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SM/85/320
Supplement 3

December 26, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: SDR Valuation Basket--Calculation of the Currency Amounts

The attached guidelines for calculation of currency amounts, revised to reflect the approach adopted by the Executive Board at EBM/85/186 (12/23/85), will not be brought to the agenda unless an Executive Director so requests by the close of business today, Thursday, December 26, 1985. In the absence of such a request, the guidelines set forth in the paper will be deemed endorsed by the Executive Board and recorded in the minutes of EBM/85/186.

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Department Heads



INTERNATIONAL MONETARY FUND

SDR Valuation Basket--Guidelines for the
Calculation of the Currency Amounts

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by Thomas Leddy

December 24, 1985

This supplement presents the revision, adopted by the Executive Board by a seventy percent majority of the total voting power at EBM/85/186 (12/13/85), of the guidelines that govern the calculation of the currency amounts to be included in the SDR valuation basket, as derived from the percentage weights determined in accordance with Executive Board Decision No. 6631-(80/145) G/S of September 17, 1980. In particular, the guidelines as revised adopt the so-called uniform significant digits approach, together with a tolerance limit of one-half percentage point around the agreed weights for the currencies in the basket. Guidelines (2) and (3) have been reformulated to reflect the uniform digit method of calculation in both paragraphs. The dates in guidelines (1) and (2) refer to the year preceding a revision of the basket. This method will be used by the staff to calculate the new currency amounts in the revised SDR valuation basket that will come into effect at the beginning of 1986 and in subsequent reviews.

The revised guidelines are set out below:

- (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.