

PREFACE



This summary notes doesn't guarantee passing the exam.
IT IS ONLY MEANT TO CONDENSE THE HUGE CONTENT OF ICMAI.

One needs to have a visualisation of connected questions with every concept studied here.

THE VISUALS COME ONLY WHEN YOU HAVE PRACTICED THE CONNECTED SUMS AT LEAST 3 TIMES AFTER UNDERSTANDING THE LOGIC BEHIND THE CONCEPTS.

For effortless understanding of logic and practice of sums once, Join full classes of SFM with Satish Sir.

Exclusively taught as per **CMA Final Course.**
ICMAI Material Covered with all practicals and theories.

YOU WILL FALL IN LOVE FOR FINANCE, FOR SURE

"I believe in - showing students how to cook rather than to give the food. Specially, I have also given sessions for preparing summary notes, where I am showing the process of how to summarise the big chapters. This would help you in all other subjects." - **Satish Sir**



Reviews of our regular classes of SFM

The books were great with regards to the content and coverage that has been provided. I really liked the numerous variation of sums that were provided to us in the entire course. I really loved the flow of the classes and the content was very well covered.

Thanking You.
Dipti Saraf

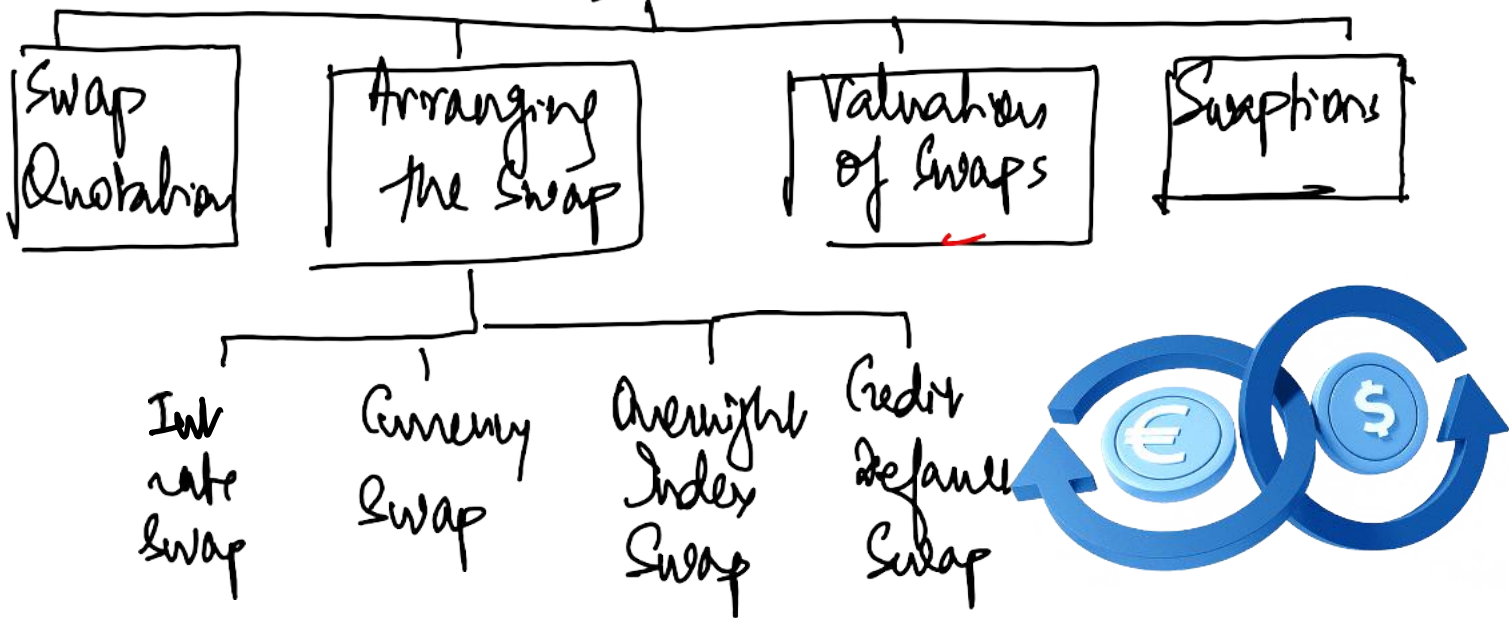
The content in the book is very good and well organized, there is extra space for page numbers and what is new is very useful and saves time for study, also the quality of the book is very good including the quality of paper and binding of the book.

Anjali Kumari Shaw

SWAPS

SWAPS

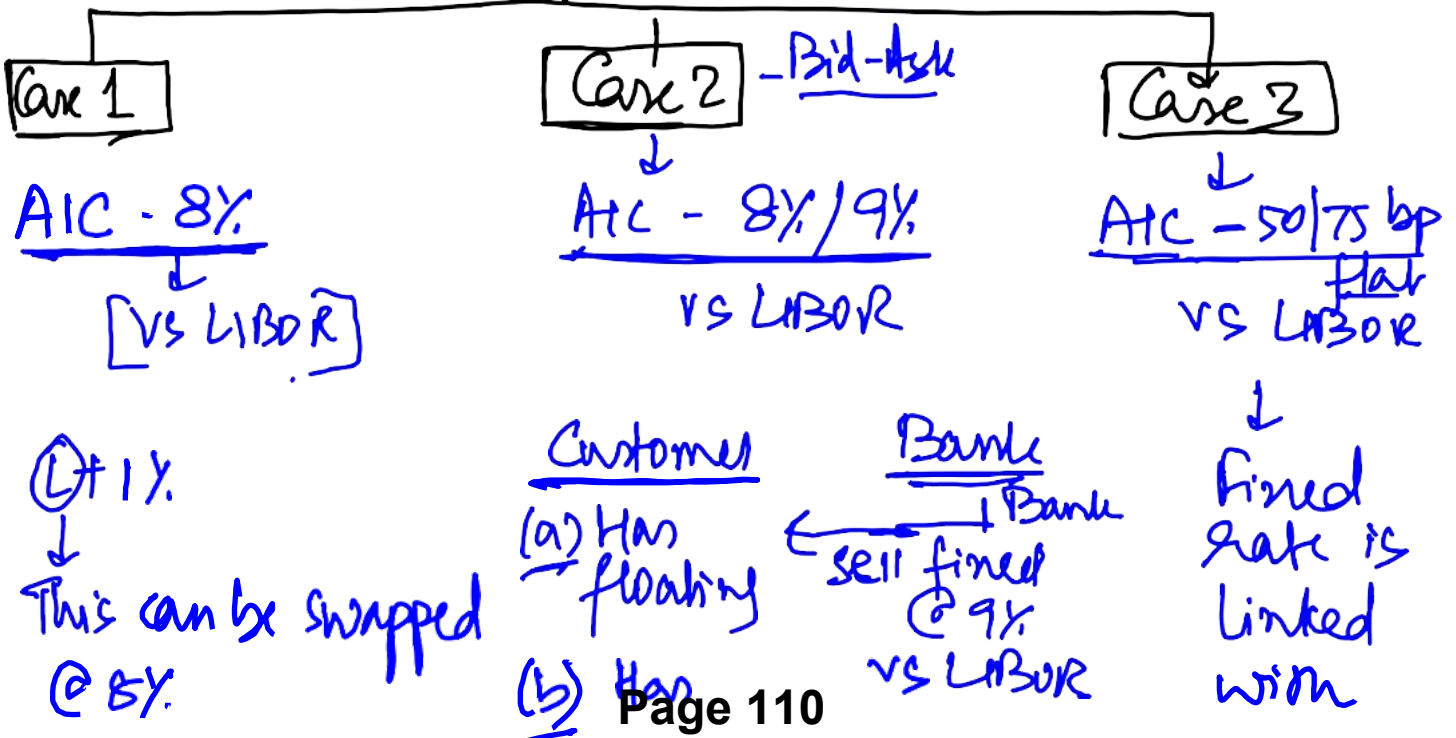
(changing fixed int rate to floating & vice versa without altering the original commitment)

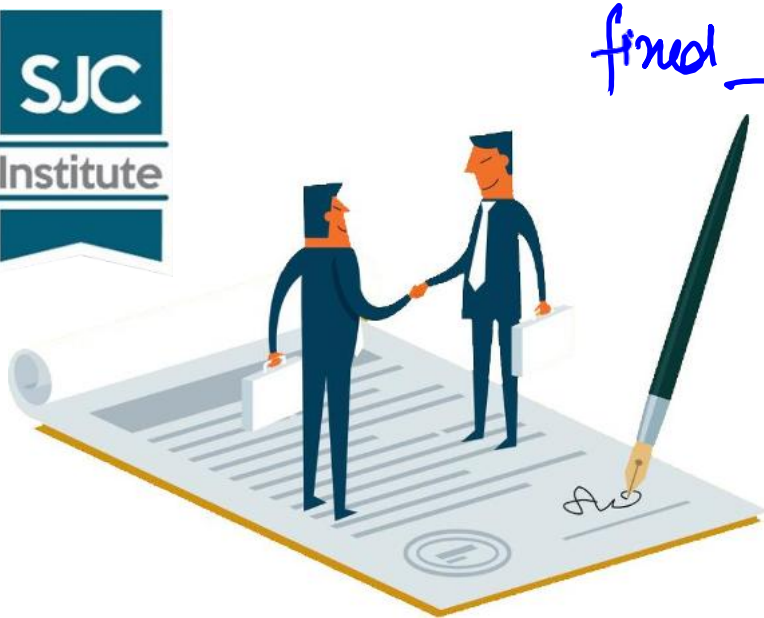


I. SWAP Quotation

Int rate Swap on Generic Swap

Swap Banker/Dealers - Quote the swap rate as a fixed rate vs LIBOR





fixed

↑
Bank buy
fixed @ 8%
vs LIBOR

benchmark
fixed
rate
eg. T-Bond

↓
T-Bond = 10.2%

↓
ATC = 10.7% / 10.95%
vs LIBOR

Multiple Settlement Periods =>

decide at the time of signing the contract

used for hedging / speculating

↓
orig loan

↓
Nominal loan

2. Arranging the Swap

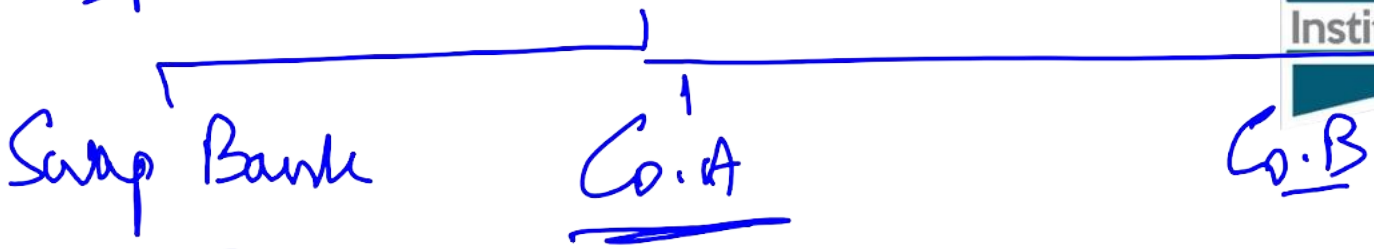
1. Int rate Swap

Step 1: Overall Gain:-

● Without Swap - Co. A $+$ Co. B = \checkmark
Coal Coal

With Swap - Co. A $+$ Co. B = \checkmark
Opposite opposite

Step 2 Distribⁿ of Gain



(1)

[Ratio of distribⁿ given. If not given,

(2) Theory of Comp Advantage to be applied

to identify min cost of advantageous

Co. (3) Or Question may provide the net cost, a Co. wants to be an

Step 3 Eff Cost after Swap

Cost without Swap to achieve the Objective

Share of Gain



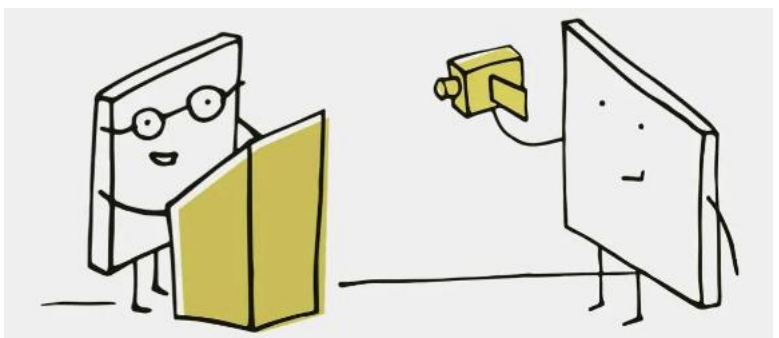
Step 4 Flow diagram

Step 5 Cash Settlement (if asked)
Over-borrow

Note Theory of Comparative Advantage

Preference of type of loan is not given
 Asked to use in question

Stronger Co. gets lesser rate in market



Fixed = Savings = Δ

Floating = Savings = Δ

Isme jyada advantage hai, swap bank wali banne kara ke swap karega. (Q6)

No Comp Adv = No Swap possible (Q7)

Currency Swap

Parties are in 2 countries

Foreign exch. flutu
size is same by



the respective parties

Overnight Index Swap

- term is of very short period
- Benchmark int rate = Overnight Index
= 1 Day LIBOR
- Cash settlement on daily basis
(incl Sunday / Holidays)

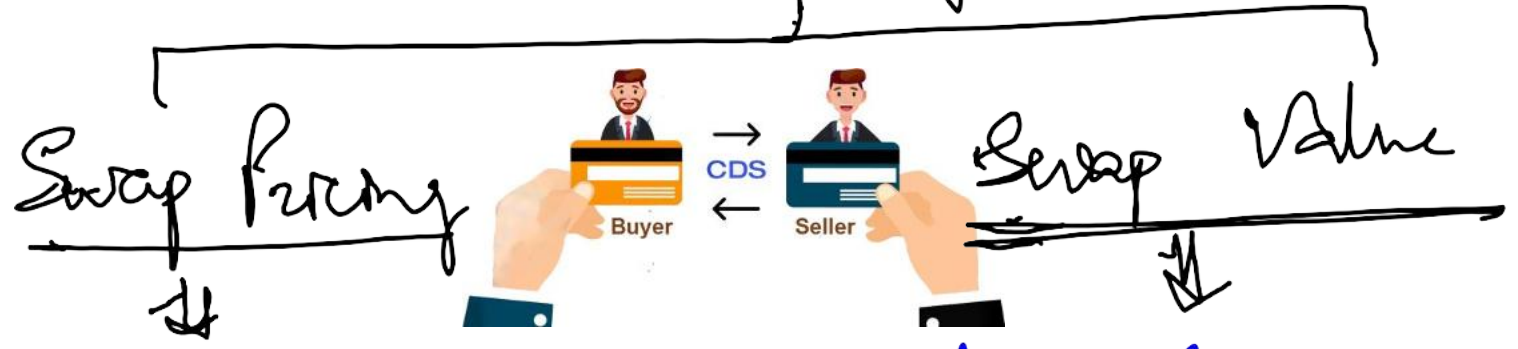
Credit default Swap

- like an insurance against credit default
- prem is paid to enter into the swap
- prem is paid by the lender

Receive compensation only when the default occurs

- term is called as Spread / Price of the swap

3 Valuation of Swap



What should be the fixed rate against LIBOR?

Value of Swap

Value of fixed rate bond

Value of floating rate bond

$$\text{Swap Price} = \text{Fixed Rate} = \frac{1 - DF(N \times K, n)}{PVAF(Ytm\%, n)}$$

Theoretical Swap Price

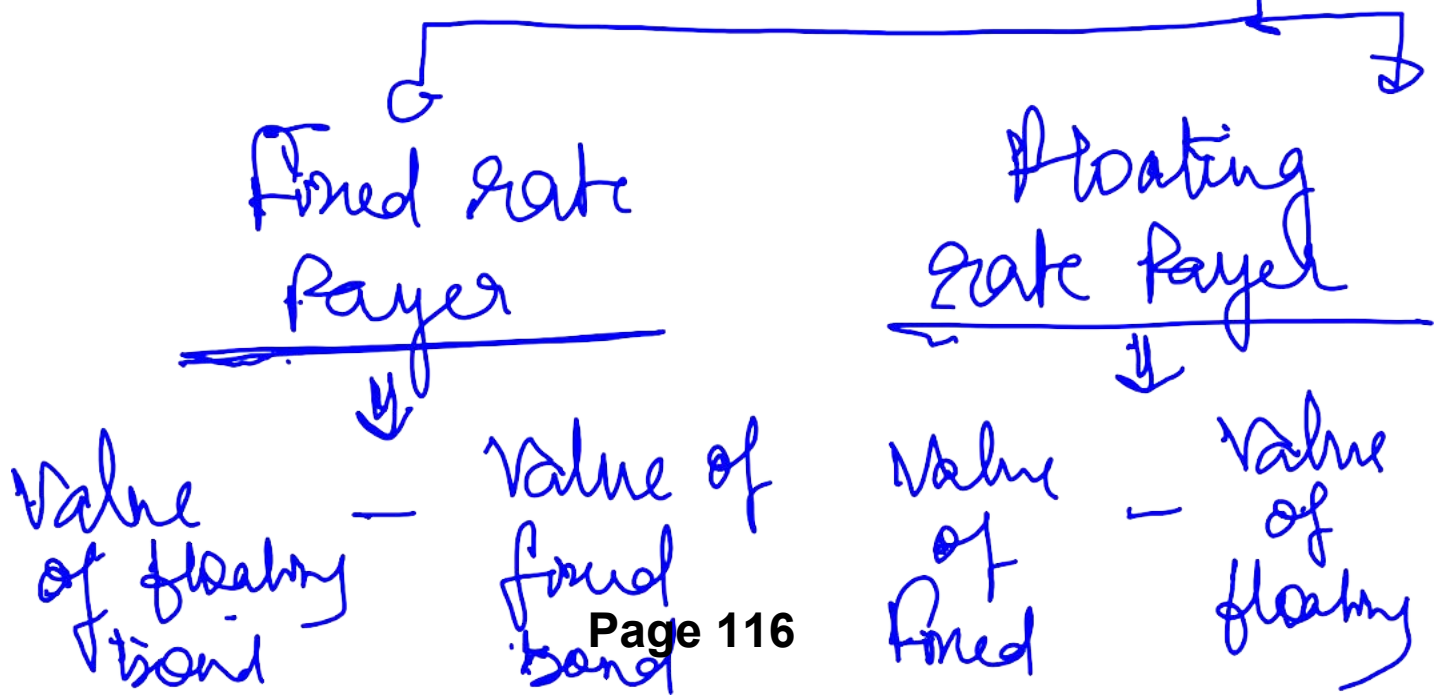
Coupon and fixed rate bond

Agar periodic hai toh ytm
bhi periodic hoga.

To fixed rate aayega woh bhi
periodic hoga - either annual
or half yearly

Instead of YTM % - coupon
may be given.

Separate coupon for each reset
period may be given.



[Meheenga - Sasta] bond \downarrow bond
 [Meheenga - Sasta]

Value of Fixed Bond = $I \times \frac{PVAF}{FV \times DF}$

Value of Floating Bond

At reset date \Rightarrow FV

Before reset date $\Rightarrow I \times \frac{DF}{DF} \times \frac{FV}{DF}$

upto the next reset date

[Qu]

\rightarrow DF is using continuous compounding

SWAP TYPES

[Swap + Options]

Call Swaption

↓
Fixed rate payer

↓

If Swap Rate > Strike Rate, it is exercised

↓

↓

Cash = (Swap Price + Strike Rate) × Notional Principle × PV AF (Swap Rate)

Reverse

Put Swaption

↓
Fixed rate receiver

↓

If Swap Rate < Strike Rate, it is exercised

↓

↓

$$\text{Swap Rate} = \frac{1 - DF_n}{AF}$$

↓

- Premium to be paid in both Call & Put Swaption
- Right, but not an obligation to enter into a swap contract.



Liked our efforts?

**The fees that you may pay to us is
your REFERENCE.**

**Please refer your friends or family to
take all classes of CA/CMA only from
SJC Institute.**

Thank You.