



Clearing houses: safety and integrity for the financial markets

This is how clearing works!

Participants on the financial market are exposed to a variety of risks. One of those risks is default risk: the risk that a buyer will not receive their goods or securities, or a seller will not receive their money, once a trade has been completed. Financial market transactions are usually of such a size that defaults of this kind can have a major impact on the wider market. Clearing houses – also called central counterparties (CCPs) – exist to minimise this risk for trading participants individually and for the market as a whole.

How a clearing system works

A clearing house (CCP) nets the trading positions of buyers and sellers. In its capacity as CCP, it acts as buyer to each seller and as seller to each buyer. All market participants post collateral (margin) with the clearing house. Thus, the counterparty risk on the receivables is always minimised, and market integrity and stability increase. Clearing houses therefore work like a kind of insurance that then comes into effect if one of the two parties is unable to fulfil their part of the contract.

If a market participant wishes to use the services of a CCP, they become a member of that clearing house: they must fulfil certain admission requirements and post adequate collateral (margin) for their outstanding exposures. Clearing members include banks, for example.

Clearing houses minimise risks

In recent years, political decision-makers and regulatory authorities have seen ever more clearly that clearing houses make a central contribution to strengthening financial market stability. They are quite literally at the centre of market activity. As independent risk managers, they ensure that their clearing members' exposures receive a neutral valuation and request appropriate collateral from them at current market prices. Thus, clearing houses act as a buffer if a member defaults – protecting members that are not in default. This prevents domino effects and reduces systemic risks.

Eurex Clearing – the clearing house of Deutsche Börse Group

Eurex Clearing is a clearing house authorised in Germany and supervised by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, German Federal Financial Supervisory Authority) in accordance with the European Market Infrastructure Regulation (EMIR). Eurex Clearing is also recognised as a designated clearing organisation by the Commodity Futures Trading Commission.

As one of the world's leading clearing houses, Eurex Clearing AG ensures market safety and integrity: it is constantly working on innovations in risk management and new clearing technologies.

Eurex Clearing offers clearing services for the widest range of products under a single European framework – for products traded both on-exchange and off-exchange (over-the-counter, OTC) – and accepts the world's broadest spectrum of eligible collateral.

Over-the-counter (OTC) market

An over-the-counter market does not have a fixed location or fixed trading hours. Prices are negotiated freely on this market. Transactions take place outside the jurisdiction of an exchange or another regulated trading platform. However, they are subject to the statutory provisions governing securities trading.

Deutsche Börse Group – we make markets work

Headquartered in Frankfurt/Main, Deutsche Börse Group is one of the largest exchange organisations worldwide. It operates markets that provide integrity, transparency and security for investors wishing to invest capital and for issuers wishing to raise capital. On these markets, institutional traders buy and sell shares, derivatives and other financial instruments in accordance with clear rules and under strict supervision.

Deutsche Börse Group is now more than just a trading venue or exchange – it is a provider of financial market infrastructure. Its products and services span the entire finance value chain – its business areas range from pre-IPO services and the admission of securities, through trading, clearing, settlement and custody of securities and other financial instruments to collateral management. It also offers IT services, indices and market data worldwide.

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