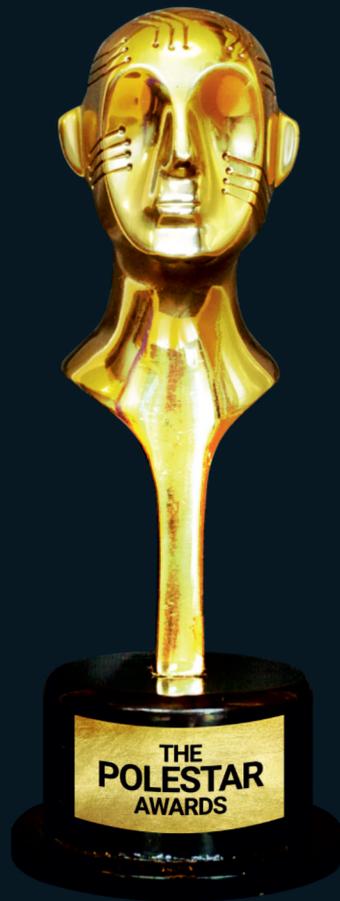


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Jyotindra Dubey

Jyotindra Dubey won the PoleStar Jury Special Mention Award for his article **'The Binary-Options Black Hole: Forget about making money, it will suck in what you have'**, which appeared in **ET Prime on 10th June, 2019**

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An economics gold medallist and a management post graduate, Jyotindra Dubey, who is currently freelancing with various publications including ET Prime, has a decade-long experience in business journalism. He has worked with publications such as Business Today, Hindustan Times, Newscorp VC Circle, and CNBC TV18. He is an expert in leading investigations that require reading financial data with forensic accuracy and uncovering corporate scams.

<https://prime.economictimes.indiatimes.com/news/69718050/money-and-markets/the-binary-options-black-hole-forget-about-making-money-it-will-suck-in-what-you-have>

The binary-options black hole: forget about making money, it will suck in what you have

Jyotindra Dubey

ET Prime | 10th June, 2019.

Run by offshore companies, platforms like Olymp Trade lure investors with promises of handsome returns. But the reality is different: even if a trader has equal number of wins and losses, the final earnings are less than the money invested. And in case you want to withdraw what's left, they will block your account.

By Jyotindra Dubey

“How can you not allow me to withdraw my own money?”

Sudhakar Rane (name changed) was bursting with anger when he called the helpline of online forex-trading platform Olymp Trade.

“You need to complete trade volume of USD3,000 before you start withdrawing profits,” the operator replied. “But don't worry, Sir. Profits are much more when you invest more.”

“USD3,000? I was told the minimum amount to trade on your platform is USD10, I still paid USD200 and made a profit of USD50, which I want to withdraw now,” Rane yelled.

“You need to make fresh deposits to reach the required volume of trade for withdrawal. It's company policy,” the operator said politely, before hanging up.

Rane deposited USD600 more to his account to reach the 'required' volume. Soon, his broker, who helped him make the USD50 profit, called. This time, he asked Rane to make a big bet, and in 30 seconds, he had lost USD800. Rane was now eligible to withdraw, but had zero balance in his account.

Olymp Trade allows you to trade on binary options of 36 currency pairs along with commodities, leading US-listed stocks, indices, and crypto assets. The platform boasts of having 20 million clients from almost 120 countries, with 25,000 users actively trading on the platform every day, according to its website.

One common thread between Rane, a 46-year-old administrative professional from Nagpur trying to build a retirement fund, and a bunch of other victims ET Prime spoke with is the desire to make high returns quickly. This makes them easy prey. They are lured by marketing campaigns and aggressive sales pitch. Some of the leading national dailies carry advertorials on Olymp Trade.

How Olymp Trade operates

The platform lets you trade on an exotic financial product –

binary options. As the name suggests these options can only have two outcomes – a 'yes' or a 'no' bet on the price movements of a financial asset.

For instance, you bet at 12pm whether the exchange rate of a particular currency pair will increase or decrease by 12.01pm.

| The Olymp network | |
|---|-----------------------------------|
| Group companies | Function |
| Industris Ltd, Saint Vincent and the Grenadines | Owns the trading platform |
| Wallfort Ltd, Cyprus | Payment agent |
| Smartex International Ltd, Saint Vincent and the Grenadines | Operates the affiliate programmes |
| Group websites | Function |
| Olymptrade.com | The trading platform |
| Kingfin.com | Affiliate programme |
| Finfalcon.com | Affiliate programme |

Source: ET Prime research 

No actual buying or selling of gold takes place, just a wager on the rise/fall of price. You get a predetermined payout if the prediction is right, and lose everything if you go wrong.

Here's an example. The current USD-SGD rate is 1.37362 and the broker offers you an 80% profit if the exchange rates go up to 1.37363 in next 60 seconds. You place a “buy order” on the Olymp platform if you expect the rate to go up and a “sell order” if you predict otherwise. Suppose you placed a USD100 “buy” bid for a 60-second expiry. At the end of that time interval, if the rate is 1.37363 or above, you earn USD180. You lose your deposit of USD100 if the bet goes wrong.

Olymp Trade, formed in 2014, is run by an offshore company, Industris Ltd. It is registered in St. Vincent and the Grenadines, a tax-neutral island nation located in the south Caribbean region. The overall operations of the trading platform are run with the help of two more offshore companies, as well as two additional websites (see graphic).

An offshore company, also termed International Business Corporation (IBC), is exempt from all local taxes (except a small fixed annual fee), making it an attractive proposition for binary-trading platforms.

Besides taxes, these locations also offer confidentiality through ‘shadow’ directors, hiding the real beneficiaries (owners) of the company.

How clients are duped

The modus operandi of Olymp Trade is very simple — make your clients trade more so that they lose more. In case of binary options, you are playing against the house. The more you lose, richer the broker is.

What if the trader is gifted and keeps winning? Many such trading platforms have been accused of manipulating the software. They don’t allow traders to place a bet when there are better chances of booking a profit, and the volatility of the trade is such that a few seconds of delay in placing an order can change the outcome. These platforms have also been alleged of manipulating asset prices. In case you end up winning, they try delaying the withdrawal with tedious paperwork. They have also been accused of blocking clients’ accounts without providing sufficient reason.

Rita Mendonca, a mid-level management professional from Mumbai, was duped in a similar fashion. She had invested USD200 with an online binary broker, 70Trades. In around a month of trading, she managed to triple her initial investment and wanted to withdraw some of her profits. But the broker kept delaying through a load of paperwork.

“One day they asked me to send them details and copy of my credit card. They wanted to ensure that the credit card through which I made the initial deposit belongs to me or not. I got really suspicious and refused to provide them the details as it was unwarranted,” says Mendonca.

Meanwhile, the assigned broker kept pressuring her to continue trading on the platform as the signals were strong. Succumbed to the sales tactics, she ultimately lost all her money in just one trade.

Widening base with a multi-layered model

Olymp Trade runs advertisement campaigns and online posts that entice investors with promise of huge returns. It especially target people in the 25-40 age group, who may have done an Google search on the ways to earn extra.

The platform’s primary focus is to build a network and generate maximum leads as quickly as possible. Olymp does that in two ways:

- Through company-sponsored ads on social-media platforms, where you sign up with basic details such as e-mail and phone number. The boiler-room operations begin from here.
- By generating leads through affiliate programmes. Olymp Trade runs two affiliate programmes via two platforms -- Kingfin.com and Finfalcon.com.

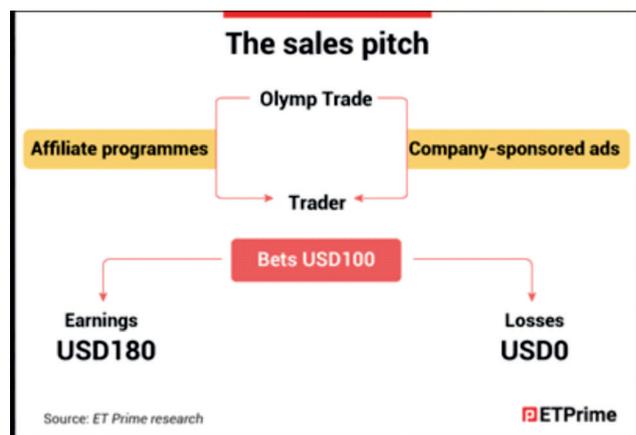
Someone joining Olymp as an affiliate needs to bring traders to the platform and make them pay the initial deposit. When the trader signs up, he is directed to a binary-options broker. The affiliate gets paid as soon as the trader makes a deposit with the broker.

The affiliates get a 50%-60% cut on the deposits made by the traders they bring in. Additionally, they get a similar share on every penny the broker earns from the clients. Also, if a trader under the affiliate refers more people to the platform (second-level traders), the affiliate gets 10% from the new deposits and revenue share too, resembling a multi-level marketing scheme.

The last step is to increase the stickiness of the platform. If a trader doesn’t trade enough, then the agent uses high-pressure sales tactics such as promises of bonuses and better leverage.

But how does the broker earn?

The broker and the affiliates make money when more traders lose their bets. Affiliates are the people promoting the brokers on social media. More he earns, more he promotes the product.



Building legitimacy

Not just social-media ads and blog posts, there are two more tools that add a crusty layer of credibility to the entire business.

1. Regulators: The most compelling credibility builder is the presence of a regulator. It lends a sense of safety to an investor. Financial markets across countries are regulated, be it CFTC in the US or Sebi in India. To gain the trust of their clients, binary-options platforms claim they are regulated by an independent entity.

Olymp Trade boasts of being regulated by Hong Kong-based The Financial Commission (FinaCom). Formed in 2013, FinaCom currently has 38 members.

“FinaCom is a self-regulatory body unlike CFTC, FCA or Sebi which are authorised by the respective governments,” says AlenTepfer, who runs Dispute2 LLC, a US-based company to assist financial-crime victims. “Also, it’s entirely funded by the fees paid by its members it is supposed to regulate, a clear conflict of interest.” Moreover, FinaCom’sdispute-resolution ratio is very low: 40% of the overall complaints it has received since 2013 remain unresolved.

Many other binary-options trading platforms are regulated by Cyprus Securities and Exchange Commission (CySEC), the authorised financial-regulatory agency of Cyprus.

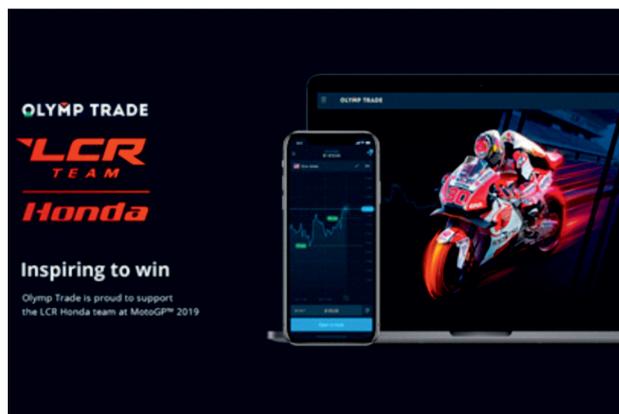
FCA in the UK and CySEC in Cyprus are both popular regulators when it comes to regulating brokerage firms, but there are some major differences which make CySEC a weak regulator when it comes to protecting investors.

The FCA-regulated brokers are obligated to keep client’s funds and company’s own funds in a separate account, while CySEC-regulated brokers don’t have any such obligation. So, if a CySEC-regulated broker gets into financial trouble, the traders also loses money, which is not the case with FCA regulation.

“CySEC is also the only regulator that actually charges a fee from those who want to file a complaint. It’s not very high (EUR20-EUR40), but is a major barrier,” Tepfer says.

Cyprus is home to multiple online binary-options brokers. A typical online binary-options broker is run by a company registered in an offshore country, and in addition it will have another company registered out of Cyprus, which the platforms call their payment agent. This offers them the respectability of being a part of the European Union, with minimal regulation.

2. Sports sponsorships: Sponsorships is one of the most effective ways to increase acceptability. Just few days ago, Olymp Trade joined hands with LCR Honda, a MotoGP team, as an official sponsor for the season 2019.



Sports sponsorships increase brand equity, but does it guarantee authenticity?

Historically, there have been instances where companies involved in scams were associated with sports to gain initial visibility.

For instance, Israel-based Banc De Binary – a company involved in world’s biggest binary-options scam till date, for which CFTC fined it USD11 million – had earlier tried to sponsor English Premier League club Southampton FC. The partnership was called off for no particular reason. Many past binary-options scams that were busted had been traced back to Israel.

Back home, Rose Valley was the principal sponsor of Kolkata Knight Riders for two consecutive IPL seasons (2012 and 2013). Two years later, it was at the centre of a INR60,000 crore chit-fund scam.

Similarly, Sahara India was the title sponsor for the Indian cricket team for three years (2011-2013), and co-owned F1 team Force India along with Vijay Mallya’s UB Group. It also had interests in many others sports such as badminton, Golf, etc. Soon after, owner Subroto Roy was arrested for irregularities in fundraising schemes of Sahara India group.

Legit investment or a gamble?

Even for a trader with sound fundamentals who gets the overall market direction correct, predicting such minute-by-minute fluctuations is virtually impossible.

“If you lose, you lose 100. But if you win, your never win 100, you always win less. So, unless you’re going to have a win ratio of around 60% or more, you’re guaranteed to lose money in the long run,” says Tepfer. Hence, statistically, binary options as an investment product has higher propensity to lose.

For example, as the graphic below shows, even if a trader has equal number of wins and losses, the final earnings are less than the money invested. Here, the trader ends up losing 10% of his/her initial investment.

| | Outcome | Investment | Payout |
|--------------|---------|--------------|------------|
| Bet 1 | Won | 100 | 180 |
| Bet 2 | Won | 100 | 180 |
| Bet 3 | Won | 100 | 180 |
| Bet 4 | Won | 100 | 180 |
| Bet 5 | Won | 100 | 180 |
| Bet 6 | Lost | 100 | 0 |
| Bet 7 | Lost | 100 | 0 |
| Bet 8 | Lost | 100 | 0 |
| Bet 9 | Lost | 100 | 0 |
| Bet 10 | Lost | 100 | 0 |
| Total | | 1,000 | 900 |

All figures in USD
Source: ET Prime research

“Companies regulated by the CFTC, US are bound to disclose the win ratio in the fine print. Binary-trading companies disclosed a win ratio of mere 20% on an average. I wouldn’t consider something an investment in which 80% of the people lose their money,” Tepfer says.

Given this nature of the product, binary options fall in the grey area, a crossover between gambling and financial investments. In the UK, until January 2018 the binary-options trade was overseen by The Gambling Commission of UK before coming under the supervision of Financial Conduct Authority (FCA), the financial regulatory body of the UK.

Binary options are facing bans in the West because of its speculative nature, as well as the suspect nature of unregulated companies that run these platforms, leading to scams. According to FCA, estimated average daily losses due to binary-options scam exceeds GBP87,000 in the UK alone. The regulators in the European Union, the UK, Russia, etc, have already banned binary options.

Binary options are legal in the US, although it is highly regulated. They are available for trade only on a Commodity Futures Trading Commission (CFTC)-regulated exchange, called NADEX. Since NADEX is an exchange and not a broker, traders are playing against each other and not the house, reducing chances of foul play.

With crackdowns in the West, brokers such as Olymp Trade have shifted their focus to countries like India, where there is no clear regulation regarding online binary-options brokers.

Loopholes and violations

Market regulator Sebi does not have any clear guidelines for regulating foreign-registered binary-options brokers. It bans domestic brokers from offering binary options but haven't come up with any framework or advisory for the Indian investors. This leaves a legal loophole. There hasn't been any action against any of the online binary-options brokers operating and duping investors in India.

"In India, Sebi doesn't allow trading in binary options on any regulated derivative exchanges – BSE, NSE, NCDEX, or MCX. But there are no such guidelines from Sebi for brokers registered outside India. However, RBI has a guideline on this which does not allow remitting money to online forex brokers registered outside India," says Vidisha Krishnan, partner at MVKini, a Mumbai-based law firm.

Remitting money towards foreign-registered online-trading portals violates the Foreign Exchange Management Act (1999), according to the RBI notification in September 2013.

Another major violation the online brokers commit is that they allow investors to use their credit card to trade on their platforms. In India laws clearly states that you cannot put money into any financial product using your credit card.

"These online brokers are registered in offshore countries and are not registered as financial or investment companies. So, any remittance made towards them from India looks like any other credit-card purchase and doesn't show up as trading activity. Thus, it becomes difficult for the banks to track such transactions," says Nithin Kamath, founder and CEO of Zerodha, one of India's leading stock brokers.

Moreover, these platforms also give their traders crazy amount of leverage. If you open an account with, say, USD200, the broker allows you to trade around 20x-100x of the initial deposit. This means the investors can lose much more than their initial capital. This can swell to enormous amounts when using a credit card.

Who is going to investigate these frauds? Who is going to prosecute them in case of fraud? The owners are unknown and Sebi does not regulate them.

These platforms set up shell companies in places like St. Vincent and Grenadines and then set up another shell company in the EU region for processing the payments. They use a combination of the shell companies and payment-service providers just to move money around. The real beneficiaries are never known.

There are other instances of one company running multiple trading platforms. Binary-trading platform 70trades is run by Vanuatu-registered Commodius Ltd. The same company also operates another platform called A3Trades.

There are few investigative agencies who help the victims track the real owners and help in settlements. Also, there is a recovery cost involved. Someone who has lost, say, USD200,00-USD300,000 might be willing to spend USD20,000 to recover it, but if someone loses USD3,000-USD4,000, how much can he afford to spend?

Yasmeen B (name changed) earned a profit of USD300 on Olymp Trade, but the company deducted 50% of the account balance without giving sufficient reasons. After hounding the company for several weeks, she sought legal advice. "There was some chance of accountability if the company was based in India, but in this case, I had no recourse," she says.

There is an isolated case where the police busted a company that was operating from Vadodara, Gujarat. The police arrested two employees of XDirect facilitating foreign-exchange trading without a licence. The platform also offered binary options.

The bottom line: only putting a ban won't help

Binary-option products come under both RBI and Sebi because they violate both FEMA Act as well as restriction on binary-option trades.

The first step should be to put a permanent ban on all online binary-options brokers, like many other countries did. Secondly, RBI should completely blacklist accounts of the brokers involved and bank should not allow any remittances toward these accounts. Besides regulation, educating investors about the risks of binary trades will play a crucial role.

Kamath from Zerodha agrees. "Just putting a ban will not serve the purpose. Who's going to do the [due] diligence, and who's going to figure [out] who's a broker? I think it has to come through education. This is more than a tier II and tier III problem, [where people are] trying to get rich quick."

Queries sent to Sebi and RBI did not receive any response at the time of writing this report.

Online ads are a major culprit but are not in the purview of the regulators. "So, if a user gets carried away by dream of making 5x-10x returns quickly through an ad, there is no way we can stop them," Kamath adds.

“Everything looks right, until there's a problem,” Rane says. “In hindsight, I would have rather betted on a flip of a coin than on binary options, but they seemed so legit back then.”

Just a few days after I came to know that I was being duped, I was watching TV and saw this ad — Mutual Funds, Sahi Hai! I realised how I ignored legit investment instruments, and ended up getting carried away for something too good to be true. I feel, a similarly expansive campaign will create the right noise about about binary option,” Rane says.

ET Prime sent detailed queries to Olymp Trade regarding its legality in India, accusations of fraud, and the identity of the owners. It replied: “The company is the member of the Financial Commission, which is our regulator. You can view our certificate here: <https://financialcommission.org/olymp-trade/>. This shows that we are a reliable broker with a high security level. We work since 2014 and we have more than 3 million users all over the world.”

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