



**ASIC**  
Australian Securities &  
Investments Commission

## Binary Options

November 2022

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### Key Messages

On 5 September 2022, ASIC extended its product intervention order banning the issue and distribution of binary options to retail clients until 1 October 2031.

The Order came into effect on 3 May 2021 and has been fully effective in preventing retail clients from losing money trading binary options in Australia.

By comparison, the Order does not apply to wholesale clients, and around 70% of wholesale clients lost money trading binary options after the Order took effect.

The Order ensures retail client protections in Australia remain in line with comparable jurisdictions.

Before the ban, retail clients incurred significant aggregate net losses trading binary options:

- 74–77% of active retail clients lost money trading binary options
- retail client accounts made net losses of \$14 million in aggregate
- loss-making retail client accounts made net losses totalling \$15.7 million, while profit-making retail client accounts only made net profits of \$1.7 million.

### Background

Binary options are over-the-counter (OTC) derivatives that allow clients to speculate on the occurrence or non-occurrence of a specified event in a defined timeframe.

The Order came into effect on 3 May 2021 after ASIC reviews in 2017 and 2019 found that approximately 80% of retail clients lost money trading binary options.

We have obtained the Minister's approval to declare that the Binary Options Order remains in force until the end of 1 October 2031.

ASIC found that binary options are likely to result in cumulative losses to retail clients over time because of the following product characteristics:

- an 'all or nothing' payoff structure, where one of the two possible outcomes for a binary option contract is that the retail client loses their entire investment
- short contract duration (e.g. the average contract duration of binary options traded with one provider was less than six minutes)
- negative expected returns (i.e. the present value of the expected payoff for a binary option contract is lower than the initial investment).

### ASIC Action

In CP 362, we set out our analysis of data obtained from five Australian financial services (AFS) licensees that had issued binary options to retail clients over a 21-month period.



The period spanned approximately 13 months before and eight months after the Order came into effect.

As a result of the Order, there were no losses (or profits) for any retail client from trading binary options after the Order came into effect.

Very few retail clients were reclassified by the AFS licensees as wholesale clients (45 wholesale client prior to the Order compared to 114 after).

REP 736 highlights the key issues that arose out of the submissions received to CP 362 and ASIC's responses to those issues. We received three submissions, which were supportive of our proposal to extend the Binary Options Order:

- IG Australia Pty Ltd (contracts-for-difference (CFD) issuer, securities dealer and former binary options issuer)
- CHOICE
- Law Council of Australia.

IG, while supportive of our proposal, sought to distinguish between 'volatility' binary options and 'fifty-fifty' binary options. It noted that 'volatility' binary options can meet a clear investment need for clients and are not particularly susceptible to mis-selling (as opposed to 'fifty-fifty' binary options).

As noted in the public notice—product intervention order in relation to binary options, evidence that volatility binary options are likely to result in significant detriment to retail clients included the following:

- our 2017 review of the retail OTC derivatives sector—where we looked at the size and nature of the Australian market for binary options and CFDs—found that the proportion of retail clients who lost money trading volatility binary options was similar to retail clients trading up-down or fifty-fifty binary options.
- aggregate data obtained by the European Securities and Markets Authority (ESMA) for three firms in 2015 and 2016 shows that volatility binary options have similar negative outcomes for retail clients as other types of binary options.

The Binary Options Order captures both types of binary options.

We will continue to monitor compliance of the PIO.