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(54) Title: FLEXIBLE-RATE, FINANCIAL OPTION AND METHOD OF TRADING

(57) Abstract: In accordance with the principles of the present invention, a flexible-rate option and method of electronic trading are provided. The flexible-rate option includes a negotiable premium and a corresponding rate-based strike rate. At least one discount curve, and potentially also a forward curve are determined. An adjustment factor for the financial instrument is determined. The curve or curves are used to determine the adjustment factor to determine the adjusted exercise price of an underlying with a standardized coupon as the present value difference between the delivered financial instrument with a fixed rate and a swap with the strike rate, at or near the time of option exercise. Thus, the flexible-rate option of the present invention provides for a financial instrument with rate-based strike prices (strike rates) to be exercised into an underlying position in an equivalent standardized coupon financial instrument with similar terms as the underlying swap that is defined by the option terms, with a potentially different fixed rate and an exercise price. This Abstract is submitted with the understanding that it will not be used to interpret or limit the scope or meaning of the claims.