# Cancelable Swap

A cancelable swap can be decomposed into a vanilla swap and a Bermudan swaption. A vanilla swap is well understood. Hence, we focus on Bermudan swaption for the rest of the presentation.

A cancelable swap provides the right but not the obligation to cancel the interest rate swap at predefined dates. Most commonly traded cancelable swaps have multiple exercise dates.

Given its Bermudan style optionality, a cancelable swap can be represented as a vanilla swap embedded with a Bermudan swaption. Therefore, it can be decomposed into a swap and a Bermudan swaption. Most Bermudan swaptions in a bank book actually come from cancelable swaps.

A Bermudan swaption is an option on an interest rate swap with a predefined exercise schedule. A Bermudan swaption gives the holder the right but not the obligation to enter an interest rate swap at predefined dates. Bermudan swaptions give the holders several some flexibility to enter swaps.

A comparison of European swaption, American swaption and Bermudan swaption. 1) European swaption has only one exercise date at the maturity. 2)American swaption has multiple exercise dates (daily). 3) Bermudan swaption has multiple exercise dates (but not daily): such as quarterly, monthly, etc.

Reference:

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