

# Binary Options Trading for US Residents: Regulatory Landscape, Availability, and Risks

## I. Executive Summary

This report analyzes the legal framework, availability, and associated risks of binary options trading for retail customers residing in the United States. The analysis draws upon regulatory guidance from the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC), alongside investigations into market practices.

The core finding is that while binary options trading is not inherently illegal in the US, it is subject to stringent regulations. Legitimate trading for retail customers is permissible *only* when conducted on exchanges specifically designated and regulated by the CFTC or, in limited circumstances involving options classified as securities, registered with the SEC and operating as registered exchanges or broker-dealers.<sup>1</sup> Consequently, the availability of legal platforms for US residents is extremely limited.

Currently, only a small number of CFTC-regulated Designated Contract Markets (DCMs) are authorized to offer binary options or functionally similar products, such as event contracts or event futures, to US retail participants. The North American Derivatives Exchange (Nadex) stands out as a prominent example explicitly offering binary options under CFTC oversight.<sup>2</sup> Other regulated venues include the Chicago Mercantile Exchange (CME), which offers event futures<sup>6</sup>, and Kalshi, which specializes in event contracts.<sup>7</sup>

A significant and pervasive risk exists within the broader online binary options market. A vast majority of internet-based platforms, particularly those domiciled offshore, actively market their services to US residents despite lacking the required US registration. These platforms frequently operate illegally when soliciting US customers and are often associated with fraudulent activities.<sup>1</sup> Engaging with such unregulated entities exposes investors to severe risks, including deceptive sales practices, manipulation of trading software, refusal to allow fund withdrawals, identity theft, and the potential for complete loss of deposited funds with minimal or no practical legal recourse.<sup>4</sup>

Therefore, extreme caution is imperative for any US resident considering binary options trading. Potential investors must prioritize regulatory verification and should *only* consider platforms whose registration status can be confirmed through official US regulatory databases, such as the CFTC's list of DCMs and the National Futures

Association's (NFA) BASIC system.<sup>4</sup> Any platform, especially one based offshore, that cannot be verified through these official channels should be strictly avoided. Furthermore, even when trading on regulated exchanges, investors must fully comprehend the inherent high-risk, all-or-nothing nature of binary options before committing capital.<sup>6</sup>

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

## II. Understanding Binary Options

Binary options represent a specific type of financial contract characterized by their dependence on a simple 'yes' or 'no' outcome concerning the price movement of an underlying asset within a predetermined timeframe.<sup>6</sup> These underlying assets can span various categories, including major stock indices (like the S&P 500 or FTSE 100), foreign currency pairs (forex, such as EUR/USD or USD/JPY), commodities (like gold, crude oil, or corn), and potentially even specific economic or political events.<sup>1</sup> Alternative names for these instruments include "all-or-nothing options," "digital options," particularly in forex and interest rate markets, and "fixed return options (FROs)".<sup>3</sup>

The trading mechanics involve participants placing wagers, effectively betting on whether the price of the chosen underlying asset will be above or below a specified price level (the strike price) at a precise moment of expiration.<sup>3</sup> For instance, a trader might purchase a binary option predicting that the price of gold will be above \$1,850 per ounce at 1:30 PM. If they believe the price will be below that level, they would sell the option (or purchase the opposing contract). Unlike traditional options, binary options do not confer upon the holder the right to buy or sell the actual underlying asset; the contract's value is solely tied to the fulfillment of the yes/no condition.<sup>11</sup> Upon reaching the expiration time, binary options exercise automatically without any further action required from the holder.<sup>11</sup>

The defining characteristic of binary options is their "all-or-nothing" payout structure.<sup>2</sup> If the trader's prediction proves correct at expiration (the option finishes "in the money"), they receive a predetermined, fixed payout amount.<sup>2</sup> On regulated US exchanges like Nadex, this payout is typically standardized at \$100 per contract.<sup>6</sup> The profit is the difference between this fixed payout and the initial cost of the option. Conversely, if the prediction is incorrect (the option finishes "out of the money"), the trader loses their entire investment in that specific option contract.<sup>2</sup> This binary outcome means both potential profit and potential loss are capped from the outset.<sup>6</sup>

This structure renders binary options inherently high-risk instruments. The potential

for total loss on each trade, combined with the often very short-term nature of the contracts (sometimes expiring in minutes), leads many regulators and financial experts to draw comparisons with gambling.<sup>13</sup> The apparent simplicity of the 'yes/no' proposition can be deceptive. While easy to understand conceptually, accurately predicting short-term market movements is extremely difficult, and statistical models demonstrate that the probability of incurring a total loss increases significantly with the number of trades undertaken.<sup>14</sup> This misleading simplicity is a factor often exploited by fraudulent operators in their marketing efforts, portraying binary options as an easy path to profits while downplaying the substantial risks and high likelihood of losses for most retail participants.<sup>10</sup>

### **III. The Regulatory Framework in the United States**

The oversight of binary options trading in the United States involves a dual regulatory structure primarily managed by the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC), depending on the nature of the underlying asset.

The CFTC holds primary jurisdiction over binary options based on commodities, which includes foreign currencies (forex), metals (like gold and silver), energy products, agricultural goods (such as wheat or corn), broad market indices, and certain specified events.<sup>1</sup> For these types of binary options, the Commodity Exchange Act (CEA) mandates that transactions involving retail US customers must occur on a CFTC-registered exchange known as a Designated Contract Market (DCM).<sup>1</sup> It is explicitly illegal for any entity to solicit, accept offers for, or enter into such commodity options transactions with US citizens unless conducted through a DCM.<sup>1</sup> Furthermore, entities acting as counterparties in foreign currency options for retail customers with less than \$5 million in net worth may need to register as a Retail Foreign Exchange Dealer (RFED), and those handling customer funds for commodity options must typically register as Futures Commission Merchants (FCMs).<sup>1</sup>

The SEC regulates binary options that are considered securities under federal securities laws. This typically applies if the option's payout is based on the price of an individual company's stock or other security.<sup>1</sup> In such cases, the offer and sale of the binary option itself must generally be registered with the SEC, or qualify for an exemption.<sup>1</sup> Additionally, the platform offering these security-based binary options may need to register with the SEC as a securities exchange if it matches orders between multiple buyers and sellers, or as a broker-dealer if it effects securities transactions for others.<sup>1</sup>

The fundamental legal requirement across both regulatory bodies is that binary options trading by US retail customers must take place on regulated platforms. Off-exchange trading, particularly through internet-based platforms not registered with either the CFTC or SEC, is generally illegal when involving US residents.<sup>1</sup> The rationale behind these stringent regulations is multi-faceted: protecting market participants from widespread fraud, manipulation, and abusive sales practices; ensuring the financial integrity of transactions; preventing the misuse of customer assets (e.g., through requirements for segregated accounts); promoting market transparency; and fostering responsible innovation within a controlled environment.<sup>1</sup>

The regulatory landscape is not static; rather, it reflects an ongoing effort by US authorities to combat illicit activities in the binary options space. A clear pattern of intensifying regulatory scrutiny is evident through numerous investor alerts jointly issued by the CFTC and SEC, coupled with significant enforcement actions.<sup>1</sup> High-profile cases resulting in substantial penalties, such as a \$451 million judgment against an international enterprise for binary options fraud<sup>8</sup> and charges against platform providers like Spot Option for allegedly deceiving investors out of over \$100 million<sup>12</sup>, underscore the agencies' commitment to pursuing violators targeting US citizens. This active enforcement posture signals a dynamic regulatory environment focused on deterring illegal operations.

However, a major challenge arises from the fact that a large proportion of fraudulent binary options platforms operate from offshore locations.<sup>1</sup> While US law prohibits these unregistered foreign entities from soliciting US customers<sup>1</sup>, enforcing these regulations against firms located outside US jurisdiction is inherently difficult. This enforcement gap necessitates tools like the CFTC's Registration Deficient (RED) List.<sup>9</sup> The RED List identifies foreign entities that appear to be operating in a capacity requiring CFTC registration (like soliciting US retail customers) but are not registered.<sup>9</sup> While a valuable warning mechanism for investors, the RED list primarily serves an informational purpose, highlighting the practical limitations of regulatory reach and underscoring the critical need for investors to conduct thorough due diligence themselves before engaging with any platform.<sup>9</sup>

The prevalence of offshore fraud can be understood partly as a consequence of regulatory arbitrage. The rigorous requirements for operating legally in the US – such as obtaining DCM status from the CFTC or meeting SEC registration demands – create significant compliance costs and barriers to entry.<sup>1</sup> Operators unwilling or unable to meet these standards are incentivized to establish themselves in jurisdictions with less stringent oversight.<sup>2</sup> From these locations, they can leverage the internet to illegally target investors in lucrative markets like the United States,

exploiting the difference in regulatory burdens.<sup>1</sup> Compounding this issue, outright bans on binary options sales to retail clients in other major jurisdictions, including the European Union, the United Kingdom, Australia, and Israel<sup>3</sup>, may inadvertently concentrate these illicit operations in remaining unregulated or poorly regulated havens, from which they continue to target global customers, including US residents.

## IV. Legitimate Binary Options Trading for US Residents

For US retail customers seeking to trade binary options legally, the pathway is narrow and strictly defined by regulation. As established, trading must occur on exchanges designated and overseen by the CFTC (as DCMs) or, for security-based options, platforms compliant with SEC registration requirements.<sup>1</sup> Trading binary options through any other channel, particularly unregistered online platforms, is illegal for US residents and carries substantial risks.

Identifying the specific exchanges permitted to offer these products to US retail clients is crucial. Based on regulatory information and market data, the following exchanges are notable:

- **Nadex (North American Derivatives Exchange):** Frequently cited and self-proclaimed as a US-based, CFTC-regulated exchange specifically offering binary options contracts to retail traders.<sup>2</sup> Nadex actively promotes its regulated status as a key differentiator from illegal offshore platforms and emphasizes the investor protections afforded by CFTC oversight.<sup>4</sup> It allows traders to exit positions before expiration.<sup>6</sup>
- **CME (Chicago Mercantile Exchange):** A major, long-established CFTC-regulated DCM.<sup>2</sup> While not primarily known for retail binary options, CME offers "event futures" contracts, which function similarly to binary options, settling at either \$100 or \$0 based on the occurrence of a specific event outcome.<sup>6</sup> It's important to note that CME may not permit traders to exit these event futures contracts before their scheduled expiration.<sup>6</sup>
- **Kalshi:** Designated by the CFTC as a DCM in 2020<sup>7</sup>, Kalshi focuses specifically on offering event contracts, which are essentially binary options tied to the outcomes of various economic, political, financial, and other real-world events.<sup>7</sup> Kalshi's designation allows it to legally offer these products to US customers.
- **Other Potential Platforms:**
  - *LedgerX LLC (dba MIAX Derivatives Exchange):* Also regulated by the CFTC as both a DCM and a Swap Execution Facility (SEF).<sup>7</sup> LedgerX offers binary options contracts, specifically based on cryptocurrency price ranges (e.g., Ether Range Binary Options).<sup>15</sup> While legally permitted, its offerings may be

more targeted towards sophisticated traders or institutional clients rather than the general retail market.

- *Cboe Global Markets (CBOE)*: Mentioned as an exchange permitted to offer binary options.<sup>6</sup> However, current information regarding its specific offerings of binary-style products accessible to typical retail traders is less prominent compared to Nadex, CME, or Kalshi. Verification of current retail offerings is advised.
- *Cantor Exchange, LP*: Previously listed as one of the few CFTC-registered DCMs offering binary options.<sup>2</sup> However, reports indicate that Cantor Exchange ceased operations.<sup>6</sup> Its history serves as a reminder that even regulated entities can change status or exit the market.

Given the prevalence of fraudulent platforms falsely claiming legitimacy, independent verification of an exchange's regulatory status is paramount *before* opening an account or depositing any funds. US residents should utilize the following official resources:

- **CFTC Website**: Check the official list of Designated Contract Markets (DCMs) to confirm if an exchange is registered and authorized by the CFTC.<sup>1</sup>
- **NFA BASIC Database**: Use the National Futures Association's Background Affiliation Status Information Center (BASIC) system. This free tool allows checks on the registration status and disciplinary history of derivatives firms and individuals.<sup>8</sup>
- **SEC Resources**: For platforms potentially offering security-based binary options, check the SEC's EDGAR database for product registration filings and the SEC website for lists of registered national securities exchanges.<sup>1</sup>

To aid comparison, the following table summarizes key features of the primary US-regulated platforms currently offering binary options or similar event contracts relevant to retail traders:

Feature	Nadex (North American Derivatives Exchange)	CME (Chicago Mercantile Exchange)	Kalshi	LedgerX (dba MIAX Derivatives)
Regulatory Body	CFTC	CFTC	CFTC	CFTC

<b>Product Type</b>	Binary Options	Event Futures	Event Contracts (Binary Options)	Binary Options (Crypto-based)
<b>Regulation Status</b>	Designated Contract Market (DCM)	Designated Contract Market (DCM)	Designated Contract Market (DCM)	DCM & SEF
<b>Available Assets</b>	Stock Indices, Forex, Commodities, Events	Events (e.g., Economic Data)	Events (Economic, Political, etc.)	Cryptocurrencies (e.g., Ether price)
<b>Trading Platform(s)</b>	Proprietary Web & Mobile	CME Globex (likely via brokers)	Proprietary Web & Mobile	Proprietary Platform
<b>Fee Structure</b>	Per contract fees (entry/exit/settlement)	Exchange fees (likely via brokers)	Per contract fees	Likely per contract fees
<b>Minimum Deposit</b>	Typically low (check current)	Varies by broker	Typically low (check current)	Likely higher (check current)
<b>Early Exit Allowed?</b>	Yes <sup>6</sup>	No (Reportedly) <sup>6</sup>	Yes (Typically)	Yes (Typically)
<b>Primary Target</b>	Retail Traders	Broader Market (incl. Retail)	Retail & Sophisticated Traders	Sophisticated & Institutional Traders
<b>Official Verification</b>	CFTC DCM List, NFA BASIC	CFTC DCM List, NFA BASIC	CFTC DCM List, NFA BASIC	CFTC DCM List, NFA BASIC

*(Note: Specific fees, minimums, and platform details should always be verified directly with the exchange as they can change.)*

The limited number of legally operating platforms is not an accident or market failure, but rather a direct consequence of the robust regulatory framework established in the US.<sup>1</sup> The stringent requirements for registration and ongoing compliance serve as a high barrier designed explicitly to filter out entities that may lack the financial stability, operational integrity, or commitment to investor protection deemed necessary by



regulators for offering such high-risk products. While this restricts choice for traders, it reflects a regulatory philosophy prioritizing investor safety and market stability over broad accessibility for binary options within the US market. This scarcity itself signals the level of risk regulators associate with these instruments.

## V. The Dangers of Unregulated and Offshore Brokers

While a small number of regulated avenues exist, the overwhelming majority of the online binary options market encountered by US residents consists of unregistered platforms, often operating from offshore jurisdictions.<sup>1</sup> These entities frequently engage in fraudulent activities and pose significant dangers to investors.<sup>2</sup> The scale of this problem is substantial, with the FBI estimating that binary options scams steal approximately \$10 billion annually worldwide.<sup>13</sup>

Fraudulent operators employ a range of deceptive tactics designed to lure investors and extract funds. Common methods reported to regulators include:

- **Refusal or Blocking of Withdrawals:** This is one of the most frequent complaints. Platforms may simply deny or ignore customer requests to withdraw their deposited funds or supposed profits. They might invent prohibitive fees, impose impossible trading volume requirements tied to bonuses, cancel withdrawal requests without reason, or completely freeze customer accounts, sometimes accusing the customer themselves of fraud to justify withholding funds.<sup>2</sup>
- **Identity Theft:** Unregistered platforms may illegitimately demand sensitive personal information, such as photocopies of credit cards, driver's licenses, passports, or utility bills, often under the false pretense of complying with regulatory requirements (which they, in fact, ignore). This collected data can then be misused for identity theft or other illicit purposes.<sup>1</sup>
- **Platform Manipulation:** Some fraudulent platforms manipulate their trading software to ensure customer losses. This can involve rigging price feeds, altering expiration times (e.g., extending the time on a winning trade until it becomes a loss), or configuring algorithms to deliberately generate losing trades for the customer.<sup>4</sup>
- **Misrepresentation and False Promises:** Scammers routinely make false claims about the potential profitability of binary options, often overstating average returns.<sup>2</sup> They may employ "brokers" who misrepresent their expertise and credentials<sup>8</sup>, offer illusory "risk-free" trades or bonuses with undisclosed and predatory terms<sup>8</sup>, and falsely claim to be based in or regulated by reputable jurisdictions like the US.<sup>17</sup>



- **Aggressive and Deceptive Marketing:** Fraudulent operations often use high-pressure sales tactics, contacting potential victims repeatedly via phone and email.<sup>8</sup> They build sophisticated-looking websites, create fake testimonials and reviews on social media and forums, and produce slick marketing materials to create an appearance of legitimacy and success.<sup>10</sup> Some even impersonate or clone legitimate financial firms.<sup>24</sup>

Crucially, it is illegal under US law for offshore entities that are not registered with the CFTC or SEC to solicit or accept funds from US residents for binary options trading.<sup>1</sup> Any such solicitation should be treated as a major red flag. The CFTC maintains the RED (Registration Deficient) List specifically to warn the public about foreign entities it believes are soliciting US customers without the required registration.<sup>9</sup> While a helpful resource, this list is not exhaustive, and the absence of a name does not guarantee legitimacy. Numerous firms have been added to the RED list for illegally offering binary options, forex, or crypto trading services.<sup>24</sup>

Dealing with unregulated offshore platforms carries the severe risk of losing all invested capital with little to no chance of recovery. Funds sent to these entities are not protected by US regulatory safeguards, such as the requirement for customer funds to be held in segregated accounts at reputable banks.<sup>1</sup> If a dispute arises or the platform engages in fraud, investors lack the legal protections and recourse available when dealing with regulated domestic firms, as pursuing action across international borders against anonymous or deliberately obscured operators is often futile.<sup>1</sup>

Understanding the psychological dimension of these scams is vital. Fraudulent platforms deliberately invest in creating a convincing facade of legitimacy and trustworthiness.<sup>10</sup> Sophisticated websites, plausible (though often fake) performance data, claims of advanced trading technology (like "bots"), and the use of personable, fast-talking "brokers" are all designed to overcome natural skepticism and exploit common investor biases, such as the fear of missing out on easy profits.<sup>17</sup> The tactic of offering "insurance" against losses, as reported by victims<sup>17</sup>, is a particularly insidious method of building a false sense of security, ultimately leading to greater financial exposure when withdrawal attempts reveal the scam. This highlights that the fraud relies heavily on social engineering and emotional manipulation, not just technical deception.

Furthermore, the evidence suggests that much of this activity is not merely the work of isolated scammers but represents organized, transnational criminal operations. The sheer scale of the estimated losses (\$10 billion annually<sup>13</sup>), the international scope of investigations involving multiple countries<sup>8</sup>, and documented cases like the Spot

Option platform (which provided the infrastructure for numerous "white label" fraudulent brokers worldwide <sup>12</sup>) point towards a coordinated, industrial level of fraud. This systemic nature makes it a persistent and challenging problem for global regulators and investors alike.

Finally, the very technologies that enhance legitimate financial access – the internet and mobile applications <sup>9</sup> – are double-edged swords actively exploited by fraudulent binary options operators.<sup>1</sup> The relative anonymity, global reach, and low cost of creating professional-looking online platforms allow fraudsters to easily establish a seemingly credible presence and target victims across borders, including within the United States. The adaptability of these operations is further demonstrated by the emergence of unregistered offerings utilizing newer technologies like smart contracts on blockchains.<sup>21</sup> This continuous exploitation of technology means investors and regulators face an ongoing challenge in distinguishing legitimate financial innovation from sophisticated scams.

## **VI. Conclusion and Recommendations**

The analysis confirms that while binary options trading is technically legal for residents of the United States, it operates within a highly restrictive regulatory environment. Legitimate participation for retail customers is confined exclusively to platforms designated and regulated by the US Commodity Futures Trading Commission (CFTC) as Designated Contract Markets (DCMs) or, for the less common security-based binary options, platforms fully compliant with Securities and Exchange Commission (SEC) registration requirements.<sup>1</sup>

The practical consequence of this stringent oversight is that the number of authorized platforms available to US retail traders is extremely limited. Nadex, CME (with its event futures), and Kalshi represent the primary examples of currently operating, CFTC-regulated venues accessible to US residents for trading binary-style contracts.<sup>2</sup>

In stark contrast, the vast majority of online binary options platforms encountered by US residents, particularly those based offshore and aggressively marketing via the internet and social media, operate outside the bounds of US law. These unregistered entities are prohibited from soliciting US customers and are frequently associated with fraudulent schemes designed to steal investor funds.<sup>1</sup> The risks associated with these platforms are severe and include financial loss, identity theft, and lack of legal recourse.

It is also critical to recognize the inherent risks of the product itself. Even when traded on legitimate, regulated exchanges, binary options remain high-risk, speculative

instruments due to their all-or-nothing payout structure.<sup>2</sup> The probability of loss, particularly over multiple trades, is statistically high for retail participants.<sup>14</sup>

Based on these findings, the following recommendations are strongly advised for US residents considering binary options trading:

1. **Prioritize Regulatory Verification Above All Else:** Under no circumstances should an individual engage with or deposit funds onto a binary options platform unless its registration status as a CFTC DCM (or relevant SEC registration) can be independently and definitively verified through official US government sources. Utilize the CFTC's official DCM list and the NFA's BASIC database as primary verification tools.<sup>1</sup> Assume any platform not listed is illegitimate for US residents.
2. **Avoid All Unregistered Offshore Platforms:** Treat any unsolicited contact, advertisement, or promotion for binary options trading, especially from an entity based outside the US, with extreme skepticism. Remember that it is illegal for unregistered foreign firms to solicit US customers.<sup>1</sup> Consult the CFTC's RED List for known unregistered entities, but do not rely on it exclusively.<sup>9</sup>
3. **Beware of Intermediaries and Account Managers:** On legitimate US exchanges like Nadex, individuals trade their own accounts. Be extremely wary of any person or entity claiming to be a broker or account manager offering to trade binary options on your behalf, particularly if contacted via social media. This is a common tactic used in fraudulent schemes.<sup>4</sup>
4. **Fully Understand the Product Risks:** If choosing to trade on a verified, regulated US exchange, ensure a complete understanding of the all-or-nothing payout, the high probability of loss<sup>14</sup>, margin requirements, fees, and the specific terms of each contract before risking capital. Never invest more money than you can afford to lose entirely.
5. **Safeguard Personal Information:** Exercise extreme caution when asked to provide sensitive personal documents (copies of credit cards, passports, driver's licenses, utility bills). Only provide such information to a verified, regulated entity during a standard, legitimate account opening process where the need for such documentation (e.g., Know Your Customer compliance) is clear and expected.<sup>1</sup>
6. **Report Suspicious Activity:** If you encounter a platform suspected of being fraudulent or operating illegally, or if you believe you have been victimized, report the activity promptly to the CFTC and the SEC.<sup>8</sup>

In conclusion, while the possibility for US residents to legally trade binary options exists, it is confined to a very small number of highly regulated domestic exchanges. The broader online environment is dangerously populated by illegal, unregistered, and often fraudulent offshore operators. Therefore, navigating this market requires

exceptional diligence, strict adherence to regulatory verification, and a clear understanding of the significant financial risks involved, both from the product itself and from potential platform fraud.

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