

The Regulation of Binary Options Brokers: A Global Analysis

I. Introduction

A. Context

Binary options, a type of financial instrument characterized by their simple yes/no proposition and fixed payout structure, have garnered significant global attention from traders and regulators alike.¹ However, this apparent simplicity belies considerable risk, and the sector has become notorious for widespread instances of fraud, particularly involving unregulated online trading platforms operating offshore.³ This has prompted intense regulatory scrutiny worldwide, leading to a complex and often contradictory global landscape where binary options are permitted under strict regulation in some jurisdictions while being outright banned, especially for retail investors, in many others.⁶

B. Report Objective

This report provides an expert-level analysis of the regulatory environment surrounding binary options brokers globally. It aims to clarify the often-confusing status of these instruments by:

1. Defining binary options and explaining their operational mechanics.
2. Mapping the general global regulatory landscape, noting regions with permissions, bans, or heavy restrictions.
3. Examining the specific stances and rules of key financial regulatory authorities in major markets, including the United States (US), United Kingdom (UK), European Union (EU), and Australia.
4. Comparing and contrasting the diverse regulatory approaches across different jurisdictions.
5. Detailing the significant risks associated with binary options trading, with a particular focus on issues related to unregulated brokers.
6. Outlining methods for individuals to verify whether a binary options broker is licensed and regulated by a recognized financial authority.
7. Summarizing the common standards and requirements imposed on brokers in jurisdictions where binary options trading is permitted under regulation.

C. Scope and Audience

The scope of this analysis is global, concentrating on major financial markets to provide a comprehensive overview of the prevailing regulatory trends and divergences. The report is intended for an audience requiring a deep, nuanced understanding of the regulatory complexities, risks, and legal status of binary options trading, such as potential investors evaluating opportunities, financial professionals advising clients, compliance officers ensuring adherence to regulations, legal experts navigating jurisdictional differences, and researchers studying financial market regulation.

related posts : [Best Binary Options Brokers \(in 2025\)](#)

II. Understanding Binary Options

A. Definition and Core Concept

A binary option is a financial derivative contract whose payoff depends entirely on the outcome of a simple "yes or no" proposition regarding the price movement of an underlying asset.¹ The proposition typically relates to whether the price of an asset (such as a currency pair, stock index, commodity, or individual stock) will be above or below a specific price (the strike price) at a predetermined future time (the expiration time).⁸

The term "binary" refers to the two possible outcomes at expiration:

1. If the trader's prediction about the price movement is correct, the option expires "in the money," and the trader receives a fixed, predetermined payout.¹
2. If the trader's prediction is incorrect, the option expires "out of the money," and the trader loses the entire amount invested (the premium paid for the option).⁸

This "all-or-nothing" characteristic is fundamental.³ Importantly, when trading binary options, participants are merely speculating on the price movement of the underlying asset; they do not gain any ownership rights or obligations related to the asset itself, unlike traditional stock trading or certain other types of options.³ This detachment from traditional ownership models is a key factor influencing how regulators view and classify these instruments, often distinguishing them from conventional investments and placing them under specific regulatory frameworks or even categorizing them alongside gaming contracts. Underlying assets can span a wide range, including foreign exchange (forex) currency pairs, stock indices (like the S&P 500), individual stocks, commodities (like gold or oil), and even the outcomes of specific economic events (e.g., jobless claims figures).⁸

B. Mechanics of Trading

The process of trading a binary option typically involves several steps¹⁰:

1. **Asset Selection:** Choosing the underlying asset to trade (e.g., EUR/USD currency pair, Apple stock).
2. **Prediction:** Forecasting whether the asset's price will be above (requiring a "Call" or "Up" option purchase) or below (requiring a "Put" or "Down" option purchase) the strike price at expiration.
3. **Expiration Time Selection:** Choosing the contract's duration, which can vary significantly from extremely short-term (e.g., 60 seconds, 5 minutes, hourly) to daily or weekly expirations.¹⁰
4. **Investment Amount:** Determining the amount of capital to risk on the trade (the premium).

Binary options, particularly those traded on regulated exchanges like Nadex in the US,

are typically priced between \$0 and \$100.¹⁰ The price fluctuates based on the market's perception of the probability of the option expiring in the money.¹

- **Buying:** A trader who believes the proposition will be true (e.g., price will be *above* the strike) buys the option, paying the current offer price. If correct at expiration, the option settles at \$100, and the profit is \$100 minus the purchase price (less fees). If incorrect, the option settles at \$0, and the loss is the purchase price plus fees.¹⁰
- **Selling:** A trader who believes the proposition will be false (e.g., price will be *at or below* the strike) sells the option. On exchanges like Nadex, this involves putting up collateral equal to \$100 minus the sale price. If correct at expiration, the option settles at \$0, the seller keeps the initial premium received (or their collateral is returned plus the premium), effectively profiting the sale price (less fees). If incorrect, the option settles at \$100, and the seller loses their collateral, resulting in a loss equal to \$100 minus the sale price (plus fees).¹⁰

For example, consider a binary option on EUR/USD > 1.2425 expiring on Friday, quoted at 49.00 (bid) / 55.00 (offer). A buyer pays \$55 per contract. If EUR/USD is above 1.2425 at expiration, the buyer receives \$100, profiting \$45 (82% return). If below, the buyer loses the \$55 (100% loss).¹⁴ A seller of the same option at 60.00 (bid) / 66.00 (offer) for EUR/USD > 1.2375 would sell at 60.00, collateralizing \$40 (\$100 - \$60). If EUR/USD closes below 1.2375, the seller profits \$60 (150% return on collateral). If above, the seller loses the \$40 collateral (100% loss).¹⁴

While the core concept is High/Low (or Call/Put), other variations exist, such as One-Touch (payout if price touches a level once), No-Touch, Range/Boundary (payout if price stays within or breaks out of a range), Ladder (multiple strike prices), and Pairs (relative performance of two assets).¹³ Some regulated platforms, like Nadex, allow traders to close positions before expiration to lock in smaller profits or cut losses, though this is not universal.¹⁰

C. Key Characteristics and Risk Profile

Several key characteristics define binary options and contribute to their risk profile:

- **Defined Risk and Reward:** A primary appeal is that the maximum potential profit and maximum potential loss are known before entering the trade.¹⁰ Risk is typically capped at the premium paid (for buyers) or the collateral posted (for sellers on exchanges).¹⁰
- **Highly Speculative Nature:** The all-or-nothing outcome, coupled with often very short expiration times, makes binary options highly speculative.¹³ Many regulators and commentators compare trading them to gambling rather than traditional

investing, noting the difficulty of consistently predicting short-term price fluctuations and the potential for addictive behavior.³ The UK's Financial Conduct Authority (FCA) explicitly labeled them "gambling products dressed up as financial instruments".¹⁷

- **Negative Expected Return:** The payout structure often creates a statistical disadvantage for the retail trader. For a contract to be profitable over time, the trader typically needs a win rate significantly above 50%, especially if the premium paid is close to \$50.⁵ The design often means the potential payout on a win is less than the amount risked on a loss, contributing to the high aggregate losses observed among retail clients by regulators.³
- **Zero-Sum Game (on Exchanges):** On regulated exchanges where buyers are matched with sellers, binary options function as a zero-sum game before transaction costs. For every \$100 payout received by a winner, that \$100 is lost by the counterparty.¹⁰ This differs from potentially positive-sum activities like investing in productive assets.

The apparent simplicity of the "yes/no" question and fixed payout structure is often highlighted as a key attraction, particularly for newcomers to trading.⁸ However, this simplicity can be deceptive. It masks the significant probabilistic challenges involved in accurately predicting short-term market movements, especially within the very brief timeframes offered by many binary options contracts.¹⁵ Furthermore, the inherent mathematical structure, often offering payouts that represent less than a 1:1 risk/reward ratio when probabilities are near even, contributes significantly to the documented tendency for most retail clients to lose money over time.³ This structural characteristic, combined with the potential for behavioral biases encouraged by the gambling-like nature, underpins the deep concerns expressed by financial regulators worldwide.

III. The Global Regulatory Landscape

A. Overview

The regulatory treatment of binary options brokers varies dramatically across the globe, creating a fragmented and often confusing environment for traders and the industry.² There is no single, uniform international approach. Instead, national and regional regulators have adopted diverse strategies, ranging from permitting binary options trading under strict regulatory frameworks in some countries, to imposing outright bans on their sale to retail clients in many major markets, while other regions lack specific regulations altogether.³ This patchwork reflects differing regulatory philosophies, experiences with market abuse, and assessments of the product's suitability for different types of investors.

B. Jurisdictions with Bans or Heavy Restrictions (Retail Focus)

A significant number of major economies have prohibited the sale, marketing, and distribution

of binary options to retail clients, primarily citing investor protection concerns:

- **European Union (EU):** Following temporary EU-wide restrictions initiated by the European Securities and Markets Authority (ESMA) in July 2018⁶, permanent bans for retail clients were implemented by national competent authorities (NCAs) across the bloc under MiFIR Article 42 powers around mid-2019.¹⁶ Key countries like France, Germany, Ireland, the Netherlands, Poland, and others adopted these national measures.² While professional traders might still access these products under specific conditions, retail access is effectively prohibited.⁶
- **United Kingdom (UK):** The Financial Conduct Authority (FCA) imposed a permanent ban on the sale, marketing, and distribution of binary options to retail consumers effective April 2, 2019.¹⁶ This ban is comprehensive, explicitly including 'securitised binary options' which had been initially excluded from ESMA's temporary measures.¹⁷
- **Australia:** The Australian Securities and Investments Commission (ASIC) banned the issue and distribution of binary options to retail clients from May 3, 2021.³ Citing significant retail client losses, ASIC later extended this ban until October 1, 2031.¹⁹
- **Canada:** While federal regulation is complex, provincial securities regulators, coordinated through the Canadian Securities Administrators (CSA), have effectively banned binary options for retail investors.² Some provinces have explicitly prohibited their advertising, offering, selling, and trading due to the extremely high potential for fraud.³ Warnings about unregulated brokers are common.²
- **Israel:** Once a major hub for the binary options industry, Israel banned the marketing and distribution of these products domestically in March 2016 due to rampant scams.²⁹ This was followed by a ban on the international marketing of binary options by Israeli firms in October 2017.²⁹ The Israel Securities Authority (ISA) remains active in warning against platforms illegally targeting Israeli residents.²⁹
- **New Zealand:** The situation appears somewhat mixed based on available information. While some sources indicate specific brokers like Banc De Binary were banned from accepting New Zealand customers³¹, others suggest binary options trading is legal and regulated by the Financial Markets Authority (FMA).² This could imply a generally regulated environment but with potential actions taken against specific non-compliant providers or past issues leading to restrictions.

C. Jurisdictions Permitting Regulated Trading

In contrast to the widespread bans, some countries permit binary options trading, but

typically only under strict regulation and often through specific types of venues:

- **United States (US):** Binary options are legal to trade in the US, but *only* if they are listed and traded on exchanges designated and regulated by the Commodity Futures Trading Commission (CFTC) or, if classified as securities, by the Securities and Exchange Commission (SEC).⁶ Trading through unregulated, often offshore, platforms is illegal for US residents.⁴
- **Japan:** Binary options trading is legal and operates within a well-regulated framework overseen by the Financial Services Agency (FSA) and the Financial Futures Association of Japan (FFAJ).² These bodies impose strict guidelines on brokers to ensure transparency and trader protection.²
- **Singapore:** Trading is legal and regulated by the Monetary Authority of Singapore (MAS), which provides comprehensive regulatory oversight.²
- **South Africa:** Binary options are legal and fall under the regulation of the Financial Sector Conduct Authority (FSCA), which aims to maintain market integrity and protect traders.²

D. Unregulated Environments and Offshore Centers

A significant portion of the binary options market, particularly that targeting retail clients globally, operates through brokers based in jurisdictions with minimal or no specific financial regulation covering these products.⁷ These offshore brokers often solicit clients illegally in regulated countries where binary options are banned or restricted.⁴ Operating from such locations allows entities to avoid stringent regulatory requirements, capital adequacy rules, client protection measures, and oversight, significantly increasing the risk of fraud and malpractice.⁷ While specific locations are numerous, past hubs have included Cyprus (which later faced regulatory pressure³⁷) and various island nations; Costa Rica was mentioned as the registration location for one platform warned against by Israeli authorities.²⁹ The activities of these unregulated entities pose a persistent challenge to regulators worldwide.

E. Emerging Patterns and Implications

The global regulatory map reveals a clear and accelerating trend towards prohibiting or severely restricting binary options for retail clients in most major developed economies.³ The coordinated timing of bans across the EU, UK, and Australia, all citing similar justifications related to investor harm and high documented loss rates, points to a shared negative assessment of the product's suitability for this market segment. These actions cover a substantial portion of the potential global retail trading population.

This near-consensus contrasts sharply with the approach in jurisdictions like the US and Japan, which permit regulated trading.² This divergence creates a complex international picture where the legality and safety of trading binary options depend heavily on the trader's location, the specific platform used, and whether that platform adheres to stringent local regulations. It underscores that a simple "yes" or "no" answer regarding the legality of binary options is insufficient without specifying the jurisdiction, client type (retail vs. professional), and the regulatory status of the broker

involved.

Furthermore, the regulatory clampdown in major financial centers has significant implications for the behavior of fraudulent operators. As legitimate avenues close in lucrative markets like the EU, UK, and Australia ¹⁷, unscrupulous providers are likely pushed further into unregulated offshore jurisdictions or may attempt to rebrand their offerings while continuing to target vulnerable investors illegally from these locations.⁴ The Israeli experience, where firms focused on selling abroad after domestic bans ²⁹, exemplifies this shift. This creates an ongoing enforcement challenge for regulators in banned jurisdictions, shifting the focus from overseeing a (now prohibited) product to actively combating illicit offshore platforms targeting their residents. This necessitates continued vigilance, public warnings, and potentially enhanced cross-border cooperation among regulatory bodies.

IV. Regulatory Deep Dive: Key Jurisdictions

A. United States (CFTC & SEC)

The US maintains a unique regulatory stance, permitting binary options trading but only within a highly restricted and regulated environment.

- **Legal Status and Regulatory Framework:** Binary options are legal in the US *if* they are traded on exchanges registered with and regulated by either the Commodity Futures Trading Commission (CFTC) or the Securities and Exchange Commission (SEC).⁶ The applicable regulator depends on the underlying asset. The CFTC oversees binary options based on commodities (including foreign currencies, metals like gold, agricultural products) and certain event contracts.⁶ The SEC's jurisdiction applies if the binary option is based on a security (like a stock) or if the trading platform functions as an unregistered securities exchange or broker-dealer.⁵ The SEC has explicitly stated in court filings that certain binary options qualify as "securities" subject to its regulation.³⁷
- **Designated Contract Markets (DCMs):** For commodity-based binary options, trading must occur on a CFTC-designated contract market (DCM).³² Currently, only three DCMs are authorized by the CFTC to offer binary options: Nadex (North American Derivatives Exchange, Inc.), Cantor Exchange LP, and the Chicago Mercantile Exchange, Inc. (CME), which offers similarly structured event contracts.¹⁴ Any other platform offering commodity binary options to US residents is operating illegally.³²
- **Prohibition of Unregistered Activity:** A cornerstone of the US approach is the strict prohibition against unregistered entities soliciting US customers. It is illegal for any platform not registered with the CFTC or SEC (as appropriate) to offer or sell binary options to US residents.⁴ Despite this, regulators acknowledge that

much of the binary options activity involving US persons occurs through non-compliant, often offshore, internet-based platforms.⁵

- **Enforcement and Investor Warnings:** Both the CFTC and SEC, often in coordination with the FBI, actively warn the public about the high risks of fraud associated with binary options, particularly those offered by unregulated platforms.⁴ Common fraudulent practices highlighted include refusing to credit customer accounts or process withdrawals, manipulating trading software to generate losses, and identity theft through excessive personal data collection.³ The CFTC maintains a Registration Deficient List (RED List) identifying foreign entities believed to be illegally soliciting US residents.⁴ Both agencies pursue enforcement actions against fraudulent operators, seeking penalties and restitution.³

B. United Kingdom (FCA)

The UK has adopted one of the strictest stances globally against binary options for retail investors.

- **Permanent Retail Ban:** The Financial Conduct Authority (FCA) implemented a permanent ban prohibiting firms from selling, marketing, or distributing binary options to retail consumers, effective April 2, 2019.¹⁶
- **Comprehensive Scope:** The ban applies to all firms conducting these activities *in or from* the UK, including EEA firms operating under post-Brexit temporary regimes.¹⁷ Crucially, the FCA's ban is broader than ESMA's initial temporary measures, as it explicitly includes 'securitised binary options' (those listed on trading venues with prospectuses), which the FCA deemed to pose similar risks to retail investors.¹⁷
- **Rationale for Ban:** The FCA's decision was driven by significant investor protection concerns arising from the product's inherent risks, complexity masked by simplicity, lack of transparency, aggressive marketing tactics employed by some firms, and the high potential for large, unexpected losses.¹⁷ The FCA likened binary options to gambling products and estimated the ban could save retail consumers up to £17 million annually.¹⁷
- **Enforcement and Warnings:** The FCA actively investigates and prosecutes individuals and firms involved in binary options fraud targeting UK residents.³⁰ The regulator explicitly warns consumers that any firm currently offering binary options services to retail clients in the UK is likely operating a scam.¹⁷ Firms previously authorized to offer binary options to retail clients were required to apply to vary their permissions to remove this activity or restrict it to professional clients only.²⁴

C. European Union (ESMA & National Regulators)

The EU approach evolved from temporary EU-wide measures to permanent national prohibitions.

- **ESMA's Temporary Intervention:** Responding to widespread investor protection concerns across the EU, ESMA used its product intervention powers under MiFIR Article 40 to impose temporary prohibitions on the marketing, distribution, and sale of binary options to retail clients, starting July 2, 2018.⁶ These temporary measures were renewed several times.²²
- **Permanent National Bans:** As ESMA's temporary powers have limitations on duration, national competent authorities (NCAs) in individual EU member states took action under MiFIR Article 42 to implement permanent national bans, effectively replacing the ESMA measures as they expired around July 2019.¹⁶ Regulators such as the Central Bank of Ireland²¹, France's Autorité des Marchés Financiers (AMF)²³, and authorities in Germany, the Netherlands, and many other member states¹⁶ adopted these permanent restrictions.
- **Scope and Rationale:** The national bans generally mirrored the scope of ESMA's measures, prohibiting the offering of binary options to retail clients.²¹ The rationale remained consistent: addressing significant investor protection concerns arising from the product's complexity, high risk of loss, misleading marketing, and inherent structural disadvantages for retail investors.²¹ Some national measures might contain very narrow exemptions for specific structures, such as fully principal-protected options with long durations and approved prospectuses, though the general prohibition is robust.²¹

D. Australia (ASIC)

Australia aligns with the UK and EU in prohibiting binary options for retail clients.

- **Retail Ban Implementation:** ASIC utilized its product intervention powers to ban the issue and distribution of binary options to retail clients, effective May 3, 2021.³
- **Long-Term Extension:** Initially imposed for 18 months²⁷, ASIC subsequently extended the ban significantly until October 1, 2031, ensuring long-term protection for retail investors.¹⁹
- **Evidence-Based Rationale:** ASIC's decision was underpinned by extensive reviews (in 2017 and 2019) and data analysis showing substantial retail client harm.¹⁹ Key findings included that approximately 80% of retail clients lost money trading binary options³, and in the 13 months preceding the ban, retail clients suffered aggregate net losses of A\$14 million.¹⁹ ASIC attributed these losses to inherent product characteristics: the 'all-or-nothing' payout structure, extremely short contract durations (average less than six minutes with one provider), and negative expected returns.³
- **Effectiveness and Alignment:** ASIC considers the ban "fully effective" in

stopping retail client losses from binary options originating in Australia and noted the extension aligns Australia's protections with comparable overseas markets.¹⁹

E. Other Notable Jurisdictions (Brief Summary)

- **Canada:** Effectively banned for retail clients through actions by provincial securities regulators and warnings from the CSA, driven by high fraud concerns.²
- **Israel:** Complete ban on both domestic offering and international marketing by Israeli firms, enacted due to the country's past role as a hub for fraudulent operations.²⁹
- **Japan:** Permitted, but subject to stringent regulation by the FSA and FFAJ, creating a well-controlled market environment.²
- **Singapore:** Permitted and regulated by the MAS.²
- **New Zealand:** Appears to permit regulated trading under the FMA ², although specific enforcement actions against certain brokers have occurred in the past.³¹

F. Comparative Summary of Regulatory Stance

The following table summarizes the regulatory status of binary options for retail clients in key jurisdictions:

Jurisdiction	Regulator(s)	Status for Retail Clients	Key Rules/Notes
United States	CFTC / SEC	Permitted (Highly Restricted)	Must trade on regulated US exchanges (DCMs/SEC-reg); Offshore solicitation illegal; High fraud risk from unregulated platforms.
United Kingdom	FCA	Banned	Permanent ban effective Apr 2019; Includes securitised options; Applies to firms in/from UK.
European Union	ESMA / National NCAs	Banned	Permanent national bans replaced ESMA temporary measures

			(c. July 2019).
Australia	ASIC	Banned	Ban effective May 2021, extended to Oct 2031; Based on high retail losses.
Canada	Provincial Regulators / CSA	Banned (Effectively)	Provincial restrictions/bans; High fraud warnings.
Israel	ISA	Banned	Domestic & international marketing ban.
Japan	FSA / FFAJ	Permitted (Regulated)	Well-regulated environment.
Singapore	MAS	Permitted (Regulated)	Regulated environment.

Table Value Justification: This table directly addresses the user's request for comparison [Query Point 4] and synthesizes the fragmented global landscape detailed throughout Sections III and IV. It provides a quick-reference guide to the core regulatory position in key markets, highlighting the dominant trend of retail bans versus the exceptions where regulated trading is permitted.

G. Analysis of Regulatory Drivers and Divergences

The decisions by regulators in the UK, EU, and Australia to implement outright bans were explicitly driven by empirical evidence of significant harm to retail investors.³ Documented high loss rates (often around 74-80% of clients losing money) and the inherent structural characteristics of the product – its complexity disguised as simplicity, all-or-nothing payouts, short durations fostering gambling-like behavior, and negative expected returns – were consistently cited as justifications for intervention.³ This data-driven approach, based on observed negative outcomes, suggests a conclusion by these regulators that the product itself is fundamentally unsuitable for the retail market segment.

The US regulatory approach presents a notable contrast. While US regulators (CFTC, SEC, FBI) are acutely aware of and actively combat the extreme risks and pervasive fraud associated with *unregulated*, offshore binary options platforms ⁴, they permit trading within the tightly controlled environment of designated, regulated exchanges.³² This suggests a regulatory philosophy that differs from the prohibitionist

stance elsewhere. Instead of banning the product entirely for retail, the US framework aims to mitigate risks by channeling activity onto transparent, supervised platforms, while vigorously pursuing illegal operators outside this perimeter. This might reflect a greater emphasis on maintaining market access and investor choice, provided it occurs within stringent regulatory boundaries, or a belief that the exchange-traded model offers sufficient safeguards not present in the predominantly OTC markets targeted by bans elsewhere.

The permanence of the bans enacted in the UK and EU ¹⁷, along with the lengthy extension of the Australian ban to 2031 ¹⁹, signals a strong and likely enduring policy stance in these jurisdictions. It indicates that these regulators view binary options as fundamentally flawed for retail investors, not merely a temporary market issue requiring corrective measures. This long-term commitment suggests that a reversal of these bans is unlikely in the foreseeable future, solidifying the division between jurisdictions that prohibit retail binary options and those that allow regulated access.

V. Comparative Analysis of Regulatory Approaches

A. Common Driver: Retail Investor Protection

Despite the divergent outcomes (ban vs. regulated access), the primary motivation underpinning regulatory actions across most major jurisdictions is the protection of retail investors.³ Regulators consistently express concerns about the suitability of these complex, high-risk products for non-professional clients, citing factors such as the potential for rapid and significant losses, the often misleading or aggressive marketing practices employed by providers (especially unregulated ones), and the documented evidence that the vast majority of retail clients lose money trading binary options.³ Whether through prohibition or strict regulation, the overarching goal is to shield retail consumers from financial harm associated with these instruments.

B. Key Divergence: Prohibition vs. Regulated Access

The most significant difference in regulatory approaches lies in the choice between outright prohibition for retail clients and permitting access under strict regulation.⁶

- **Prohibition Model (UK, EU, Australia, Canada, Israel):** These jurisdictions have concluded that the inherent risks of binary options are too great for retail investors, or that effective regulation cannot sufficiently mitigate these risks. The decision to ban reflects a judgment that protecting investors requires removing the product entirely from the retail market.⁶
- **Regulated Access Model (US, Japan, Singapore):** These jurisdictions allow retail trading but confine it to highly regulated venues and impose stringent rules on providers.² This approach reflects a different regulatory philosophy: aiming to protect investors *within* a controlled and supervised market environment, rather than protecting them *from* the product itself by banning access.

This fundamental divergence highlights differing assessments of the product's manageability and perhaps differing views on the balance between investor protection and investor choice/market access. The widespread adoption of retail bans across multiple major, independent regulatory regimes (UK, EU members, Australia, Canada) suggests a growing international consensus, particularly in developed markets outside the US and parts of Asia, that the risks associated with binary options for non-professional investors are unacceptably high and outweigh potential benefits, or that adequate protection cannot be guaranteed even within a regulated framework.

C. Scope Variations

Even among jurisdictions that have imposed bans, minor variations in scope can exist. For instance, the UK's FCA deliberately included securitised binary options within its permanent retail ban, whereas ESMA's initial temporary EU-wide measures had excluded them.¹⁷ This demonstrates that national regulators may fine-tune the scope of their interventions based on their specific market assessments and concerns. Similarly, while national bans in the EU largely follow ESMA's lead, specific exemptions for certain complex, longer-term, or principal-protected structures might technically exist in some national rules, although the overarching intent remains prohibitive for typical retail binary options.²¹

D. Regulatory Trend

The clear trajectory over the past decade has been towards increased regulatory scrutiny and restriction of binary options, particularly for retail clients. The wave of bans implemented since 2018 in major markets represents a significant tightening compared to the earlier period when online binary options platforms proliferated with often minimal oversight.

The US exception to the trend of outright retail bans might be influenced by several factors. The historical development of binary options trading in the US occurred more significantly through established, regulated exchanges (initially Cboe, now Nadex, Cantor, CME) compared to the predominantly online, OTC model that flourished, often with poor conduct, in Europe and elsewhere.¹⁶ This existing exchange infrastructure may have provided regulators with greater confidence in their ability to supervise the product within defined boundaries. Furthermore, the heavy regulatory focus in the US on combating *unregistered* and *offshore* fraud⁴ suggests that the primary perceived threat is the illicit market operating outside the regulatory perimeter, rather than the exchange-traded product itself. This framing contrasts with the perspective in banning jurisdictions, which appears to view the product's inherent characteristics as fundamentally problematic for retail investors, regardless of the trading venue.

VI. Significant Risks in Binary Options Trading

Binary options trading carries substantial risks, stemming both from the nature of the product itself and, critically, from the conduct of the platforms offering them,

especially those operating without regulation.

A. Inherent Product Risks

Even when traded on legitimate, regulated platforms, binary options possess characteristics that make them inherently risky for investors:

- **Potential for Rapid and Total Loss:** The all-or-nothing payout structure combined with short expiration times means traders can lose their entire investment very quickly.³ A small adverse price movement near expiration can turn a potential win into a total loss.
- **Negative Expected Returns:** As previously discussed, the typical payout structure (where the potential profit on a win is often less than the amount risked) creates a statistical disadvantage over time. This means a trader needs to be correct significantly more often than not just to break even, before considering fees.³ This is a key reason why regulatory bodies found such high percentages (74-80%) of retail clients losing money.³
- **Complexity Masked by Simplicity:** The simple "yes/no" proposition is appealing but misleading. Accurately and consistently predicting short-term price movements is extremely difficult, even for experienced professionals, let alone retail traders.¹⁵ Factors like market volatility, timing, and trend strength require sophisticated analysis.⁸
- **Gambling Comparison and Behavioral Risks:** The structure and rapid feedback loop closely resemble gambling, leading many regulators and observers to classify it as such.³ This can encourage impulsive trading, chasing losses, and addictive behaviors, further exacerbating financial risks.¹⁸

B. Risks Associated with Unregulated Brokers/Platforms

The risks associated with binary options are magnified exponentially when dealing with unregulated brokers, which often operate offshore specifically to evade regulatory oversight. These platforms are frequently associated with outright fraud and malpractice:

- **Fraudulent Practices:** Regulatory agencies like the CFTC, SEC, and FBI have issued numerous warnings detailing common scams perpetrated by unregulated binary options platforms.³ These include:
 - **Refusal to Credit Accounts or Reimburse Funds:** Platforms accept deposits but then block or ignore withdrawal requests, effectively stealing client money.³
 - **Manipulation of Trading Software:** Rigging the platform to ensure client losses by distorting prices, altering payout rates, or manipulating the expiration time of trades (e.g., extending a winning trade until it becomes a loss).³
 - **Identity Theft:** Collecting excessive personal documentation (credit card

copies, passports, utility bills) beyond legitimate Know Your Customer (KYC) needs, potentially for identity theft or other illicit purposes.³

- **Lack of Investor Protection and Recourse:** Clients trading with unregulated brokers have virtually no legal or regulatory recourse if they are defrauded or face unfair practices. These entities operate outside the jurisdiction and oversight of the client's home regulator, making recovery of funds extremely difficult, if not impossible.⁷
- **Misleading Marketing and False Promises:** Unregulated platforms often use aggressive marketing tactics, promising unrealistic high returns with little or no risk, or claiming to possess secret trading strategies or signals.⁵ They may overstate average returns, ignoring the negative expected value inherent in the product.⁵
- **Illegal Operations:** These platforms frequently solicit clients in jurisdictions where they are not registered to operate or where binary options are banned, violating local laws.⁴

The risks associated with binary options trading are therefore twofold. First, there are risks inherent to the product itself – the high volatility, the negative expected return structure, and the difficulty of prediction – which make it a challenging instrument even within a regulated environment. Second, and arguably more severe, are the risks stemming from the conduct of unregulated brokers, where outright fraud, manipulation, and theft are rampant. Regulatory actions globally attempt to address both facets: bans tackle the perceived inherent unsuitability for retail, while strict regulation (where permitted) aims to control the platform conduct risks and ensure a fairer (though still inherently risky) trading environment.

The sheer volume and consistency of fraud warnings issued by multiple, independent regulatory bodies across different countries (CFTC, SEC, FBI in the US; FCA in the UK; Provincial regulators in Canada; ASIC in Australia)³ strongly indicate that fraudulent activity is not merely composed of isolated incidents but represents a systemic problem within the *unregulated* segment of the binary options market. This widespread pattern of abuse elevates the process of verifying a broker's legitimacy from standard due diligence to an absolutely critical security measure for anyone contemplating trading these instruments.

VII. Verifying Broker Regulation and Legitimacy

A. Critical Importance of Due Diligence

Given the documented prevalence of fraud and malpractice, particularly among unregulated and offshore binary options platforms, verifying the regulatory status and legitimacy of a

broker before opening an account, depositing funds, or sharing any personal information is paramount.⁴ Failure to do so exposes potential traders to a very high risk of financial loss and identity theft, with little hope of recovery. The burden falls squarely on the individual to conduct thorough checks.

B. Verification Methods

The most reliable way to verify a broker's claims of regulation is to check directly with the relevant financial regulatory authority in the jurisdiction where the broker claims to be regulated or authorized to operate:

- **Consult Official Regulator Databases:** Reputable financial regulators maintain publicly accessible online registers of authorized firms and individuals. Key resources include:
 - **United States:**
 - CFTC National Futures Association (NFA) BASIC database (for registration status and disciplinary history of futures firms/individuals, including DCMs).⁴
 - SEC EDGAR database (to check if an offering is registered).³²
 - SEC list of registered Exchanges.³²
 - SEC Investment Adviser Public Disclosure (IAPD) database.⁵
 - Financial Industry Regulatory Authority (FINRA) BrokerCheck.⁵
 - **United Kingdom:** FCA Financial Services Register.¹⁷
 - **Australia:** ASIC Connect registers (implied necessity, though specific database name not in snippets).
 - **Canada:** Check the registration status through the relevant Provincial Securities Commission's website or the CSA National Registration Search tool.⁶
 - **Other Jurisdictions:** Consult the official online register of the national regulator, such as the Monetary Authority of Singapore (MAS) ² or Japan's Financial Services Agency (FSA).²
- **Cross-Reference Information:** Do not rely solely on the broker's website for regulatory information. Verify any license numbers, registration details, and physical addresses provided by the broker against the official regulator's records.³³ Discrepancies are a major red flag.

C. Red Flags and Warning Signs

Potential traders should be alert to numerous warning signs that may indicate a fraudulent or unregulated operation:

- **Unsolicited Contact:** Receiving unexpected emails, phone calls, or social media messages promoting binary options trading.³⁸ Legitimate brokers generally do not cold-call.
- **Promises of Unrealistic Returns:** Guarantees of high profits, claims of quick

riches, or promises of returns with little or no risk.³⁶ Legitimate investments always involve risk.

- **Secret Strategies or Signals:** Claims of having exclusive trading signals, algorithms, or insider knowledge that guarantees success.³⁶
- **High-Pressure Sales Tactics:** Aggressive representatives pushing for immediate deposits, threatening calls, or creating a false sense of urgency.³⁸
- **Excessive Bonuses or Incentives:** Offers to match deposits with large amounts of "free" money, often with complex withdrawal conditions.³⁶
- **Withdrawal Problems:** Difficulty or refusal when attempting to withdraw funds, excessive delays, demands for unexplained fees, or unresponsive customer service.⁴ This is one of the most common complaints regarding fraudulent platforms.
- **Excessive Information Requests:** Demands for copies of credit cards (front and back), passports, driver's licenses, utility bills, or other sensitive personal data beyond what is standard for regulatory KYC/AML checks.⁴
- **Lack of Transparency:** Vague or missing information on the broker's website regarding its operating company, physical location, management team, or regulatory status.³⁸
- **Presence on Warning Lists:** The broker's name appears on official warning lists published by regulators (e.g., CFTC RED List, FCA warnings).⁴
- **False Claims of Regulation:** Claiming to be based or regulated in a reputable jurisdiction (e.g., "Canadian") without appearing on the official register of that jurisdiction's regulator.⁶
- **Suspicious Mobile Apps:** Professional-looking mobile trading apps linked to websites or entities that are unregistered or appear on warning lists.⁴ Availability in major app stores does not guarantee legitimacy or regulatory compliance.³⁶

The process of verification serves a dual purpose: confirming regulatory compliance where applicable, but more critically, actively identifying and avoiding the numerous fraudulent entities that populate the unregulated binary options space. Because recovery of funds lost to offshore, unregulated brokers is exceptionally difficult and rare³³, prevention through rigorous upfront verification is the only practical safeguard for investors. While official warning lists like the CFTC's RED List⁴ are useful resources, they are inherently reactive and may not be exhaustive. Therefore, absence from such a list does not guarantee legitimacy. The definitive step remains proactively confirming registration status directly through the relevant primary regulator's official database before committing any funds or personal data.

VIII. Standards and Requirements for Regulated Brokers (Where

Applicable)

In jurisdictions where binary options trading is permitted for certain clients (like the US or Japan), brokers and the exchanges they operate on are subject to specific standards and requirements designed to mitigate risks and protect investors. These standards contrast sharply with the lack of safeguards prevalent among unregulated platforms.

- **Trading Venue and Structure:** Regulated binary options typically must be traded on organized exchanges, such as Designated Contract Markets (DCMs) in the US.⁶ This exchange environment provides a centralized marketplace with standardized contracts, rules, and oversight, differing significantly from the opaque Over-The-Counter (OTC) model used by most unregulated brokers.¹⁶
- **Regulatory Oversight and Compliance:** Brokers and exchanges operating in regulated markets are subject to the direct supervision, rule-making, and enforcement authority of the relevant regulatory body (e.g., CFTC and SEC in the US, FSA in Japan).⁶ They must comply with a range of regulations covering capital adequacy, conduct, reporting, and risk management.
- **Client Fund Protection:** A key requirement in regulated environments is the protection of client funds. This often involves mandating that client money be held in segregated accounts, separate from the firm's operational funds, to protect clients in case of broker insolvency.³³ Additionally, on regulated exchanges, binary option contracts are typically fully collateralized, meaning both the buyer and seller must post capital for their side of the trade, mitigating counterparty risk.¹⁴ A central clearinghouse associated with the exchange may also guarantee trades.¹⁴
- **Transparency and Disclosure:** Regulated entities face requirements for transparency. This includes clear disclosure of contract specifications, pricing mechanisms, potential risks, fees, and payout structures.² Standardized contracts on exchanges facilitate easier understanding for traders.¹⁴ Mandated risk warnings are also common practice in regulated financial markets.²¹
- **Fair Practices and Dispute Resolution:** Regulation aims to ensure fair market practices, preventing manipulation of prices or trades, and providing customers with access to dispute resolution mechanisms and legal recourse if issues arise.² Regulatory oversight helps ensure that platforms operate fairly and execute trades according to established rules.
- **Prohibition on Third-Party Trading:** On some regulated exchanges, such as Nadex in the US, rules explicitly require individuals to trade their own accounts. Brokers or other third parties are not permitted to trade on a client's behalf, helping to prevent certain types of management fraud or unauthorized trading.³⁴

These standards imposed on regulated binary options providers directly address many of the critical risks associated with unregulated platforms. Requirements for exchange trading, full collateralization, segregation of funds, and regulatory oversight are structural safeguards designed to enhance market integrity, transparency, and the safety of client assets, countering the counterparty risk, opacity, and potential for fund misappropriation prevalent in the unregulated sphere.

However, it is crucial to understand that even within a strictly regulated environment, the fundamental high-risk nature of the binary option *product* itself persists. Regulation can mandate a fair and transparent trading environment, ensure the security of funds, and provide recourse against misconduct, but it cannot eliminate the inherent risks associated with the all-or-nothing payout structure, the difficulty of short-term market prediction, or the negative expected returns embedded in the product.¹ The high loss rates observed by regulators prior to bans likely included clients trading on platforms that were, at the time, considered regulated within their jurisdictions³, highlighting that product risk remains significant even when broker conduct risk is mitigated through regulation.

IX. Conclusion

A. Summary of Findings

The regulatory status of binary options brokers globally is complex and highly fragmented. While these instruments offer a seemingly simple, fixed-risk approach to speculating on asset price movements, they carry substantial inherent risks and have been widely associated with fraudulent practices, particularly by unregulated offshore entities.

A dominant global trend, especially evident since 2018, has seen major regulatory bodies in the UK, the European Union, Australia, Canada, and Israel implement outright bans or severe restrictions on the sale of binary options to retail clients. These actions were driven by significant, documented evidence of investor harm, high loss rates (often exceeding 75%), and a regulatory assessment that the products' inherent characteristics – including their similarity to gambling, negative expected returns, and complexity masked by simplicity – make them fundamentally unsuitable for the retail market.

The United States represents a significant exception to this prohibitionist trend. While US regulators (CFTC and SEC) are acutely aware of and actively combat fraud perpetrated by illegal, unregistered platforms, they permit binary options trading for retail clients strictly within the confines of designated, regulated exchanges (DCMs). This approach emphasizes channeling activity onto supervised venues rather than outright prohibition. Other jurisdictions like Japan and Singapore also permit

regulated binary options trading under strict oversight.

B. Reinforce Risks and Verification

The risks associated with binary options are twofold: the inherent risk of the product itself, which persists even in regulated environments, and the severe risk of fraud, manipulation, and theft posed by unregulated brokers. The consistency and severity of warnings from multiple international regulators underscore that fraud is a systemic issue within the unregulated segment of this market.

Consequently, for any individual considering trading binary options (where legally permitted), the verification of a broker's regulatory status is not merely advisable but an absolutely critical step for self-protection. Potential traders must independently confirm a broker's registration and authorization through official databases maintained by the relevant financial regulator *before* depositing any funds or sharing personal information. The absence of verifiable regulation, or the presence of numerous red flags (such as unrealistic promises, withdrawal difficulties, or pressure tactics), should be considered definitive reasons to avoid a platform entirely. Dealing with unregulated binary options platforms carries an unacceptably high probability of total financial loss and potential identity theft, with virtually no prospect of recourse.

C. Final Thought

While regulated avenues for binary options trading exist in a limited number of jurisdictions, the overwhelming international regulatory sentiment leans heavily towards caution and prohibition for retail investors. The evidence of past harm is substantial, and the risks remain significant. Anyone contemplating participation in this market must exercise extreme diligence, fully understand the inherent risks involved, and prioritize the verification of regulatory legitimacy above all other considerations. Engaging with unregulated platforms represents an exposure to profound financial and personal security risks that should be avoided without exception.

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