

## Capped Swap

A capped swap is an interest rate swap with an interest rate cap option where the floating rate of the swap is capped at a certain level while a floored swap is an interest rate swap with a floor option where the floating rate of the swap is floored at a certain level.

Capped swaps or floored swaps limit the risk of the floating rate payer or receiver to adverse movements in interest rates. A capped swap can be decomposed into a swap and a cap whereas a floored swap can be decomposed into a swap and a floor.

A capped swap can be decomposed into a swap and a cap whereas a floored swap can be decomposed into a swap and a floor. Given the optionality, an up-front fee or premium has to be paid by the floating rate payer for a capped swap and an up-front fee or premium has to be paid by the floating rate receiver for a floored swap.

A capped swap limits the risk of the floating rate payer to adverse movements in interest rates. Given the optionality, an up-front fee or premium has to be paid by the floating rate payer.

A floored swap limits the risk of the floating rate receiver to adverse movements in interest rates. Given the optionality, an up-front fee or premium has to be paid by the floating rate receiver.

Reference:

<https://finpricing.com/lib/EqLookback.html>