



# IMF POLICY PAPER

## ANNUAL UPDATE ON SDR TRADING OPERATIONS

October 2021

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- The **Staff Report**, prepared by IMF staff and completed on October 4, 2021 for the Executive Board's information.

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**International Monetary Fund**  
**Washington, D.C.**



## ANNUAL UPDATE ON SDR TRADING OPERATIONS

October 4, 2021

### EXECUTIVE SUMMARY

**This paper provides an update on the status of the SDR trading market and operations.** In over three decades, SDRs have been exchanged for freely usable currencies in transactions by agreement primarily through the Voluntary Trading Arrangements (VTAs). The VTAs are bilateral arrangements between the Fund and SDR participants or prescribed holders, in which the VTA members agree to buy and sell SDRs within certain limits. A fraction of transactions by agreement—sales or acquisitions of SDRs—were arranged directly between parties.

**On August 2, the Board of Governors (BoG) approved a fourth general allocation of SDRs in the amount of US\$ 650 billion (equivalent to about SDR 456 billion).**

On August 23, the SDR allocation was credited to the SDR account of each participant in the SDR Department (currently all 190 IMF members) in proportion to their IMF quotas.

**After the 2021 SDR allocation, most VTA capacities scaled up and are expected to be sufficient to meet the demand for exchange of SDRs into currencies.** Based on the status of VTAs in place as of September 30, the buying and selling capacities of the VTAs increased to about SDR 234.1 billion and SDR 109.0 billion, respectively. The expanded VTA capacity is expected to be sufficient to meet the demand for SDR sales, which will likely increase in the immediate period following the allocation.

**As part of the new allocation, staff initiated broad outreach to the membership to further expand and strengthen the VTA market.** The IMF is seeking new entrants to the VTAs and requesting increased operational flexibility under existing VTAs. Engagement with members is on-going, and a number of potential new participants are working through domestic and legal procedures to finalize new VTAs. Furthermore, many existing VTAs have provided additional flexibilities under their arrangements.

**Since the last annual update, SDR trading transactions experienced a drop in SDR sales via VTAs while SDR acquisitions remained broadly unchanged from the previous reported period.** The reduction in the sales can be largely attributed to members' receiving less SDRs in lending operations. Nevertheless, there has been an uptake in sales in the period after the allocation. Purchases of SDRs remained unchanged compared to the previous year.

Approved By  
**Bernard Lauwers**

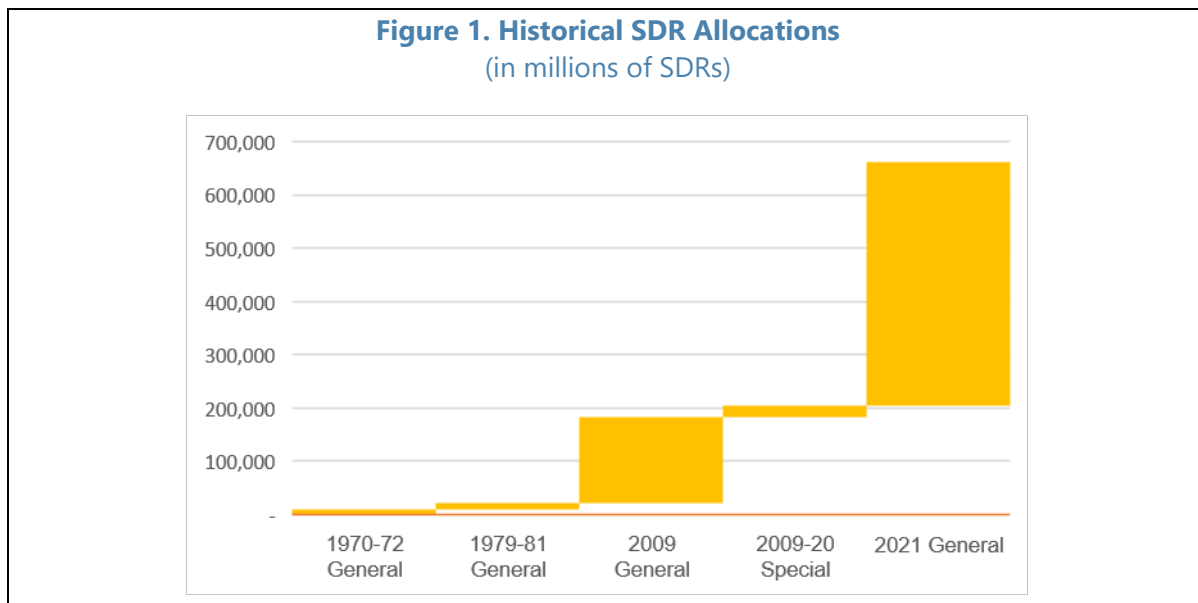
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## INTRODUCTION

**1. The current review of the SDR trading operations takes place against the backdrop of the recent General Allocation of SDRs.**<sup>1</sup> On August 2, 2021, the IMF Board of Governors (BoG) approved a fourth general allocation of SDRs in the amount of SDR 456 billion equivalent to US\$ 650 billion, bringing the cumulative allocation amount to SDR 660.7 billion (Figure 1). In line with the Fund's Articles of Agreement and as noted in the BoG resolution, on August 23, 2021, the newly created SDRs were credited to SDR participants (currently all 190 members of the IMF) in proportion to their quotas.<sup>2</sup> Participants can hold SDRs as part of their reserve assets, exchange them to obtain freely usable currencies, or use them in a wide range of operations authorized by the Fund (e.g., payments of financial obligations, loans, pledges, donations) with other SDR Department participants or prescribed holders.<sup>3</sup> SDRs can also be used in operations and transactions involving the IMF, such as payments of interest on and repayments of loans, or payments for quota increases.



**2. This paper provides information on SDR trading operations.** In the context of the SDR allocation, staff proposed to publish this paper, which was previously prepared for the information of the Executive Board. The paper is organized to provide information on the voluntary trading arrangements which handle nearly all SDR exchanges, followed by data on SDR trading operations, including trends in SDR exchanges and activity after the recent general SDR post-allocation.

<sup>1</sup> See [Proposal For a General Allocation of Special Drawing Rights \(imf.org\)](https://www.imf.org/external/press/pr/2021/08/02/2021-sdr-allocation).

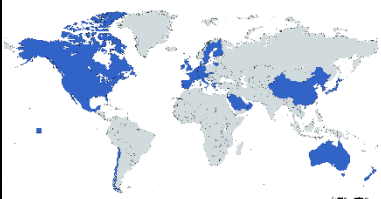
<sup>2</sup> See [IMF Board of Governors approval of the 2021 SDR Allocation \(imf.org\)](https://www.imf.org/external/press/pr/2021/08/23/2021-sdr-allocation).

<sup>3</sup> Refer to [Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations \(imf.org\)](https://www.imf.org/external/press/pr/2021/08/23/2021-sdr-allocation).

## VOLUNTARY TRADING ARRANGEMENTS (VTAs)

**3. In over three decades, SDR participants and prescribed holders have been able to exchange SDRs for freely usable currencies primarily through VTAs.** A participant or a prescribed holder may use SDRs freely, without the requirement of a balance of payments need, to obtain an equivalent amount of currency in a transaction by agreement with another participant. These transactions, which comprise both sales and purchases of SDRs, can be either arranged directly between parties or facilitated by the Fund through VTAs. The VTAs are bilateral arrangements between the Fund and the SDR participant or prescribed holder, in which the VTA members agree to buy and sell SDRs within certain limits (Box 1). SDR transactions are distributed across the VTAs by assessing a range of factors (Box 2). SDR transactions can also be agreed directly (bilaterally) between participants and/or prescribed holders in the SDR Department, and some SDR purchases needed to meet members' obligations to the IMF can be conducted through the General Resources Account (GRA) of the IMF in certain circumstances.<sup>4</sup>

### Box 1. Voluntary SDR Trading Arrangements as of September 30, 2021



**Asia and Pacific:** Australia, China, Japan, Korea, and New Zealand

**Europe:** Austria, Belgium, Cyprus, Denmark, ECB, Finland, France, Germany, Greece, Ireland, Israel, Italy, Lithuania\*, Malta, The Netherlands, Norway, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom

**Middle East & Central Asia:** Oman\*, Saudi Arabia

**Western Hemisphere:** Canada, Chile, Mexico, and the United States

\*New VTAs after the 2021 General SDR Allocation.

### Box 2. Distribution of Transactions Across VTAs

**In distributing sale and purchase requests across VTAs, staff considers a range of factors that aim at equitable use over time.** These factors include:

- The scope of individual VTAs to absorb a given transaction based on the ratio of SDR holdings-to-allocation of individual VTA participants. For example, a VTA member with relatively low SDR holdings-to-allocation ratio would be more likely to be called to purchase SDRs.
- The deviation of SDR holdings from the mid-point VTA trading range determines how far each individual VTA is from its minimum and maximum trading ranges to take into account the variety of trading ranges across the VTAs.<sup>1</sup>

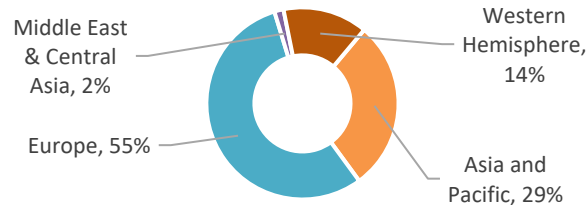
<sup>1</sup> Each VTA has a trading range with the minimum and maximum generally set as percentages of SDR allocations. SDR holdings of VTA participants cannot go beyond these set minimum and maximum limits.

<sup>4</sup> SDR acquisitions from the GRA can only be arranged to cover a shortfall in member's SDR holdings arising from upcoming GRA and SDR charges payable within 30 days.

**Box 2. Distribution of Transactions Across VTAs (concluded)**

- Additional factors, including transaction and counterparty limits, currency preferences, notification periods and holidays, number of prior transactions under a VTA, historical trading volumes, and the need to split large transactions among multiple VTAs.
- **The factors mentioned above have been successful in spreading SDR transactions over time across VTAs.** Over the last five years, all VTAs, other than those of members with credit outstanding to the Fund, participated in SDR transactions with an average sale amount of about SDR 100 million. From a geographical perspective, sales and acquisitions of SDRs have been allocated among market makers spanning all major regions and the use of VTAs has been broadly in line with the regional purchasing and selling capacity (see figure and table below).

**SDR Sales and Acquisition Participation of VTAs by Region**  
**January 1, 2016–August 31, 2021 1/**  
 (in percent of total transaction count)



Source: IMF staff calculations.

1/ Excludes SDR trades arranged outside VTAs (bilateral trades and acquisitions of SDRs from the GRA).

**SDR Sales and Acquisitions VTA Participation Including Purchasing and Selling Capacity by Region**  
**(January 1, 2016–August 31, 2021) 1/ 2/ 3/**

Region	Sales of SDRs					
	Number of Market Makers Available	Number of Market Makers Used	Number of Sales	Amount of SDR Sales (millions)	Percent of Sales	Percent by Purchasing Capacity
Asia and Pacific	5	5	60	6,333	31	36
Europe	23	17	142	9,447	46	31
Middle East & Central Asia	1	1	10	750	4	3
Western Hemisphere	4	4	49	4,175	20	30
<i>Total</i>	<i>33</i>	<i>27</i>	<i>261</i>	<i>20,705</i>	<i>100</i>	<i>100</i>

Region	Acquisitions of SDRs					
	Number of Market Makers Available	Number of Market Makers Used	Number of Acquisitions	Amount of SDR Acquisitions (millions)	Percent of Acquisitions	Percent by Selling Capacity
Asia and Pacific	5	5	164	2,184	22	13
Europe	23	18	290	7,065	71	67
Middle East & Central Asia	1	1	2	200	2	5
Western Hemisphere	4	2	62	558	6	15
<i>Total</i>	<i>33</i>	<i>26</i>	<i>518</i>	<i>10,007</i>	<i>100</i>	<i>100</i>

Source: IMF staff calculations.

1/ VTA members (if any) with terminated VTA during the reported period are not included in the Table.

2/ The absorptive and selling capacities as of August 31, 2021 were SDR 238.0 billion and SDR 104.4 billion, respectively.

3/ Includes signed VTAs as of August 31, 2021.

**4. The scaled-up capacity of VTAs is expected to be sufficient for future exchanges of SDRs.** The SDR trading capacities are determined by considering the minimum and maximum SDR amounts that a VTA participant is willing to hold and the actual SDR holdings of each VTA participant (Table 1 and Figure 2).<sup>5</sup> Following the 2021 general SDR allocation, the purchasing and selling VTA capacities increased to SDR 234.1 billion and SDR 109.0 billion, respectively at September 30, 2021 (from SDR 72.5 billion and SDR 34.3 billion, respectively, at end-August 2020). The increase in capacities was automatic after the general allocation as nearly all VTAs have trading limits set in percentages of participants' SDR allocations. As indicated in the SDR allocation paper, it is anticipated that SDR sales will increase after the SDR allocation, and staff assessed that the new SDR purchasing capacity of VTAs appears to be sufficient against different illustrative scenarios for potential sales of SDRs.<sup>6</sup> In the event the VTAs are unable to provide for an exchange of SDRs into currencies, the Articles of Agreement provide for a designation mechanism to guarantee the liquidity of the SDR. The IMF prepares a Designation Plan annually, which has remained precautionary since 1987.

**Table 1. VTAs: Trading Ranges Including Average Purchasing and Selling Capacity as of September 30, 2021**  
(in millions of SDRs, unless otherwise indicated)

Arrangements	Trading Range (In percent of Net Cumulative Allocations)	Number	Purchasing Capacity	Average Purchasing Capacity	Selling Capacity	Average Selling Capacity
Standard	50 – 150	10	37,107	3,711	39,347	3,935
Eurosystem 1/ 2/	65 – 135	15	50,532	3,369	40,909	2,727
Other various ranges	35 – 200	9	146,498	16,278	28,751	3,195
<b>Total 3/</b>		<b>34</b>	<b>234,137</b>	<b>6,886</b>	<b>109,007</b>	<b>3,206</b>

Source: IMF staff calculations.

1/ Includes Euro area members. For three members, the highest maximum range is slightly below 135 percent. The euro area trading ranges are adjusted to reflect the participation of the ECB. The trading range for the ECB, a prescribed holder of SDRs, is expressed in nominal terms and adds to the euro area trading capacity.

2/ Includes the purchasing and selling capacity of one VTA member with credit outstanding to the Fund.

3/ Almost all arrangements are two-way (buying/selling), with one participant having a buying only arrangement.

**5. Additional steps are being taken to further strengthen the voluntary trading market and support its smooth functioning.** Staff has (i) approached participants in the Financial Transactions Plan (FTP)<sup>7</sup> without an existing VTA to encourage them to join the voluntary trading market, and (ii) reached out to existing VTA participants to seek additional operational flexibilities in their individual agreements. This outreach has led to positive developments in the expansion of the VTA market (Box 1). Specifically, 2 new VTA agreements have been finalized in 2021 and a further 5 are under discussion, recognizing that prospective arrangements could take time to finalize to accommodate domestic and legal procedures. These potential new arrangements are expected to

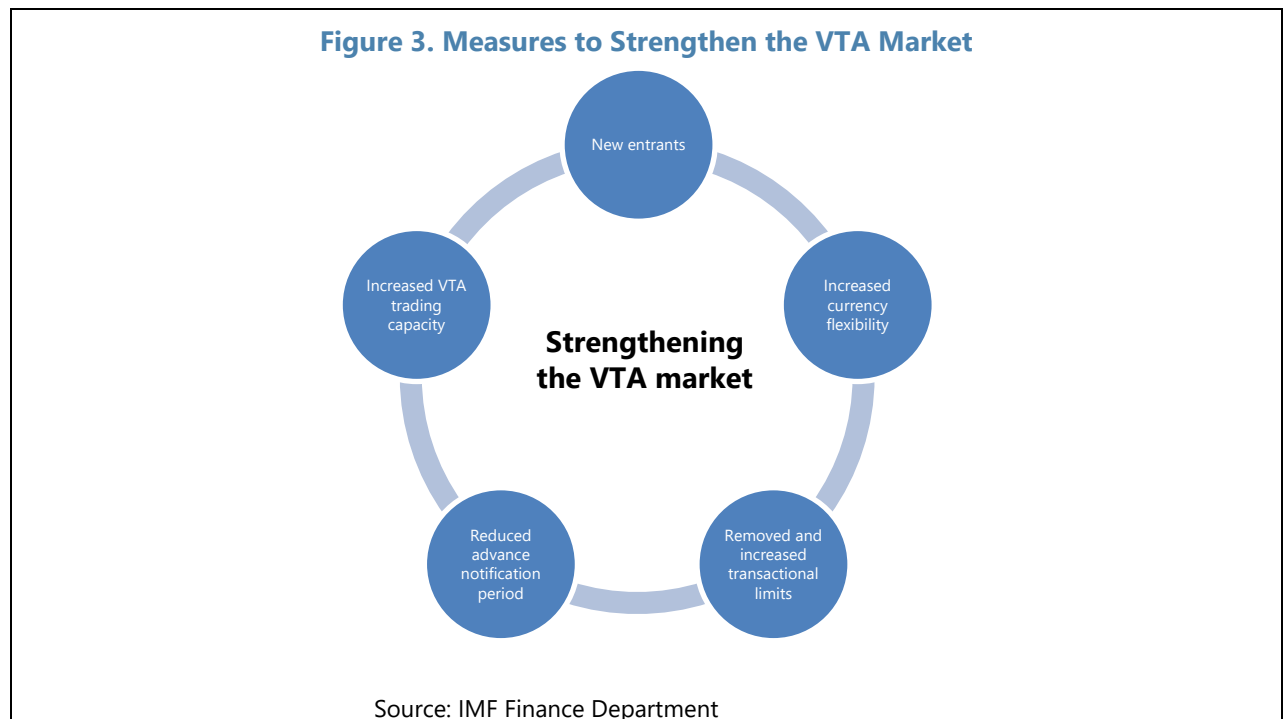
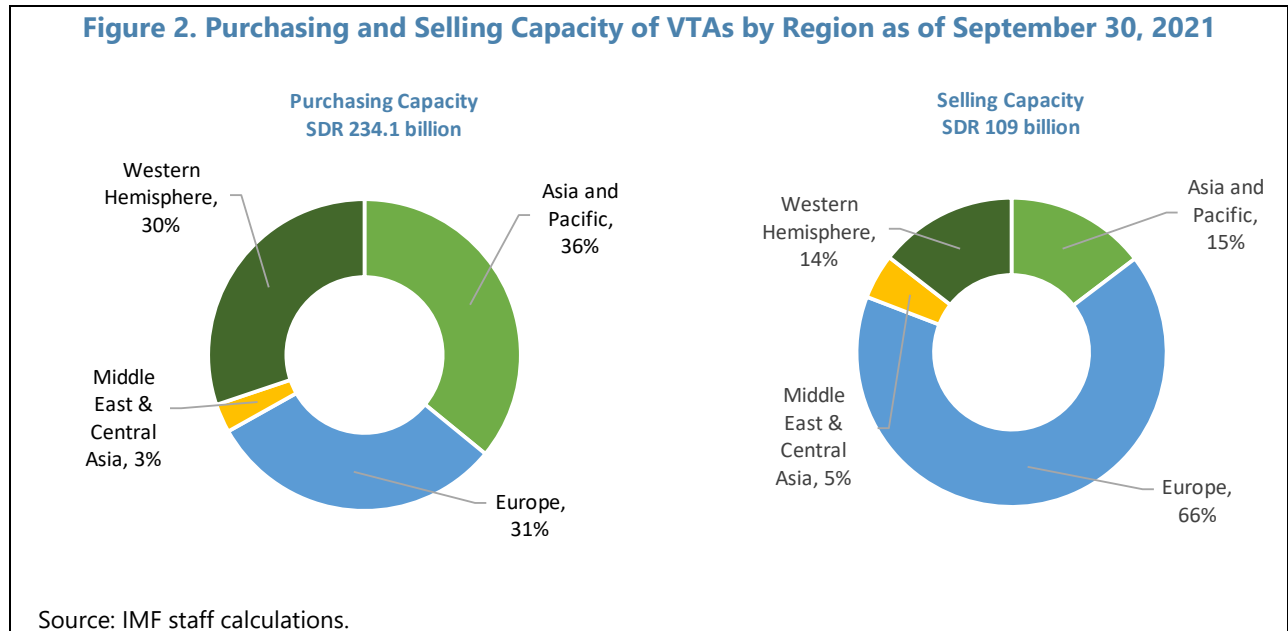
<sup>5</sup> Note that amounts in tables may include small differences due to rounding.

<sup>6</sup> See [Proposal For a General Allocation of Special Drawing Rights \(imf.org\)](https://www.imf.org/external/np/tre/ftp/2021/020121.htm).

<sup>7</sup> The members in the Fund's FTP are considered to have sufficiently strong external positions.

See <https://www.imf.org/external/np/tre/ftp/2021/020121.htm>

provide additional trading capacity of about SDR 11.2 billion, which would further support the smooth functioning of the voluntary trading market. In addition, several existing VTAs have been modified to provide additional operational flexibilities, such as removal or increase of transactional limits and streamlining of advance notification periods (Figure 3). Staff will continue engaging with the membership to finalize VTAs with potential new participants and to implement amendments of existing VTAs.





## SDR TRADING OPERATIONS

**6. This section summarizes SDR trading operations for the past year and trends over the last five years (2016–2020).**<sup>8</sup> Specifically, it provides information on SDR sales through VTAs, SDR acquisitions through VTAs and GRA, other SDR operations, and SDR reporting.

### A. SDR Sales Through VTAs

**7. The number and amount of SDR sales dropped in comparison with the prior year.** In 2020-21, there were 30 SDR sales transactions amounting to SDR 1.7 billion compared to 37 sales totaling SDR 2.4 billion during the previous year. The nominal decrease primarily stems from lower sales of SDRs related to SDR lending in both the GRA and Poverty Reduction and Growth Trust (PRGT). Cumulatively, for the period since January 2016, SDR sales have totaled SDR 20.7 billion (261 transactions) by 30 participants and 4 prescribed holders (Table 2 and Figure 4).

**Table 2. Summary of SDR Sales Through VTAs**  
**January 1, 2016–August 31, 2021 1/ 2/ 3/**  
 (in millions of SDRs, unless otherwise indicated)

	2016	2017	2018	2019	2020	Jan-Aug 2021	Total	Sep 2019- Aug 2020	Sep 2020- Aug 2021
Number of Sales Requests 4/	41	55	40	45	33	18	<b>232</b>	36	27
Number of Transactions 4/	49	61	47	49	34	21	<b>261</b>	37	30
<i>Of which in connection with (by Rltd Oper Code):</i>									
in connection with GRA lending	18	21	23	19	1	1	<b>83</b>	5	1
in connection with PRGT lending	13	22	11	11	20	4	<b>81</b>	16	11
in connection with PRGT liquidity	7	7	6	12	6	4	<b>42</b>	8	5
others	11	11	7	7	7	12	<b>55</b>	8	13
Total amount of SDR sales	4,940	4,241	3,898	4,179	2,173	1,274	<b>20,705</b>	2,379	1,721
<i>Of which:</i>									
in connection with GRA lending	3,692	3,019	2,903	2,945	200	144	<b>12,903</b>	450	144
in connection with PRGT lending	377	617	348	633	1,701	115	<b>3,791</b>	1,575	507
in connection with PRGT liquidity	450	465	538	437	196	182	<b>2,268</b>	279	217
others	421	140	110	165	76	833	<b>1,745</b>	75	853

Source: IMF staff calculations.

1/ Periods run from January to December unless indicated otherwise.

2/ Sales from the GRA are treated as acquisitions by members and are reflected in Table 3.

3/ Sales in connection with GRA and PRG lending relate to sales of SDRs which were received by borrowers in GRA purchases or PRG loans. Sales in connection with liquidity ensure concessional financing entities have appropriate currencies to cover financial operations. Sales in the other category pertain to requests received directly from SDR participants or prescribed holders.

4/ Sales requests involving multiple counterparties and/or currencies require more than one transaction per sale request.

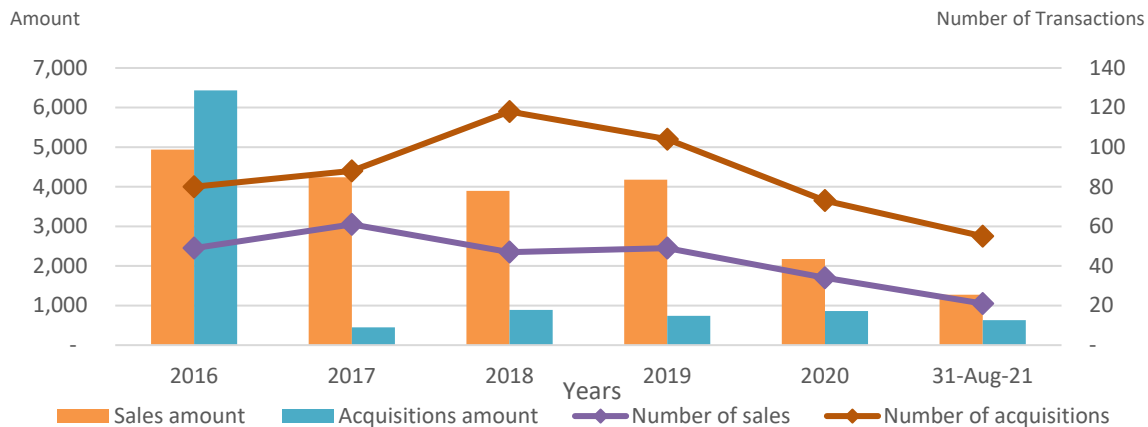
**8. Following the general allocation, between August 23, 2021 and September 30, 2021, 22 members have exchanged 6.9 billion SDRs for currencies.**<sup>9</sup> Specifically, staff has arranged over 40 transactions of SDR 6.6 billion in sales through the VTAs and SDR 0.3 billion has been

<sup>8</sup> The annual reporting period for SDR transactions for this paper is September 1, 2020 to August 31, 2021 while the cumulative period is from January 1, 2016 to August 31, 2021.

<sup>9</sup> Includes all received sales requests.

conducted bilaterally between parties. All the sales of SDRs were by EMDCs, of which 17 percent were by LICs. On average, these members sold 82 percent of their new 2021 allocations and with the average sale size of about SDR 315 million.

**Figure 4. SDR Sales and Acquisitions Through VTAs**  
January 1, 2016–August 31, 2021 1/  
(in millions of SDRs and number of transactions)



Source: IMF staff calculations.

1/ Periods run from January to December unless indicated otherwise.

## B. Acquisitions of SDRs Through VTAs and GRA

**9. On the demand side, purchases of SDRs remained broadly unchanged from the previous reported period.** In 2020–21, there were 101 acquisitions in the amount of SDR 1.3 billion, compared to 100 transactions for SDR 1.1 billion in the prior year. Since January 2016, the Fund assisted 74 participants and 4 prescribed holders in over 500 transactions through the VTAs amounting to SDR 10 billion (Table 3 and Figure 4), and a total of 195 transactions (SDR 3.3 billion) have been handled through the GRA (Table 3).

## C. Other SDR Transactions

**10. While most transactions are channeled through VTAs, SDR transactions can also be conducted bilaterally between participants or prescribed holders.** Bilateral transactions have not been significant, with the average annual amount over the last five years at less than SDR 0.3 billion. These transactions primarily relate to the settlement of financial obligations between counterparties or between participants and their regional central banks. Cumulatively since 2016, 203 bilateral transactions have been conducted in the amount of SDR 1.5 billion (Table 4). The increase in 2021 mainly relates to a bilateral sale after the 2021 SDR Allocation.

**Table 3. Summary of SDR Acquisitions Through VTAs**  
**January 1, 2016–August 31, 2021 1/**  
(in millions of SDRs)

	2016	2017	2018	2019	2020	Jan-Aug 2021	<b>Total</b>	Sep 2019- Aug 2020	Sep 2020- Aug 2021
Number of Requests through VTAs	75	86	116	104	73	54	<b>508</b>	84	72
Number of Transactions through VTAs	80	88	118	104	73	55	<b>518</b>	84	73
Amount of acquisitions through VTAs	6,435	448	891	740	863	631	<b>10,008</b>	741	927
<i>Memorandum Item:</i>									
<i>Acquisitions of SDRs from GRA</i>									
Number of Requests	23	25	31	27	19	21	<b>146</b>	16	28
Number of Transactions	45	38	41	31	19	21	<b>195</b>	16	28
Amount	886	768	482	599	335	254	<b>3,324</b>	366	343
<i>Total Number of Transactions</i>	125	126	159	135	92	76	<b>713</b>	100	101
<i>Total Amount</i>	7,321	1,216	1,373	1,339	1,198	885	<b>13,332</b>	1,107	1,270

Source: IMF staff calculations.

1/ Periods run from January to December unless indicated otherwise.

**Table 4. SDR Bilateral Trades**  
**January 1, 2016–August 31, 2021 1/**  
(in millions of SDRs)

	2016	2017	2018	2019	2020	Jan-Aug 2021	<b>Total</b>	Sep 2019- Aug 2020	Sep 2020- Aug 2021
<b>Number of Transactions</b>	48	34	34	30	32	25	<b>203</b>	29	36
<b>Amount</b>	942	49	271	26	41	198	<b>1,527</b>	36	219

Source: IMF staff calculations.

1/ Periods run from January to December unless indicated otherwise.

## D. SDR Reporting

**11. The Fund already publishes a range of information about the SDR and will further enhance transparency.** The annual and quarterly financial reports include holdings and allocations by member and aggregate data about SDR flows.<sup>10</sup> Separately, the IMF Finances webpage publishes monthly information on SDR holdings and allocations of participants.<sup>11</sup> The periodic IMF Financial Operations publication also provides extensive information on the functioning of the voluntary SDR trading market and includes details on the operating modalities, capacity, trading by region, and aggregate transaction volumes. To further increase transparency, the existing quarterly financial reports that include individual member's SDR holdings will be enhanced by publishing changes in those holdings in two broad categories: (i) those related to IMF operations; and (ii) SDR trading and other uses.<sup>12</sup>

<sup>10</sup> See <https://www.imf.org/data/imf-finances>

<sup>11</sup> See <https://www.imf.org/external/np/fin/tad/query.aspx>

<sup>12</sup> For proposal and a template of the new report, see [Proposal For a General Allocation of Special Drawing Rights \(imf.org\)](https://www.imf.org/external/np/fin/tad/proposal).