# Contract Characteristics

This appendix lists the detailed characteristics of the “standard” (most liquid) interest-rate swaps contract for the currencies studied in this essay.

Table Contract characteristics for common contracts (Source: Bloomberg L.P.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Currency | USD | CAD | GBP | CHF |
| Settlement | T+2 | T+0 | T+0 | T+2 |
| Fixed Leg | | | | |
| Day Count Convention | 30I/360 | ACT/365.FIXED | ACT/365.FIXED | 30E/360 |
| Payment Frequency | Semiannual | Semiannual | Semiannual | Annual |
| Business Day Adjustment Convention | Modified Following | Modified Following | Modified Following | Modified Following |
| Adjustment Type | Accrual and Payment Dates | Accrual and Payment Dates | Accrual and Payment Dates | Accrual and Payment Dates |
| Roll Convention | Backward | Backward | Backward (EOM) | Backward |
| Accrual Calculation Calendar | US Federal Reserve and Bank of England | Canada | Bank of England | Switzerland |
| Pay Delay | 0 days | 0 days | 0 days | 0 days |
| Floating Leg | | | | |
| Day Count Convention | Actual/360 | ACT/365.FIXED | ACT/365.FIXED | Actual/360 |
| Payment Frequency | Quarterly | Semiannual | Semiannual | Semiannual |
| Reference Index | USD LIBOR 3M | CDOR 3M | GBP LIBOR 6M | CHF LIBOR 6M |
| Reset Frequency | Quarterly | Quarterly | Semiannual | Semiannual |
| Business Day Adjustment | Modified Following Business Day | Modified Following | Modified Following | Modified Following |
| Adjustment Type | Accrual and Payment Dates | Accrual and Payment Dates | Accrual and Payment Dates | Accrual and Payment Dates |
| Roll Convention | Backward | Backward | Backward (EOM) | Backward |
| Calculation Calendar | US Federal Reserve, England | Canada | England | Switzerland |
| Fixing Calendar | England | Canada | England | England |
| Fixing Lag | 2 business days | 0 days | 0 days | 2 business days |
| Pay Delay | 0 days | 0 days | 0 days | 0 days |
| Reset Position | Advance | Advance | Advance | Advance |

Definitions

**Settlement**

Settlement refers to the number of business days after the trade date when the swap contract is finalized, and payments are made (Hull 2022). The most common conventions are T+0, T+2, and T+3, where "T" represents the trade date, and the number indicates how many business days after the trade date settlement occurs. For example, in a T+2 settlement, the settlement occurs two business days after the contract is executed.

**Fixed Leg**

The fixed leg of an interest rate swap refers to the portion of the swap where the payer makes periodic payments at a fixed interest rate, which is predetermined and remains constant throughout the life of the swap (Hull 2022). The characteristics below describe various conventions associated with this leg.

* Day Count Convention (Ametrano and Ballabio 2003b): This convention determines how interest accrues over time, using fractions of a year based on the number of days between two dates . Common conventions include:
  + 30I/360: Assumes each month has 30 days and a year has 360 days. It simplifies calculations but may deviate slightly from actual time. If the start date of the day count is on 31st, it is treated as if it is the 30th. If the end date is on the 31st, then it can either be treated as the 30th or the 31st depending on the start date. It also includes special rules for when either the start or end date of the day count convention is Feb 28/29.
  + 30E/360: Like the 30I/360 convention, but if either the start or end dates are on the 31st, they are treated as if they are on the 30th. February 28/29 is always treated as 30th.
  + ACT/365.FIXED: Uses the actual number of days in a period, dividing by a fixed 365-day year for calculating partial year interest rate accrual.
  + Actual/360: Uses the actual number of days between dates, but assumes the year has 360 days when calculating partial year interest payments.
* Payment Frequency (Ametrano and Ballabio 2003b): This defines how often payments are made on the fixed leg. For instance, "semiannual" means payments are made twice a year, while "annual" means once a year.
* Business Day Adjustment Convention (Ametrano and Ballabio 2003b): When a payment date falls on a non-business day, this convention dictates how the date is adjusted. All the contracts in this study use a “modified following” convention. A modified following convention means payments are pushed to the next business day unless that day falls in the next month, in which case payments are moved backward to the preceding business day.
* Adjustment Type (Ametrano and Ballabio 2003b): Adjustment type refers to which dates are adjusted when a business day adjustment is necessary. For example, in "Accrual and Payment Dates" adjustment, both the accrual period and the payment date will be adjusted if necessary.
* Roll Convention (Ametrano and Ballabio 2003b): The roll convention specifies how payment dates are set relative to a reference date, typically whether payments move forward or backward when adjusting for business days. A "Backward" roll moves the date to the nearest preceding business day, while "Backward (EOM)" additionally ensures payments align with end-of-month periods.
* Accrual Calculation Calendar (Ametrano and Ballabio 2003b): This calendar determines which set of business days are considered in calculating the accrual of interest payments. For example, the "US Federal Reserve" calendar includes only U.S. federal holidays, while the "England" calendar takes U.K. public holidays into account.
* Pay Delay (Bloomberg L.P.): Pay delay refers to the number of days between the payment due date and the actual date the payment is made. For instance, "0 days" means payments are made on the due date.

**Floating Leg**

The floating leg of the swap is where payments are made based on a variable interest rate, which changes over time based on a reference index (Hull 2022). The conventions below describe how these payments are structured.

* Reference Index (Hull 2022; Ametrano and Ballabio 2003b): The reference index is the benchmark interest rate that dictates the floating payments. Common indices include:
  + USD LIBOR 3M: U.S. Dollar London Interbank Offered Rate for a 3-month period.
  + CDOR 3M: Canadian Dollar Offered Rate for 3 months.
  + GBP LIBOR 6M: British Pound LIBOR for 6 months.
  + CHF LIBOR 6M: Swiss Franc LIBOR for 6 months.
* Reset Frequency (Ametrano and Ballabio 2003b): This determines how often the floating rate is recalculated or "reset." For example, a quarterly reset means the floating rate is updated every three months.
* Fixing Calendar (Hull 2022; Ametrano and Ballabio 2003b): This refers to the calendar used to determine when the floating rate is fixed or set. For example, the "England" fixing calendar means rates are set according to U.K. business days.
* Fixing Lag: Fixing lag defines how many days in advance the floating rate is determined before the payment period begins. For instance, a "2 business days" fixing lag means the floating rate is set two days before the payment is due.

Reset Position: "Advance" reset position means the floating rate is set at the beginning of the interest period and applied throughout the period.