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Derivatives Blog

A Cross-Border AANA Inconsistency

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Following on the margin theme of our previous post, we thought we might point out one of the stranger inconsistencies between U.S. and non-U.S. uncleared margin rules.

In the U.S., options on single securities and single security indices are generally not considered swaps or security-based swaps and are therefore not subject to the various mandatory margin rules. This means that they don't count towards the average aggregate notional amount ("AANA") calculations that determine whether parties are subject to mandatory initial margin rules. However, under EMIR (EU derivatives regulations), these transactions *are* generally considered in-scope for AANA calculations, even though they're not subject to mandatory margin rules until at least 2024. Put differently, such transactions are not excluded by EMIR in determining whether mandatory initial margin applies to marginable trades between the parties, but they are excluded by both EMIR and U.S. rules from the scope of marginable trades.

This asymmetry is likely to be relevant primarily for heavy users of options — insurance companies, for instance. As an example, an insurance company that maintains a large book of single-security options as a hedge for consumer-facing products in excess of the $8 billion "material swaps exposure" threshold could be "in-scope" for EMIR mandatory initial margin rules but not in scope for U.S. mandatory initial margin rules.

If the insurance company trades a marginable trade (such as a single-name credit default swap) with an EMIR-regulated dealer, that trade would likely be subjected to mandatory initial margin. The same wouldn't necessarily apply to trades with a dealer not subject to non-U.S. regulations.

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