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.

6. The method for trading and clearing a standardized financial instrument of claim 1 further including, if the trade is negotiated in terms of volatility strike, converting the volatility strike into variance points taking into account of the realized variance already accrued to date in the standardized financial instrument.

7. The method for trading and clearing a standardized financial instrument of claim 6 further including, if there is no realized variance accrued on the date of the trade, determining the variance point as the volatility strike squared.

8. The method for trading and clearing a standardized financial instrument of claim 6 further including, if there is realized variance accrued on the date of the trade, determining the variance point in accordance with:

$$\frac{252}{N_x - 1} * \left(volatility\ strike^2 * \frac{(N_x - 1 - n)}{252} + \sum_{i=1}^{n} R_i^2 \right),$$

where

$R_1, \ldots, R_n$ are the n periods of return already realized; and

N_x is the total number of business days in the accrual period of the standardized financial instrument.

9. The method for trading and clearing a standardized financial instrument of claim 1 further including, if the trade is negotiated in terms of notional Vega, converting the notional Vega into variance units in accordance with:

$$\frac{Dollar\ Vega}{2\ volatility\ strike * 100} * \frac{N_x - 1}{N_x - 1 - n},$$

where N_x is the total number of business days in the accrual period of the standardized financial instrument, and n is the number of periods of return already realized.

10. The method for trading and clearing a standardized financial instrument of claim 1 further including determining final settlement price (F_T) in accordance with:

$$F_T = Realized\ Variance - k_0 - \sum_{i=0}^{T-1} (F_i - C) \times R_i \times \frac{B_{i,T}}{365} + C$$

where,

k_0 is a variance strike;

R_i the Effective Federal Funds rate on day t;

$B_{i,T}$, accumulation factor, equals $\left(1 + \frac{R_i}{365}\right)\left(1 + \frac{R_{i+1}}{365}\right) \ldots \left(1 + \frac{R_{T-1}}{365}\right)$;

C is a predetermined constant added to the price in order to keep it in a preferred range, for example, non-negative region; and

$i = 0$ is the first day the financial instrument has open interest.

11. The method for trading and clearing a standardized financial instrument of claim 1 further including determining daily settlement price (F_t) in accordance with:

$$F_t = DF(t,T)(k_t - k_0) - ARMVM + C \ ,$$

where

$DF(t,T)$ is the discount factor from time t to maturity T according to the appropriate discount curve;

k is the quoted variance strike to the settlement price; and

$ARMVM$ is so-called accumulated return on modified variation margin.

$$F_T = Realized\ Variance - k_0 - \sum_{t=0}^{T-1}(F_t - C) \times R_t \times \frac{\delta_{t,t}}{365} + C$$

12. The method for trading and clearing a standardized financial instrument of claim 1 further including delivering a volatility or variance-defined, standardized swap.

13. The method for trading and clearing a standardized financial instrument of claim 1 further including delivering a volatility or variance-defined future.

14. The method for trading and clearing a standardized financial instrument of claim 1 further including a price electronically derived from the volatility or variance terms, the realized variance to date on an underlying of that derivative financial instrument, and factors selected from the group comprising the number of days remaining accrual period, number of days into the accrual period, accumulated return on modified variation margin, and combinations thereof.

15. A general-purpose digital computer programmed to carry out a series of steps, the series of steps for creating 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 derived from the volatility or variance terms and the 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.

16. A standardized financial instrument obtained by a process, the process comprising:

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

determining the realized variance to date on an underlying of that derivative financial instrument; 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 derived from the volatility or variance terms and the 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.

17. A standardized financial instrument comprising:

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

means for determining the realized variance to date on an underlying of that derivative financial instrument; and

after the derivative financial instrument is negotiated and the realized variance to date is determined, means for delivering at least one centrally-cleared financial instrument with a price derived from the volatility or variance terms and the 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.

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.

6. The method for trading and clearing a standardized financial instrument of claim 1 further including, if the trade is negotiated in terms of volatility strike, converting the volatility strike into variance points taking into account of the realized variance already accrued to date in the standardized financial instrument.

7. The method for trading and clearing a standardized financial instrument of claim 6 further including, if there is no realized variance accrued on the date of the trade, determining the variance point as the volatility strike squared.

8. The method for trading and clearing a standardized financial instrument of claim 6 further including, if there is realized variance accrued on the date of the trade, determining the variance point in accordance with:

$$\frac{252}{N_s - 1} * \left(volatility\ strike^2 * \frac{(N_s - 1 - n)}{252} + \sum_{i=1}^{n} R_i^2 \right),$$

where

$R_1, \ldots, R_n$ are the n periods of return already realized; and

N_s is the total number of business days in the accrual period of the standardized financial instrument.

9. The method for trading and clearing a standardized financial instrument of claim 1 further including, if the trade is negotiated in terms of notional Vega, converting the notional Vega into variance units in accordance with:

$$\frac{Dollar\ Vega}{2\ volatilty\ strike * 100} * \frac{N_s - 1}{N_s - 1 - n},$$

where N_s is the total number of business days in the accrual period of the standardized financial instrument, and n is the number of periods of return already realized.

10. The method for trading and clearing a standardized financial instrument of claim 1 further including determining final settlement price (F_T) in accordance with:

$$F_T = Realized\ Variance - k_0 - \sum_{t=0}^{T-1} (F_t - C) \times R_t \times \frac{B_{t,T}}{365} + C$$

where,

k_0 is a variance strike;

R_t the Effective Federal Funds rate on day t;

$B_{t,T}$, accumulation factor, equals $\left(1+\frac{R_t}{365}\right)\left(1+\frac{R_{t+1}}{365}\right)\ldots\left(1+\frac{R_{T-1}}{365}\right)$;

C is a predetermined constant added to the price in order to keep it in a preferred range, for example, non-negative region; and

$t=0$ is the first day the financial instrument has open interest.

11. The method for trading and clearing a standardized financial instrument of claim 1 further including determining daily settlement price (F_t) in accordance with:

$F_t = DF(t,T)(k-k_0) - ARMVM + C$,

where

$DF(t,T)$ is the discount factor from time t to maturity T according to the appropriate discount curve;

k is the quoted variance strike to the settlement price; and

$ARMVM$ is so-called accumulated return on modified variation margin.

12. The method for trading and clearing a standardized financial instrument of claim 1 further including delivering a volatility or variance-defined, standardized swap.

13. The method for trading and clearing a standardized financial instrument of claim 1 further including delivering a volatility or variance-defined future.

14. The method for trading and clearing a standardized financial instrument of claim 1 further including a price electronically derived from the volatility or variance terms, the realized variance to date on an underlying of that derivative financial instrument, and factors selected from the group comprising the number of days remaining accrual period, number of days into the accrual period, accumulated return on modified variation margin, and combinations thereof.