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(54) Title: RATE-NEGOTIATED, STANDARDIZED-COUPON FINANCIAL INSTRUMENT AND METHOD OF TRADING

(57) Abstract: In accordance with the principles of the present invention, a rate-negotiated, standardized-coupon financial instrument and method of trading are provided. A coupon is negotiated between two parties. At least one forward curve and a discount curve are implied or approximated to be consistent with the negotiated coupon. A consistent value for a swap with a different coupon is determined. The consistent value can comprise the net present value (NPV) of the interest rate swap written as the difference between the present values of two interest payment legs. In the case of a vanilla swap the two legs correspond to fixed coupon payments and floating coupon payments. In the case of a basis swap, one leg is the floating coupon payments with a reference rate plus a fixed coupon, and the other leg is floating coupon payments with a different reference rate. The rate-negotiated, standardized-coupon financial instrument of the present invention provides for a financial instrument negotiated in rate terms to be substituted with an equivalent position in an instrument with a different coupon rate, at an adjusted price.