

Primer: Exchange Listed Options Ecosystem

Brokerages Firms, Exchanges, Clearing Members, and Central Counterparty Clearing Houses (CCPs) play a key role in the larger U.S. options ecosystem.

Brokerage Firm

A brokerage firm is a company that acts as a liaison between its customers and other purchasers or sellers of securities. The brokerage firm's primary function is buying and selling financial securities on behalf of its customers, for which the firm generally receives a commission.

Exchange

An exchange is a venue where securities, commodities, derivatives, or other financial instruments are traded. The core functions of an exchange are to match buyers and sellers, and to ensure fair transactions between those buyers and sellers by providing information about recent transaction prices, current bid/ask prices, trading volumes, and other key metrics relevant to the investors.

Clearing Member

A Clearing Member is an entity (generally a financial institution) for which a CCP provides clearing and settlement services. Clearing Members assume financial responsibility for trades and post initial and variation margin to the CCP resulting from their open positions. When acting on behalf of a customer, the Clearing Member collects margin from that customer.

Central Counterparty Clearing House (CCP)

A CCP is a financial institution that takes on and manages counterparty credit risk between parties to a transaction and provides clearing and settlement services for trades, effectively becoming the buyer to every seller and the seller to every buyer.