

Submission Date

01/06/2018

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Status: Answer Published

Additional Information

Level 1 Regulation

Markets in Financial Instruments Regulation (MiFIR) Regulation (EU) No 600/2014 - Investor Protection and Intermediaries

Topic

Product intervention

Additional Legal Reference

ESMA Decision 2018/795; ESMA Decision 2019/796

Subject Matter

Binary options

Question

How does ESMA define a binary option? In particular, is it limited to instruments with only two outcomes?

ESMA Answer

01-06-2018

Original language

[ESMA Q&As on Product intervention, Q&A 5.6]

The temporary prohibition on the sale, marketing or distribution of binary options in respect of retail clients applies to binary options when the payment is limited to a predetermined fixed amount or zero if the underlying of the derivative meets one or more predetermined conditions, and *vice versa*.

In addition to the contracts described in the recitals of the BO Decision, this includes contracts in which payment is contingent on multiple events occurring. For example, a contract in which the client receives a EUR 2,000 payout for a EUR 500 investment (premium) if the DAX30 reaches 12,035, the USD/EUR pair 0.8235, and Brent Crude reaches USD 70.40.

This also includes contracts in which the payment to the client increases if certain events occur. For example, it includes a contract according to which the holder receives a payout of EUR 600 if the USD/EUR pair reaches 0.8235 plus an additional payout (bonus) of EUR 200 if the USD/EUR pair reaches 0.8300. In other words, the holder receives a total payout of EUR 600 if the USD/EUR pair reaches 0.8235 but not 0.8300, and a total payout of EUR 800 if the USD/EUR pair reaches 0.8300.