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Gleb Shinkevich
Science tutor *I. Stroganova*
PSU (Novopolotsk)

USING SWAP MECHANISMS IN MARGIN LENDING

The article discusses the use of the swap mechanism in a real transaction based on a margin loan. A brief description of the swap as a derivative financial instrument is also given.

In the course of studying the regulatory framework of the derivatives market, it was revealed that the national legislation does not clearly distinguish between the concepts that characterize certain types of derivative financial instruments, namely, SWAP transactions and REPO transactions. In particular, according to the Resolution of the National Bank of 29.12.2007 No. 414, a SWAP is a derivative instrument, which is a contract that allows its parties to temporarily exchange some assets or liabilities for other assets or liabilities [1].

The Instruction on the procedure for refinancing by the National Bank of the Republic of Belarus of banks of the Republic of Belarus in the form of SWAP transactions, approved by Resolution No. 76 of the Board of the National Bank of the Republic of Belarus dated 08.02.2013, regulates the procedure for refinancing by the National Bank of the Republic of Belarus (hereinafter referred to as the National Bank) of banks of the Republic of Belarus (hereinafter referred to as banks) in the form of SWAP transactions, including relations arising during their execution and execution.

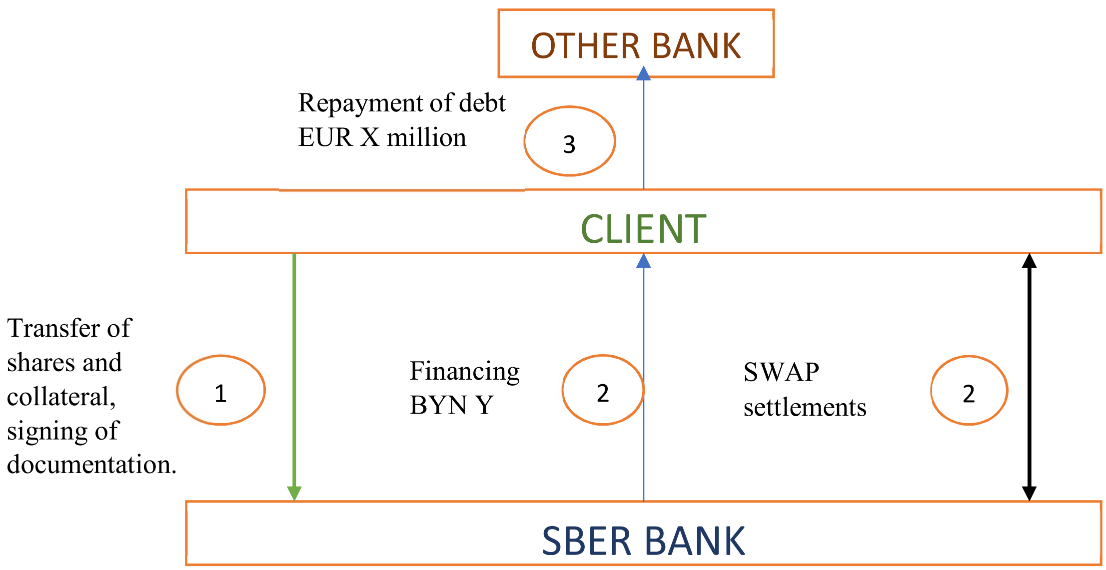
For the purposes of these Instructions, a SWAP transaction is understood as the purchase by the National Bank of foreign currency from a bank for Belarusian rubles (direct transaction) with the obligation to sell foreign currency for Belarusian rubles after the period specified by the parties to the transaction (reverse transaction). At the same time, the amount of foreign currency does not change [2].

The scope of application of this financial instrument in foreign practice is quite wide. A swap contract is an agreement between the parties aimed at exchanging monetary payments based on various interest rates, prices or exchange quotations calculated on the basis of the monetary amount specified in the contract. Despite some similarities with non-deliverable forward contracts, swap contracts are a separate class of derivative financial instruments. Payments on swaps (similar in nature to variation margins) are calculated as the difference between floating and fixed interest rates, but there is no actual transfer of the principal amount.

Let's analyze a margin financing transaction using a currency-interest rate swap made by BPS-Sberbank in 2021.

The transaction was carried out according to the needs of the client, namely: a European SPV company. It has an outstanding debt of X million EUR. In another bank, secured by the security of shares in a European public company.

The essence of the transaction is to refinance debt in another bank using a margin loan and a currency and interest rate swap:



Picture 2. Structure of the debt refinancing transaction by means of margin lending and currency and interest rate swap. Source: in-house development based on specialized literature.

1. At the first stage, when the documentation is fully signed, the client transfers the shares to the bank's depository and mortgages them, that is, the bank has received collateral.
2. After receiving financial security in shares, the bank finances the client in BYN.
2. The client sends the money received from the bank back as part of the currency-interest rate swap transaction, and the bank, in turn, sends the client EUR currency in response to the client's payment EUR.
3. The client pays off debts at another bank. The client's debt has been refinanced.

Interest rate swaps exchange flows of interest payments calculated at different interest rates against a specified notional denomination of the transaction. Contracts are concluded for periods ranging from a few days to dozens of years.

This, the currency-interest rate swap is a relatively simple and profitable tool for solving financial issues by various companies and financial institutions.

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