

Supplementary Foreign Exchange Reserves are defined and maintained by the International Monetary Fund (IMF) and are known as Special Drawing Rights. This article gives a brief understanding of Special Drawing Rights, including the procedure used for determining its value and the list of International Organisations that uses it for its transactions.

Special Drawing Rights (SDR) - Introduction

1. When there was a shortfall of highly preferred foreign exchange reserve assets such as US Dollars and Gold, Special Drawing Rights were created in 1969 by the International Monetary Fund (IMF).
2. **XDR** is the currency code of Special Drawing Rights.
3. The International Monetary Fund (IMF) allocates Special Drawing Rights (SDR) to different countries.
4. Private parties cannot hold Special Drawing Rights (SDR). During the 2009 global financial crisis to give liquidity in the global economic system more than \$ 180 billion XDR was allocated. It is usually held by a few organisations and IMF member countries.
5. The International Monetary Fund reviews a group of key international currencies over a time period of 5 years and then decides the value of Special Drawing Rights.
6. The latest currency that was added to the basket of currencies by the International Monetary Fund to determine the value of XDR is the Chinese Yuan in 2016.
7. The other international currencies in the basket of currencies are British Pound, Japanese Yen, US Dollar, and Euro.

Special Drawing Rights (SDR) Value - Weightage of Basket Currencies

International Monetary Fund (IMF) uses a basket of currencies to determine SDR value; and the weightage given to those basket of currencies varies as per its prominence in the International trade and the respective nations foreign exchange reserves. The weightage of currencies are given below.

1. British Pound - 8.09%
2. Japanese Yen - 8.33%
3. Chinese Yuan - Around 11%
4. Euro - Around 31%
5. US Dollar - Around 41.73%

International Treaties - Special Drawing Rights

Special Drawing Rights are used by International treaties like Montreal Convention and many other treaties. XDR (Unit of Special Drawing Rights) is used to levy penalties, fix prices or charges. One of the prominent conventions that uses SDR is the Convention on Limitation of Liability for Maritime Claims. For damages to ships, this Convention caps the personal liability at XDR 330,000.

Special Drawing Rights - Used by International Organizations

Few Major International Organizations use XDR (Currency code of Special Drawing Rights as a unit of account. Some of the organizations are listed below.

1. International Fund for Agricultural Development
2. Asian Development Bank (ADB)
3. Bank of International Settlements - started using XDR in 2003 by replacing Franc.
4. Islamic Development Bank
5. African Development Bank
6. Japan External Trade Organization (JETRO)

Reserve Currency

1. As part of foreign exchange reserves, monetary Authorities or Central banks hold foreign currencies in significant quantities. This foreign currency is known as the Reserve Currency.
2. This foreign currency can be used for many aspects of the global economy like international investments or international currency.
3. Reserve currency is also known as the anchor currency.
4. In the 1st half of the 20th century Pound Sterling of the United Kingdom was the primary choice for Reserve Currency.
5. By the end of the 20th century the US Dollar was the primary choice of Reserve Currency as it was considered as the most dominant currency.