Compounding Swap

A compounding swap is an interest rate swap in which interest, instead of being paid, compounds forward until the next payment date.

Compounding swaps can be valued by assuming that the forward rates are realized. Normally the calculation period of a compounding swap is smaller than the payment period.

For example, a swap has 6-month payment period and 1-month calculation period (or 1-month index tenor). An overnight index swap (OIS) is a typical compounding swap

A compounded swap consists of two legs: a regular fixed leg and a compounding floating leg. The compounding leg is similar to a regular floating leg except the reset frequency is higher than the payment frequency.

Reference:

https://finpricing.com/lib/EqBarrier.html