

Foreign Bank Accounting Terms

Nostro, Vostro and Loro are Italian terms. These are the most commonly used terms in Forex Markets.

For dealing in forex market, Indian Branch should have a current account with the foreign branch dealing in respective currency of that country. It is a pre requirement for an Indian Branch to have an account with the Foreign Branch dealing in the respective currency to deal in forex market.

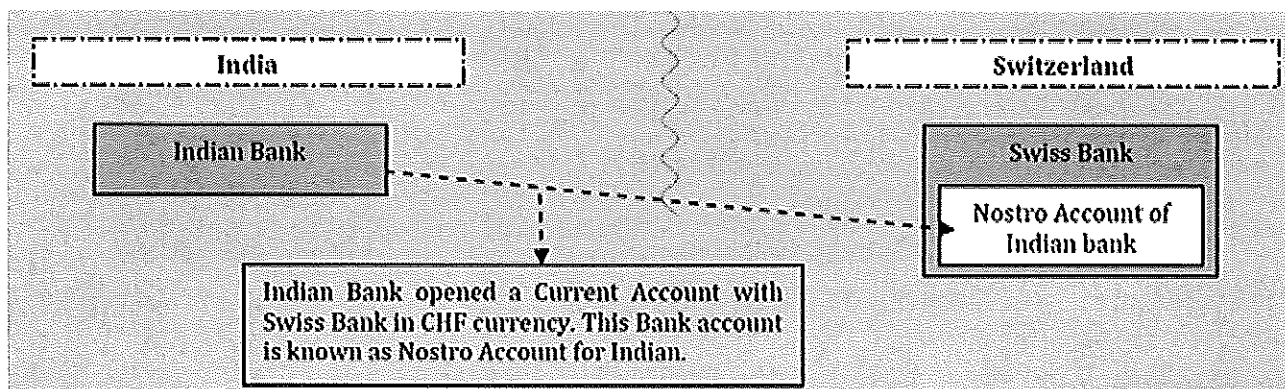
FOR INDIA: When Indian branch opens an account with the foreign branch, in the books of Indian branch it is a Nostro Account. Similarly in the books of Foreign Branch it will be a Vostro Account.

A single account is both Nostro and Vostro at the same point of time.

Nostro A/c.: Ours Account with You

Nostro Account is a current account maintained by a domestic banker/dealer with a Foreign Bank in Foreign Currency.

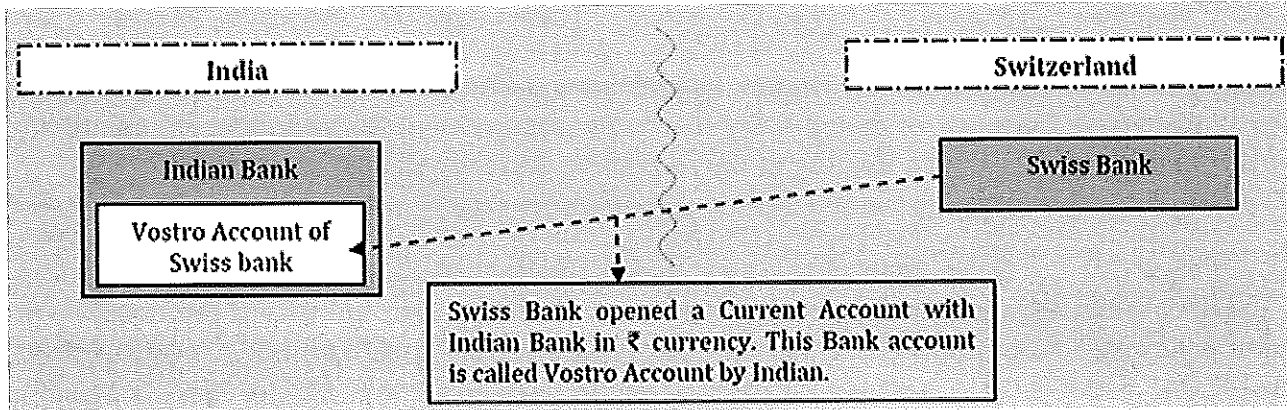
Example: Current Account of SBI Bank (an Indian Bank) with Swiss Bank(Foreign Bank) in Swiss Franc (CHF) currency is a Nostro A/c.



Vostro A/c.: Yours Account with Us

Vostro A/C is a Current account maintained by a foreign bank with domestic bank in Rupee currency.

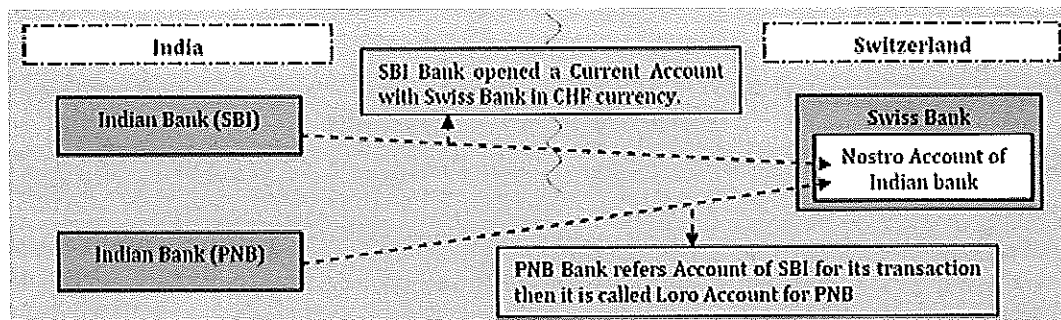
Example: Account of Swiss Bank in India with SBI in Rupee Currency.



Loro A/c.: Our Account of their Money with You

Loro Account is a Current Account Maintained by one Domestic Bank on behalf of other domestic bank in foreign bank in foreign currency. In other word Loro Account is a Nostro Account for one bank who opened the bank and Loro Account for other bank who refers first one account.

Example: SBI opened Current Account with Swiss bank. If PNB refers that account of SBI for its correspondence, then it is called Loro Account for PNB and it is Nostro Account for SBI.



Accounting Effect :-

A bank counts a **Nostro account** with a **debit balance** as a **cash asset** in its balance sheet. Conversely, a **Vostro account** with a **credit balance** (i.e. a deposit) is a **liability**, and a **Vostro** with a **debit balance** (a loan) is an **asset**. Thus in many banks a credit entry on an account ("CR") is regarded as negative movement, and a debit ("DR") is positive - **the reverse of usual commercial**

accounting conventions.

With the advent of computerised accounting, Nostros and Vostros just need to have opposite signs within any one bank's accounting system; that is, if a Nostro in credit has a positive sign, then a Vostro in credit must have a negative sign. This allows for a reconciliation by summing all accounts to zero (a trial balance) - **The Basic Premise Double Entry Book Keeping.**

Other related terms for above mentioned Banking Terms :

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Exchange Position (Consider as Bank Book) :-

Exchange Position (**For foreign Currency Only**) of an Indian Bank/Dealer will affect by:

- Purchase / Sale of Foreign Currency (It may be spot or forward),
- Issue / Cancellation of Demand Draft,
- Purchase / Sale of Bills Receivable,

Remittance of foreign Currency [*Always Remember that Indian bank do not remit foreign currency (say CHF) in Nostro account from India. All receipt in Foreign Currency (CHF) and all payment/remittances in CHF will be made through Nostro account maintained with Switzer land bank*]

Cash Position (Nostro A/C): (As bank Reconciliation statement: think it as Pass book which is maintained by bank)

Nostro A/C of an Indian bank/dealer maintained with Switzerland bank will affect by:

- Spot Purchase/Sale of foreign currency (CHF) (Forward Purchase/Sale of CHF do not affect Nostro A/C **because** there is no delivery of currency as on today)
- Receipt/payment in Foreign Currency.

Note:

1. Spot purchase/Sales of CHF affects both exchange position as well as Nostro A/C (Cash Position). **However, forward purchase/sale affects only the exchange position.**

2. If B/R/DD/any other Instrument dishonor, Indian bank will decrease exchange position and in this case **there will be no effect on Nostro Account.**

Source : -
