What is claimed is:

1. A general-purpose digital computer programmed to carry out a series of steps, the series of steps to electronically clear and settle a flexible-rate financial option comprising:

receiving a premium and a corresponding rate-based strike rate negotiated between two parties;

determining at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate;

based on the at least one discount curve, determining an adjustment factor;

utilizing the adjustment factor to determine an exercise price of an underlying with a standardized coupon at or near the time of expiration;

whereby a financial option with rate-based strike rate and premium terms can be exercised into an underlying position in an equivalent standardized coupon financial instrument with a potentially different fixed rate and an exercise price.

2. The steps of claim 1 further comprising determining at least one forward curve and at least one discount curve consistent with the negotiated coupon.

3. The steps of claim 1 further comprising determining the adjusted price of the 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.

4. The steps of claim 3 further comprising determining the adjusted price of the 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 utilizing:

$$(c_2 - c_1)\sum_{i=1}^{N} \tau_{c,i}\, DF(t, T_{c,i})$$

where,

c_1 is a fixed coupon;

c_2 is a fixed rate for a swap with a fixed rate that matches the option strike rate;

$\tau_{c,i}$ is the year fraction of the accrual period for fixed payments; and

$DF(t, T_{c,i})$ is the discount factor from t to $T_{c,i}$.

5. The steps of claim 3 further comprising determining the adjusted price of the 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 utilizing:

$$(c_2 - c_1)\,\mathbf{DV01} = \textbf{Exercise Price}.$$

where,

c_1 is a fixed coupon;

c_2 is a fixed rate for a swap with a fixed rate that matches the option strike rate; and

DV01 is the sensitivity of a swap with respect to the change in the par swap rate.

6. The steps of claim 1 further comprising determining at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate further comprises using a London InterBank Offered Rate (LIBOR) curve.

7. The steps of claim 1 further comprising determining at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate further comprises using a London InterBank Offered Rate (LIBOR) curve and electronically implying or approximating the at least one discount curve further comprises using an overnight indexed swap (OIS) curve.

8. The steps of claim 1 further wherein the step of determining an adjustment factor further comprises determining an adjustment factor for a forward-starting swap.

9. The steps of claim 1 further comprising utilizing the adjustment factor to determine an exercise price of an underlying with a standardized coupon at expiration.

10. The steps of claim 1 further comprising utilizing the adjustment factor to determine a price of an underlying with a standardized coupon near expiration.

11. The steps of claim 1 further wherein the financial option is exchanged traded.

12. The steps of claim 1 further wherein the financial option is over-the-counter.

13. The steps of claim 1 further comprising determining comprises implying, approximating, calculating, and combinations thereof.

14. The steps of claim 1 further including selecting the general-purpose digital computer from the group comprising one processor, more than one processor, and combinations thereof.

15. A general-purpose digital computer programmed to carry out a series of steps, the series of steps to electronically clear and settle a flexible-rate financial option comprising:

receiving a premium and a corresponding rate-based strike rate negotiated between two parties;

determining at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate;

based on the at least one discount curve, determining an adjustment factor;

utilizing the adjustment factor to determine an exercise price of an underlying with a standardized coupon at or near the time of expiration;

whereby a financial option with rate-based strike rate and premium terms can be exercised into an underlying position in an equivalent standardized coupon financial instrument with a potentially different fixed rate and an exercise price.

16. The steps of claim 15 further comprising determining the adjusted price of the underlying with a standardized coupon as the net present value of 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.

17. The steps of claim 15 further wherein the step of determining an adjustment factor further comprises determining an adjustment factor for a forward-starting swap.

18. The steps of claim 15 further comprising utilizing the adjustment factor to determine an exercise price of an underlying with a standardized coupon at expiration.

19. The steps of claim 15 further comprising utilizing the adjustment factor to determine an exercise price of an underlying with a standardized coupon near expiration.

20. A computer program product, comprising a computer usable medium having a computer readable program code embodied therein, the computer readable program code adapted to be executed to implement a method for clearing and settling a flexible-rate financial option, the method comprising:

receiving a premium and a corresponding rate-based strike rate negotiated between two parties;

determining at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate;

based on the at least one discount curve, determining an adjustment factor;

utilizing the adjustment factor to determine an exercise price of an underlying with a standardized coupon at or near the time of expiration;

whereby a financial option with rate-based strike rate and premium terms can be exercised into an underlying position in an equivalent standardized coupon financial instrument with a potentially different fixed rate and an exercise price.

21. The method of claim 20 further comprising determining at least one forward curve and at least one discount curve consistent with the negotiated coupon.

22. The method of claim 20 further comprising determining the adjusted price of the underlying with a standardized coupon as the net present value of the difference between the fixed rate of the underlying and the option strike rate, at or near the time of option exercise.

What is claimed is:

1. A general-purpose digital computer programmed to carry out a series of steps, the series of steps to electronically clear and settle a flexible-rate financial option comprising:

receiving in a memory of a general-purpose digital computer programmed to carry out a series of steps a premium and a corresponding rate-based strike rate negotiated between two parties;

determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps in communication with the memory of a general-purpose digital computer programmed to carry out a series of steps at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate;

based on the at least one discount curve, determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps an adjustment factor;

utilizing the adjustment factor to determine on at least one processor of a general-purpose digital computer programmed to carry out a series of steps an exercise price of an underlying with a standardized coupon at or about the time of expiration;

exercising on at least one processor of a general-purpose digital computer programmed to carry out a series of steps a financial option with rate-based strike rate and premium terms into an underlying position in an equivalent standardized coupon financial instrument with the same terms other than a potentially different fixed rate; and

clearing on at least one processor of a general-purpose digital computer programmed to carry out a series of steps the flexible-rate financial option.

2. The steps of claim 1 further comprising determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps at least one forward curve and at least one discount curve consistent with the negotiated coupon.

3. The steps of claim 1 further comprising determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps the adjusted price of the 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 about the time of option exercise.

4. The steps of claim 3 further comprising determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps the adjusted price of the 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 utilizing:

$$(c_2 - c_1) \sum_{i=1}^{N} \tau_{c,i}\, DF(t, T_{c,i})$$

where,

c_1 is a fixed coupon;

c_2 is a fixed rate for a swap with a fixed rate that matches the option strike rate;

$\tau_{c,i}$ is the year fraction of the accrual period for fixed payments; and

$DF(t, T_{c,i})$ is the discount factor from t to $T_{c,i}$.

5. The steps of claim 3 further comprising determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps the adjusted price of the 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 utilizing:

$$(c_2 - c_1)\, DV01 = \text{Exercise Price}.$$

where,

c_1 is a fixed coupon;

c_2 is a fixed rate for a swap with a fixed rate that matches the option strike rate; and

DV01 is the sensitivity of a swap with respect to the change in the par swap rate.

6. The steps of claim 1 further comprising determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate further comprises using a London InterBank Offered Rate (LIBOR) curve.

7. The steps of claim 1 further comprising determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate further comprises using a London InterBank Offered Rate (LIBOR) curve and electronically implying or approximating the at least one discount curve further comprises using an overnight indexed swap (OIS) curve.

8. The steps of claim 1 further wherein the step of determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps an adjustment factor further comprises determining on at least one processor an adjustment factor for a forward-starting swap.

9. The steps of claim 1 further comprising utilizing the adjustment factor in determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps an exercise price of an underlying with a standardized coupon at expiration.

10. The steps of claim 1 further comprising exchange trading the financial option.

11. The steps of claim 1 further comprising over the counter trading the financial option.

12. The steps of claim 1 further comprising determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps comprises implying, approximating, calculating, and combinations thereof.

13. The steps of claim 1 further including selecting the general-purpose digital computer from the group comprising one processor, more than one processor, and combinations thereof.

14. A general-purpose digital computer programmed to carry out a series of steps, the series of steps to electronically clear and settle a flexible-rate financial option comprising:

receiving in a memory of a general-purpose digital computer programmed to carry out a series of steps a premium and a corresponding rate-based strike rate negotiated between two parties;

determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps in communication with the memory at least one discount curve consistent with the negotiated premium and corresponding rate-based strike rate;

based on the at least one discount curve, determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps an adjustment factor;

utilizing the adjustment factor to determine on at least one processor of a general-purpose digital computer programmed to carry out a series of steps an exercise price of an underlying with a standardized coupon at or about the time of expiration;

exercising on at least one processor of a general-purpose digital computer programmed to carry out a series of steps a financial option with rate-based strike rate and premium terms into an underlying position in an equivalent standardized coupon financial instrument with the same terms other than a potentially different fixed rate; and

settling on at least one processor the flexible-rate financial option of a general-purpose digital computer programmed to carry out a series of steps the flexible-rate financial option.

15. The steps of claim 14 further comprising determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps the adjusted price of the underlying with a standardized coupon as the net present value of the present value difference between the delivered financial instrument with a fixed rate and a swap with the strike rate, at or about the time of option exercise.

16. The steps of claim 14 further wherein the step of determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps an adjustment factor further comprises determining an adjustment factor for a forward-starting swap.

17. The steps of claim 14 further comprising utilizing the adjustment factor in determining on at least one processor of a general-purpose digital computer programmed to carry out a series of steps an exercise price of an underlying with a standardized coupon at expiration.