HMRC - STSM125030 - Clearing House

A clearing house is an organisation, appointed by an exchange, to provide both clearing and settlement services for securities transactions. The clearing house acts as a ‘middleman’ or ‘central counterparty’, matching and guaranteeing the performance of securities ordered and placed by buyers and sellers on an electronic share trading system, i.e. the LSE SETS system. Member of an exchange must use the clearing house appointed by the exchange.

Trading is carried out through members of the clearing house, either on their own behalf (referred to as proprietary trading) or on behalf of a client. The clearing house acts as an intermediary for the trades. So, for any purchase by a client of a member, the member will have an equal and off-setting purchase contract with the clearing house which will in turn have an equal and off-setting purchase contract with another member who represents the seller.

Recognised Clearing Houses:

In order to provide the services of a clearing house in the UK, it is necessary to be designated as a Recognised Clearing House (RCH) or a Recognised Overseas Clearing House (ROCH) by the Financial Conduct Authority (FCA).

In order to be recognised, RCHs must comply with the recognition requirements laid down in the Financial Services and Markets Act 2000. Recognition confers an exemption from the need to be authorised to carry on regulated activities in the UK.

Clearing houses that have been ‘recognised’ by the FCA include:

Euroclear UK & Ireland Limited

European Central Counterparty Ltd

ICE Clear Europe Limited

LCH Clearnet Limited

Recognised overseas clearing houses include:

Eurex Clearing AG

ICE Clear US Limited

SIS x-clear AG

Some exchanges do not use a clearing house and are able to clear their own trades if they recognised by the FCA as a Recognised Investment Exchange (RIE). (See STSM123030).

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