



## Binary Options Alert

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## The National Fraud Intelligence Bureau's (NFIB) Proactive Intelligence Team has spoken to convicted fraudsters who claim that "Binary Options are being used for investment scams".

Binary Options are called 'Binary' because there can be only two outcomes – win or lose. To trade, all you need to do is bet on whether the price of something will rise or fall below a certain amount - if it is correct, you win and get paid. If not, you lose all of the money you originally invested. You can choose various commodities to trade in such as gold, oil or stocks etc. The value of a Binary Option is made up from the value of the asset you want to trade. For example, you could bet at 2.00pm that the value of gold will either increase or decrease in price by 2.05pm. You are not buying or selling the gold, just predicting whether the price of it will rise or fall. Time periods involved tend to be very short (5 or 10 minutes) but some firms offer longer periods to bet over.

Action Fraud has received 305 reports (June 2015 - May 2016) about binary options in the last year, with an average of 27 reports made per month. Those who have mostly reported are men who have been paying via debit or credit card.

Reports of binary options fraud which are made to Action Fraud are assessed by the NFIB and sent to law enforcement for investigation. The City of London Police earlier this year arrested a 38-year-old man from Essex who was alleged to have been the controlling force behind Base2Trade, which is now in liquidation. The company sold fraudulent binary options trading from three offices in the City of London; located on Bishopsgate and New Broad Street and in Tower 42. He has been released on bail until August.

### Not currently regulated by the FCA

There are many legitimate Binary Option Traders but currently none of them are regulated by the Financial Conduct Authority (FCA). At present binary options are regulated by the UK's Gambling Commission, but only if the firm has remote gambling equipment located in Britain. If this is not the case, any binary options that the firm offers will not be regulated either by the Gambling Commission or by the FCA. However, other European Union (EU) countries consider binary options to be a financial, rather than a gambling product.

Under **EU financial services law**, firms which are legally established and authorised in one European Economic Area (EEA) country - the EEA encompasses all EU countries as well as Norway, Lichtenstein, and Iceland - are entitled to do business in any other EEA country once certain procedural safeguards are met. This means that although the FCA does not currently regulate binary options, firms offering binary options trading which operate as financial services firms in other EEA countries, are able to do business in the UK and consequently appear on our **Register of financial services firms**.

## When do Binary Options become fraudulent?

Fraud occurs when Binary Trading Platforms:

- Offer a higher than average return on an investment.
- Refuse to credit customer accounts.
- Break all contact with the customer.
- Manipulate software to distort prices and payouts.

One convicted fraudster interviewed by the NFIB Proactive Intelligence Team said: “Binary Options are the new investment scam. Platforms are set up all the time to appear legitimate, but are actually fake. Companies operating these fake Binary Trading Platforms make 100% profit - a percentage of which goes to the brokers and the remainder to the rest of the company. Victims who invested never see any returns and when the customers attempt to withdraw funds it’s made very difficult for them to do so and at times the company ignores them completely, ceasing all contact”.

## Victims of Binary Options Fraud share their experience:

Victims who reported to Action Fraud wanted to share their experiences. One said: “I was contacted from a Binary Options company based in London. I was offered a Binary Option trading account where experts in their field would trade a Managed Account on my behalf and would take 10% of any profits. The minimum investment to access the Managed Account was £5,000. I was approached again once I made the £5,000 investment to add a further £10,000 to access a higher return on my investment. I declined this offer. Despite numerous phone calls to the office for someone to call with my account details, no one has returned my calls.”

A second victim said: “I opened an account and deposited £3,300. The account grew and showed good returns. I was offered a higher ranking account with more benefits if I increased the amount to £33,000. All the transactions were done by debit from two of my credit cards. I was given their bank details to enable me to do a wire transfer, but did not use that function. I received many bonuses and profits from block trades but I am unable to recover my deposits or profits from trades or bonuses”.

## **City of London Police Commander Chris Greany, who is the National Coordinator for Economic Crime Said:**

“Investments fraudsters will do everything they can to obtain large amounts of money; in this case they have taken advantage of an unregulated market and convinced their victims that they are making worthwhile investments.”

“Anyone who invests in binary options should be vigilant about who they are trading with and should follow our protection advice to ensure that they don’t fall victim to what is becoming a commonplace investment scam”.

**Protect yourself against this type of fraud:**

- If you're considering any type of investment, always remember: if it seems too good to be true, then it probably is.
- If you get a call out of the blue from someone offering investment opportunities, be wary; if in doubt don't be polite, just hang up.
- If in doubt, where you think a firm offering binary options may not be trustworthy or legitimate, do not transfer money to them or provide them with your bank details.
- Be mindful of any bonus structures and clauses preventing you from withdrawing funds.
- Make sure you have read and considered conditions set out by the company making it mandatory to "turn over" your original deposit over a multiple amount of times before you can withdraw your money.
- The Gambling Commission advises that UK consumers should **research the market carefully** before participating in such activities.
- Check whether a company holds an operating licence from the Gambling Commission by searching the **public register of licensees**.

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