What is claimed is:

1. A method for trading and clearing a standardized financial instrument comprising:

negotiating a derivative financial instrument in either volatility or variance terms;

electronically determining the realized variance to date on an underlying of that derivative financial instrument on at least one processor; and

after the derivative financial instrument is negotiated and the realized variance to date is determined, delivering at least one centrally-cleared financial instrument with a price electronically derived from the volatility or variance terms and the realized variance to date on the underlying of that derivative financial instrument on at least one processor;

whereby a financial instrument negotiated in either volatility or variance terms can be substituted with an equivalent position in a standardized, centrally-cleared financial instrument.

2. The method for trading and clearing a standardized financial instrument of claim 1 further including electronically determining on at least one processor a payoff from the volatility or variance on the underlying of the derivative financial instrument.

3. The method for trading and clearing a standardized financial instrument of claim 2 further including utilizing at least one processor to electronically deliver at least one centrally-cleared financial instrument with a payoff determined from the realized variance over a predetermined time period.

4. The method for trading and clearing a standardized financial instrument of claim 1 further including, if the time period between the trade date and the expiration date can be covered by one standardized financial instrument, delivering one standardized financial instrument.

5. The method for trading and clearing a standardized financial instrument of claim 1 further including, if the time period between the trade date and the expiration date cannot be covered by one standardized financial instrument, delivering a series of standardized financial instruments that cover the time period.

CLAIMS

1. A method for trading and clearing a standardized financial instrument comprising:

negotiating a derivative financial instrument in either volatility or variance terms;

electronically determining the realized variance to date on an underlying of that derivative financial instrument on at least one processor; and

after the derivative financial instrument is negotiated and the realized variance to date is determined, delivering at least one centrally-cleared financial instrument with a price that is electronically derived from: (i) the negotiated volatility or variance terms, and (ii) the determined realized variance to date on the underlying of that derivative financial instrument;

whereby a financial instrument negotiated in either volatility or variance terms can be substituted with an equivalent position in a standardized, centrally-cleared financial instrument.

2. The method for trading and clearing a standardized financial instrument of claim 1 further including electronically determining on at least one processor a payoff from the volatility or variance on the underlying of the derivative financial instrument.

3. The method for trading and clearing a standardized financial instrument of claim 2 further including utilizing at least one processor to electronically deliver at least one centrally-cleared financial instrument with a payoff determined from the realized variance over a predetermined time period.

4. The method for trading and clearing a standardized financial instrument of claim 1 further including, if the time period between the trade date and the expiration date can be covered by one standardized financial instrument, delivering one standardized financial instrument.

5. The method for trading and clearing a standardized financial instrument of claim 1 further including, if the time period between the trade date and the expiration date cannot be covered by one standardized financial instrument, delivering a series of standardized financial instruments that cover the time period.