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# NOSTRO, VOSTRO AND LORO ACCOUNTS

In interbank transactions, foreign exchange is transferred from one account to another account and from one center to another center.

Therefore, the banks maintain three types of current accounts in order to facilitate quick transfer of funds in different currencies

# NOSTRO, VOSTRO AND LORO ACCOUNTS

- Therefore, the banks maintain three types of current accounts in order to facilitate quick transfer of funds in different currencies.

**Nostro  
Account**

**1. Vostro  
Account**

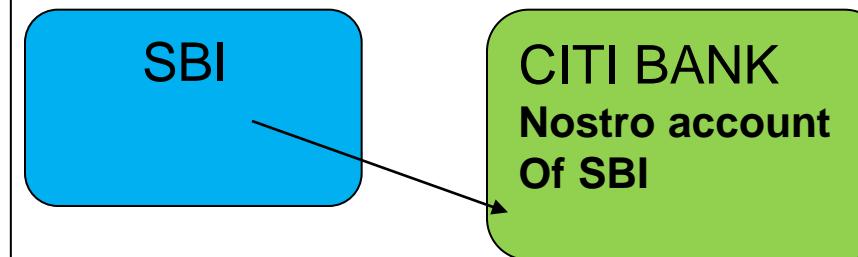
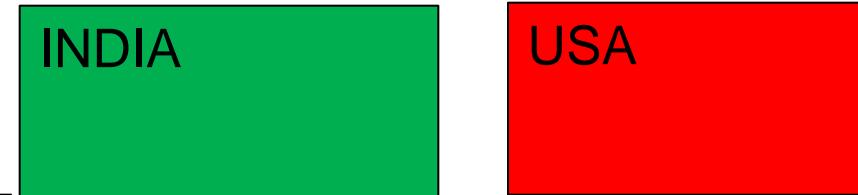
**1. Loro  
Account**

# Nostro Account

A bank's foreign currency account maintained by the bank in a foreign country and in the home currency of that country is known as Nostro Account

# **Example-NOSTRO AND VOSTRO ACCOUNT**

- Let us say, SBI Bank, India wants to make and receive payments in US Dollar, in the US.
  - for this transaction, SBI, India will tie up with , say, Citibank in the US.
  - Citibank, US will act as its representative or correspondent bank.
  - SBI, India will have an account in Citibank US
  - Its USD receipt and payment will happen from this account
  - this account of SBI, India in Citibank, US is SBI's Nostro Account and Citibank's Vostro Account.



SBI opened a current account with Citi bank in USD in USA This is called a Nostro a/c

# NOSTRO ACCOUNT

A Nostro account is a reference used by Bank X to refer to "our" account held by Bank Y.

Nostro is a shorthand way of talking about "our money that is on deposit at your bank

The Nostro account is the record of the bank that has money on deposit at another bank.

These accounts are often used to simplify settlements of trade and foreign exchange transactions.

# VOSTRO ACCOUNT

Vostro is the term used by Bank Y, where bank X's money is on deposit.

Vostro is a reference to "yours" and refers to "your money that is on deposit at our bank."

# NOSTRO and VOSTRO Accounts

"Nostro" and "vostro" are two different terms used to describe the same bank account.

The terms are used when one bank has another bank's money on deposit, typically in relation to international trading or other financial transactions

# NOSTRO and VOSTRO Accounts

Nostro comes from the Latin word for "ours," as in "our money that is on deposit at your bank."

Vostro comes from the Latin word for "yours," as in "your money that is on deposit at our bank."

# Loro account

When domestic banks use the account of third party banks

which holds a Nostro account to settle foreign exchange transactions

these type of transactions are included under the Loro Account.

# Loro account - Example

HDFC Bank has an account with Citi Bank

but IDBI Bank doesn't have any Nostro account with Citi Bank

IDBI Bank has to pay the bill of imported machinery from the USA on behalf of its customers

IDBI Bank approaches to HDFC Bank and ask to settle the invoice on its own behalf.

HDFC bank worked as an intermediary between Citi Bank and IDBI Bank

# IMPORTANT CONCEPTS

**Exchange  
Position**

**Cash  
Position**

# Exchange Position

**Balance of the aggregate purchases and sales made in foreign currency**

**It includes both spot and forward transactions**

**Transactions for, which the bank has agreed for a firm rate- firm commitments- like draft issued**

The exchange position is worked out every day so as to ascertain the position of the bank in that particular currency and wherever remedial measures are needed they may be taken.

# Examples of sources for the bank for purchase of foreign currency are:

Payment/ Purchase  
of DD, Traveller  
cheques, etc.

Purchase of bills.  
( export bills)

Forward purchase  
contract with export  
customers. (Entered  
in the position on the  
date of purchase.)

# Examples of avenues of sales are:

Issue of DD, MT, TT,  
Traveler cheques, etc.

Payment of bills.  
(imports)

Forward sale contract  
with importer-  
customers. (Entered  
in the position on the  
date of contract.)

# Cash position

**it is outstanding balance (debit or credit) in bank's Nostro account**

**Cash Position is effected only when actual delivery has taken place.**

**all transactions effecting Cash position will affect Exchange Position not vice versa.**

# Foreign Exchange Instruments

## Telegraphic Transfer (TT)

- The money is deposited with the banks in India and the Indian banker sends a cable, telegram or fax to the foreign branch/correspondent to make certain payments to the specific party, on that very date.
- Exchange Position : Immediate
- Cash position : Immediate

## Bank Drafts and Cheques

- The bank draft or demand draft is handed over to the buyer who sends it to the beneficiary.
- The beneficiary obtains payment on presentation to the bank on which the draft is drawn.
- Exchange Position : Immediate
- Cash position : Not Immediate

## Forward Contracts

- They're essentially hedging instruments with no upfront payments.
- **Exchange Position :** Immediate
- **Cash Position :** Not immediate only on delivery

# Foreign Exchange Instruments

## Forward Telegraphic Transfer (TT)

- They're essentially hedging instruments with no upfront payments.
- **Exchange Position :** Immediate
- **Cash Position :** Not immediate only on delivery

## DD purchased

- Demand Draft can be purchased from Bank for making payments in foreign currency.
- The bank draft or demand draft is handed over to the buyer who sends it to the beneficiary
- Exchange Position : Immediate
- Cash position : Not Immediate

## Bill of Exchange

- A bill of exchange is an order drawn by a person upon bank or another person asking the latter to make payment to a third party.
- Bill of Exchange is prepared by the exporter and sent to the place of importer through a commercial bank along with the documents.

# Foreign Exchange Instruments

## BILLS PURCHASED

- **BILLS PURCHASED**, in trade finance, allows a seller to obtain financing and receive immediate funds in exchange for a sales document
- The bank will send the sales documents to the buyers bank on behalf of the seller.
- Exchange Position : Immediate
- Cash position : Not Immediate

## Bill of Exchange

- A bill of exchange is an order drawn by a person upon bank or another person asking the latter to make payment to a third party.
- Bill of Exchange is prepared by the exporter and sent to the place of importer through a commercial bank along with the documents.

# PRACTICE QUESTIONS

## Exercise 1

- Suppose you are a dealer of ABC Bank and on 20.10.2014 you found that balance in your Nostro account with XYZ Bank in London is £65,000 and you had overbought £35,000. During the day following transaction have taken place:

	Amount £
DD purchased	12,500
Purchased a Bill on London ( export bill)	40,000
Sold forward TT	30,000
Forward purchase contract cancelled	15,000
Remitted by TT	37,500
Draft on London cancelled	15,000

What steps would you take, if you are required to maintain a credit Balance of £7,500 in the Nostro A/c and keep as overbought position on £7,500?

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What steps would you take, if you are  
required to maintain a credit Balance of  
£7,500 in the Nostro A/c and keep as  
overbought position on £7,500?

# Exchange Position:

Particulars	Purchase £	Sale £
<b>Opening Balance Overbought</b>	<b>35,000</b>	
DD Purchased	12,500	
Purchased a Bill on London	40,000	
Sold forward TT		30,000
Forward purchase contract cancelled		15,000
TT Remittance		37,500
Draft on London cancelled	15,000	
	1,02,500	82,500
<b>Closing Balance Overbought</b>		<b>20,000</b>

on 20.10.2014 you had overbought £35,000

	£
DD purchased	12,500
Purchased a Bill on London	40,000
Sold forward TT	30,000
Forward purchase contract cancelled	15,000
Remitted by TT	37,500
Draft on London cancelled	15,000

keep as overbought position on £7,500?

# Nostro a/c ( Cash Position)

Cash Position (Nostro A/c)	Credit £	Debit £
<b>Opening balance credit</b>	<b>65,000</b>	
TT Remittance		37,500
	65,000	<b>37,500</b>
<b>Closing balance (credit)</b>		<b>27,500</b>
Spot sale of Pounds £		20,000
<b>Closing balance ( credit)</b>		<b>7,500</b>
	<b>65,000</b>	<b>65,000</b>

on 20.10.2014 you found that balance in your Nostro account with XYZ Bank in London is £65,000

	£
DD purchased	12,500
Purchased a Bill on London	40,000
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## Exchange Position:

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Sold forward TT		30,000
Forward purchase contract cancelled		15,000
TT Remittance		37,500
Draft on London cancelled	15,000	
	1,02,500	82,500
Spot sale		20,000
<b>Total</b>	<b>1,02,500</b>	<b>1,02,500</b>
Forward purchase contract of Pounds in inter bank market	7,500	

on 20.10.2014 you had overbought £35,000

	£
DD purchased	12,500
Purchased a Bill on London	40,000
Sold forward TT	30,000
Forward purchase contract cancelled	15,000
Remitted by TT	37,500
Draft on London cancelled	15,000

keep as overbought position on £7,500?

To maintain Cash Balance in Nostro Account at £7,500 you have to sell £20,000 in Spot which will bring Overbought exchange position to Nil. Since bank require Overbought position of £7,500 it has to buy the same in forward market

# Exercise 2

- You as a dealer in foreign exchange have the following position in Swiss Francs on 31<sup>st</sup> October, 2009:

	Swiss Francs
Balance in the Nostro A/c Credit	1,00,000
Opening Position Overbought	50,000
Purchased a bill on Zurich	80,000
Sold forward TT	60,000
Forward purchase contract cancelled	30,000
Remitted by TT	75,000
Draft on Zurich cancelled	30,000

What steps would you take, if you are required to maintain a credit Balance of Swiss Francs 30,000 in the Nostro A/c and keep as overbought position on Swiss Francs 10,000?

# Exercise

*You as a dealer in foreign exchange have the following position in Swiss Francs on 31<sup>st</sup> October, 2009*

*What steps would you take, if you are required to maintain a credit Balance of Swiss Francs 30,000 in the Nostro A/c and keep an overbought position on Swiss Francs 10,000?*

	Swiss Francs
Balance in the Nostro A/c Credit	1,00,000
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Sold forward TT	60,000
Forward purchase contract cancelled	30,000
Remitted by TT	75,000
Draft on Zurich cancelled	30,000

# Exchange Position:

Particulars	Purchase SF	Sale SF
<b>Opening Balance Overbought</b>	<b>50,000</b>	
Purchased a bill on Zurich	80,000	
<b>Sold forward TT</b>		<b>60,000</b>
<b>Forward purchase contract cancelled</b>		<b>30,000</b>
<b>TT Remittance</b>		<b>75,000</b>
<b>Draft on Zurich cancelled</b>	<b>30,000</b>	
	<b>1,60,000</b>	<b>1,65,000</b>
<b>Closing Balance Oversold</b>	<b>5,000</b>	

	Swiss Francs
Balance in the Nostro A/c Credit	1,00,000
Opening Position Overbought	50,000
Purchased a bill on Zurich	80,000
Sold forward TT	60,000
Forward purchase contract cancelled	30,000
Remitted by TT	75,000
Draft on Zurich cancelled	30,000

keep as overbought position on Swiss Francs 10,000?

# Nostro a/c ( Cash Position)

<b>Cash Position (Nostro A/c)</b>	<b>Credit</b>	<b>Debit</b>
<b>Opening balance credit</b>	<b>100,000</b>	
<b>TT Remittance</b>		<b>75,000</b>
	<b>1,00,000</b>	<b>75,000</b>
<b>Closing balance (credit)</b>		<b>25,000</b>

	Swiss Francs
Balance in the Nostro A/c	1,00,000
Credit	
Opening Position Overbought	50,000
Purchased a bill on Zurich	80,000
Sold forward TT	60,000
Forward purchase contract cancelled	30,000
Remitted by TT	75,000
Draft on Zurich cancelled	30,000

*you are required to maintain a credit Balance of Swiss Francs 30,000 in the Nostro A/c*

# Nostro a/c ( Cash Position)

*What steps would you take, if you are required to maintain a credit Balance of Swiss Francs 30,000 in the Nostro A/c*

<b>Cash Position (Nostro A/c)</b>	<b>Credit</b>	<b>Debit</b>
<b>Opening balance credit</b>	<b>100,000</b>	
<b>TT Remittance</b>		<b>75,000</b>
<b>Buy spot Swiss Francs</b>	<b>5,000</b>	
	<b>1,05,000</b>	<b>75,000</b>
<b>Credit Balance of 30,000</b>		

	<b>Swiss Francs</b>
Balance in the Nostro A/c	1,00,000
Credit	
Opening Position Overbought	50,000
Purchased a bill on Zurich	80,000
Sold forward TT	60,000
Forward purchase contract cancelled	30,000
Remitted by TT	75,000
Draft on Zurich cancelled	30,000

*you are required to maintain a credit Balance of Swiss Francs 30,000 in the Nostro A/c*

## Exchange Position:

<b>Closing Balance Oversold</b>	<b>5,000</b>	
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keep as overbought position on Swiss Francs 10,000?

Particulars	Purchase SF	Sale SF
<b>Opening Balance Overbought</b>	<b>50,000</b>	
Purchased a bill on Zurich	80,000	
<b>Sold forward TT</b>		<b>60,000</b>
<b>Forward purchase contract cancelled</b>		<b>30,000</b>
<b>TT Remittance</b>		<b>75,000</b>
<b>Draft on Zurich cancelled</b>	30,000	
<b>Buy spot SWISS FRANCS</b>	5,000	
<b>Buy forward Sw. Francs.</b>	10,000	
	1,75,000	1,65,000
<b>Overbought</b>	<b>10,000</b>	

# Solution

The Bank has to buy spot TT Sw. Fcs. 5,000 to increase the balance in Nostro account to Sw. Fcs. 30,000.

This would bring down the oversold position on Sw. Fcs. as Nil.

Since the bank requires an overbought position of Sw. Fcs. 10,000, it has to buy forward Sw. Fcs. 10,000.

# Exercise 3

*XYZ Bank, Amsterdam, wants to purchase Rs 25 million against £*

*for funding their Nostro account and they have credited LORO account with Bank of London, London.*

*Calculate the amount of £'s credited.*

*Ongoing inter-bank rates are per \$,  
Rs 61.3625/3700*

*& per £, \$ 1.5260/70.*

# Solution

To purchase Rupee, XYZ Bank shall first sell £ and purchase \$ and then sell \$ to purchase Rupee. Accordingly, following rate shall be used

$\$1 = \text{Rs } 61.3625 - \text{Rs } 61.3700$   
*American quote*

$\text{£ } 1 = \$1.5260 - \$1.5270$   
*European quote*

$$\frac{\text{Rs}}{\$} \times \frac{\$}{\text{£}} = \frac{\text{Rs}}{\text{£}}$$

# Solution

$$\text{Rs } 61.3625 \times 1.5260 \\ = \text{Rs } 93.6391$$

$$\text{Rs } 61.3700 \times \\ 1.5270 = \text{Rs } 93.7119$$

$$\text{£ } 1 = \text{Rs } 93.6391 - \text{Rs } 93.7119$$

$$\text{Rs } 1 = \text{£ } .01067 - \text{£ } .0107$$

*Calculate the amount of £'s credited.*

*XYZ Bank,  
Amsterdam, wants to  
purchase Rs 25  
million against £ so  
Ask rate applicable*

$$\begin{aligned}2,50,00,000 \times .0107 \\= \text{ £ } 2,66,500\end{aligned}$$

Examples of sources for the bank for purchase of foreign currency are:

1. Payment of DD, MT, TT, travellers cheques, etc.
2. Purchase of bills,
3. Purchase of other instruments like cheques.
4. Forward purchase contracts (entered to the postion of the date of contracts).
5. Realisation of bills sent for collection.
6. Purchase in interbank/international markets.

# Examples of avenues of sale are:

1. Issue of DD, MT, TT, travellers cheques, etc.
2. Payments of bills drawn on customers.
3. Forward sale contract (entered in the position on the date of contracts).
4. Sale to interbank/international markets.



Thank you