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B.Com Honours | Semester VI | Calicut University

BANKING AND INTERNATIONAL FINANCE

Course Code: COM6EJ303 • Module 2 Notes

Module II: Foreign Exchange Administration & Trade Finance

Covers foreign exchange administration in India, FERA 1973 vs FEMA 1999, FEDAI rules, bank forex accounts (Nostro, Vostro, Loro), LRS scheme, and Trade Finance instruments (LC, SBLC, PCFC).

Unit 6: Foreign Exchange Meaning & Administrative Setup

Foreign Exchange: All claims payable abroad in foreign currency. Regulatory Structure: RBI acts as central custodian of foreign exchange reserves under FEMA 1999.

Unit 7: Statutory Framework (FERA 1973 vs FEMA 1999) & FEDAI

FERA 1973 vs FEMA 1999: FERA treated exchange offenses as criminal; FEMA treats exchange violations as civil offenses. FEDAI: Self-regulatory body formulating ground rules for Authorized Dealer (AD) banks in forex trading.

Unit 8: Bank Forex Accounts (Nostro, Vostro, & Loro)

Bank Accounts:
- **Nostro Account:** "Our account with you" (Indian bank's USD account with Citibank NY).
- **Vostro Account:** "Your account with us" (Citibank NY's INR account with SBI Mumbai).
- **Loro Account:** "Their account with them" (Third bank referencing another's Nostro).

Unit 9: Liberalised Remittance Scheme (LRS)

LRS Scheme: Resident individuals can freely remit up to **USD 2,50,000 per Financial Year** for permissible capital or current account transactions (education, medical, investment).

Unit 10: Trade Finance Instruments (Letter of Credit & PCFC)

Trade Finance: Letter of Credit (LC - Irrevocable bank guarantee under UCPDC 600), Standby LC (SBLC), & Packing Credit in Foreign Currency (PCFC - pre-shipment export finance at international interest rates).

Practical Case Framework 1 (FERA 1973 vs FEMA 1999 Comparative Statutory Matrix): Compare statutory objective, offense nature, burden of proof, and regulatory philosophy.

FERA vs FEMA Statutory Comparison Table:

Statutory Dimension	FERA 1973 (Rigid Control)	FEMA 1999 (Management & Facilitation)
Primary Objective	Conserve foreign exchange reserves	Facilitate external trade & market development
Legal Nature of Offense	Criminal Offense (Imprisonment penalty)	Civil Offense (Monetary penalty only)
Burden of Proof	Presumed Guilty until proven innocent	Presumed Innocent until proven guilty

Practical Case Framework 2 (Nostro, Vostro, & Loro Bank Accounts Reference Matrix): Detail account designation, literal meaning, maintainer bank, and operational transaction scenario.

Bank Forex Accounts Reference Table:

Forex Account Type	Literal Latin Meaning	Operational Account Structure
Nostro Account	"Our Account with You"	SBI maintaining USD bank account with Bank of America NY
Vostro Account	"Your Account with Us"	Bank of America maintaining Rupee account with SBI Mumbai
Loro Account	"Their Account with Them"	Canara Bank referencing SBI's account with Bank of America