Clearinghouse

Return to Glossary

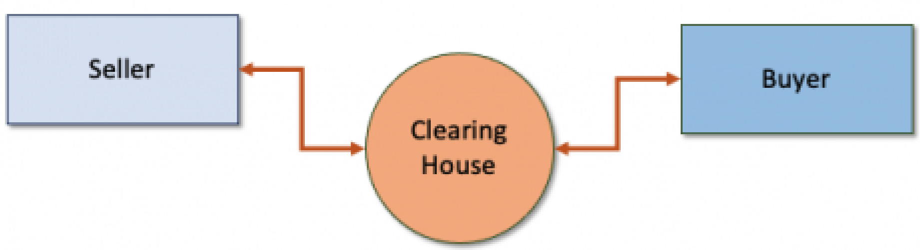
Clearinghouse is a designated intermediary between a buyer and seller in a Financial Market. The **Clearinghouse** validates and finalizes the transaction, ensuring that both the buyer and the seller honor their contractual obligations.

Every Financial Market has a designated **Clearinghouse** or an internal clearing division to handle this function.

The responsibilities of a **Clearinghouse** include “clearing” or finalizing trades, settling trading accounts, collecting margin payments, regulating delivery of the assets to their new owners, and reporting trading data.

The **Clearinghouse** enters the picture after a buyer and a seller execute a trade. Its role is to accomplish the steps that finalize, and therefore validate, the transaction. In acting as a middleman, the clearinghouse provides the security and efficiency that is integral to stability in a financial market.

In order to act efficiently, a **Clearinghouse** takes the opposite position of each trade, which greatly reduces the cost and risk of settling multiple transactions among multiple parties. While their mandate is to reduce risk, the fact that they have to act as both buyer and seller at the inception of a trade means that they are subject to default risk from both parties. To mitigate this, clearinghouses impose margin requirements.



<caption>The relationship between a buyer, a seller and a Clearinghouse.</caption

Source: https://www.investopedia.com/terms/c/clearinghouse.asp