Section 5

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Explain the meaning of Swap contract?

Swap Contract:

(i) Swap contract are financial derivates that allows two transaction agents to swap revenue stream arising from some underlying asset held by each party.

(ii) Int rate swaps allows their holders to swap financial flows associated with two seperate debts instruments.

(iii) Currency Swap allow their holder to swap financial flow associated with two different currencies.

(iv) Hybird Swaps allows their holder to swap financial flows associated with different debts instrument that are also denominated in different currencies.

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Types of Swaps Contract

1. **Int Rate Swaps :-** Int rate swap allow their holder to swap financial flow associated with two seperate debt instrument. Int rate swap are most commonly used by business that either generate revenue linked to a variable Int rate debts

2. **Currency Swap (FX Swaps) →** Currency swap allown their holder to swap financial flow associated with two difference currencies. Consider the example describe above, An American business the borrowed money from the US-bank but want to do business in the U.K.

(3) Hybird Swaps (Exotic products) →

Hybird Swaps allows their holder to swap financial flows associated with different debt instrument that are also denominated in different currencies.