1.6</u> | <u>1.0</u> |
| Total | <u>388.7</u> | <u>330.2</u> | <u>551.9</u> | <u>91.3</u> | <u>79.9</u> | <u>335.2</u> | <u>1,100.5</u> | <u>1,684.8</u> |
| <u>Transfers from General Resources Account to participants and prescribed holders</u> | | | | | | | | |
| Purchases | 0.0 | 0.0 | 356.3 | 45.0 | 31.9 | 101.0 | 501.9 | 455.7 |
| Repayments of Fund borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest on Fund borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.9 | 3.4 | 11.3 |
| Acquisitions (against currencies of other members): | | | | | | | | |
| To pay charges | 0.3 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| To make quota payments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| For reconstitution | 0.0 | 0.0 | 39.3 | 139.9 | 92.1 | 124.4 | 459.3 | 555.2 |
| Remuneration | 18.4 | 14.7 | 2.0 | 20.4 | 6.4 | 10.3 | 24.1 | 121.8 |
| Other | <u>79.9</u> | <u>116.1</u> | <u>14.4</u> | <u>7.0</u> | <u>0.3</u> | <u>0.6</u> | <u>3.3</u> | <u>18.1</u> |
| Total | <u>98.6</u> | <u>131.5</u> | <u>412.0</u> | <u>212.3</u> | <u>130.7</u> | <u>241.2</u> | <u>992.0</u> | <u>1,162.2</u> |
| Total transfers | <u>959.5</u> | <u>1,308.7</u> | <u>1,537.0</u> | <u>1,222.3</u> | <u>1,059.5</u> | <u>883.2</u> | <u>2,738.8</u> | <u>3,891.0</u> |

Note: Components may not add to totals due to rounding.

Table 2 (concluded). Annual Transfers of SDRs

(In millions of SDRs)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|--|----------------|----------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| <u>Transfers among participants and prescribed holders</u> | | | | | | | | |
| Transactions with designation | 851.7 | 1,311.3 | 1,316.0 | 1,747.5 | 3,533.6 | 2,072.7 | 2,308.4 | 1,949.8 |
| Transactions by agreement | 1,827.1 | 318.5 | 346.8 | 896.0 | 1,157.0 | 2,657.2 | 2,949.7 | 2,592.9 |
| Operations | 0.0 | 0.0 | 0.0 | 31.3 | 366.0 | 1,238.3 | 176.3 | 183.4 |
| Net SDR charges | 56.8 | 71.1 | 189.7 | 223.3 | 245.4 | 373.5 | 347.1 | 299.3 |
| Total | <u>2,735.6</u> | <u>1,700.8</u> | <u>1,852.6</u> | <u>2,898.0</u> | <u>5,301.9</u> | <u>6,341.7</u> | <u>5,781.6</u> | <u>5,025.5</u> |
| <u>Transfers from participants to General Resources Account</u> | | | | | | | | |
| Repurchases | 348.5 | 492.0 | 1,274.7 | 830.1 | 750.2 | 405.4 | 538.1 | 1,169.9 |
| GRA charges | 748.8 | 587.7 | 528.0 | 740.5 | 1,298.8 | 1,875.3 | 2,652.4 | 2,959.5 |
| SDR charges | 39.8 | 57.1 | 81.8 | 265.8 | 657.2 | 506.2 | 586.3 | 354.7 |
| Quota payments | 219.9 | 0.9 | 5,088.1 | 267.5 | 84.4 | 6,034.4 | 161.4 | 14.0 |
| Assessment on SDR allocation | 0.9 | 1.7 | 1.0 | 1.6 | 2.1 | 2.5 | 3.0 | 3.6 |
| Total | <u>1,357.9</u> | <u>1,139.4</u> | <u>6,973.7</u> | <u>2,105.5</u> | <u>2,792.8</u> | <u>8,823.8</u> | <u>3,941.3</u> | <u>4,501.7</u> |
| <u>Transfers from General Resources Account to participants and prescribed holders</u> | | | | | | | | |
| Purchases | 1,024.9 | 1,266.0 | 1,555.9 | 1,962.2 | 2,895.9 | 2,977.0 | 3,264.5 | 2,154.3 |
| Repayments of Fund borrowings | 15.5 | 50.1 | 108.3 | 220.0 | 34.9 | 791.5 | 88.7 | 395.7 |
| Interest on Fund borrowings | 23.2 | 16.5 | 31.7 | 82.3 | 199.8 | 226.0 | 278.4 | 686.9 |
| Acquisitions (with currencies of other members): | | | | | | | | |
| To pay charges | 8.4 | 0.1 | 0.0 | 4.3 | 115.9 | 235.1 | 453.0 | 1,584.5 |
| To make quota payments | 0.0 | 0.0 | 340.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| For reconstitution | 120.4 | 0.0 | 5.8 | 18.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Remuneration | 136.3 | 139.7 | 219.5 | 348.2 | 860.6 | 1,246.5 | 1,878.3 | 1,560.6 |
| Other | 6.2 | 3.5 | 8.6 | 22.5 | 18.3 | 35.0 | 19.8 | 8.8 |
| Total | <u>1,334.9</u> | <u>1,475.8</u> | <u>2,270.5</u> | <u>2,658.4</u> | <u>4,125.5</u> | <u>5,511.2</u> | <u>5,982.6</u> | <u>6,390.8</u> |
| Total transfers | <u>5,428.4</u> | <u>4,316.0</u> | <u>11,096.8</u> | <u>7,661.8</u> | <u>12,220.2</u> | <u>20,676.7</u> | <u>15,705.5</u> | <u>15,918.0</u> |

