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'Our agents are going to look under every rock and stone'

FBI says it's investigating binary options fraud worldwide, invites victims to come forward

Agency has received numerous complaints about Israel-centered fraudulent industry, and its probe 'is not limited to the USA,' official says. 'We see this as a global problem,' adds spokeswoman

BY SIMONA WEINGLASS | February 15, 2017, 5:13 pm |

The Federal Bureau of Investigation is actively and concertedly investigating binary options fraud, and will pursue justice anywhere on earth, an investigator from the agency's Complex Financial Crimes Unit said.

"Our agents are going to look under every rock and stone," FBI Supervisory Special Agent Milan Kosanovich said in a recent telephone interview, speaking after law enforcement officials from North America and Europe [gathered last month for an emergency summit](#) on binary options fraud in The Hague.

"We are not limited to the USA," he added. "We have international partnerships with countries all over the world. I can't get into specifics but we have worked long and hard as an entity to make sure we developed those relationships and get the information that our investigators need from our partners."

A large percentage of all binary options fraud is carried out from call centers in Israel, although the industry's shell companies and payment processing infrastructure are spread throughout the world, as are the largely fraudulent industry's victims.

The FBI invited anyone who feels they have been a victim of binary options fraud, no matter where they live in the world, to come forward.

"The FBI welcomes complaints from any individuals who have been defrauded by binary options," a spokeswoman for the agency told The Times of Israel. "We see this as a global problem and work with all of those who are willing to address the problem and eradicate this criminal threat."

Asked if the FBI was merely investigating binary options brokerages or if it was also investigating companies that power the backend of the websites, such as Spotoption or Panda, Kosanovich replied: "I can't talk about specific companies. What I can say is that when we do criminal investigations we don't limit ourselves to this or that. We try to take as comprehensive a look as we can at the situation that we're investigating. And we make appropriate decisions with the prosecutors as to where criminal activity lies."

Kosanovich also said that if a need arose at some stage to extradite suspects from abroad to face a criminal trial, the United States would do so on a case-by-case basis.

FBI agent Kosanovich said binary options fraud had come to the FBI's attention through several channels. The US Securities and Exchange Commission and the Commodity Future Trading Commission have received numerous complaints from defrauded victims of the industry. The FBI has personnel inside both the SEC and CFTC and has also received complaints itself.

"We have our traditional ways of gathering information on fraud threats, whether it be through victim complaints or some of the research capabilities that we have to analyze data that we have access to," he said. "Once we took a look at [binary options] fraud, we decided it was something that deserved our attention."

Many ex-employees of Israeli binary options firms who have spoken to The Times of Israel have said that a large percentage of the industry has a policy of not soliciting American clients for fear of the long arm of US law enforcement. Other companies, however, do solicit American customers despite it being against US law to do so.

“The binary options industry is not technically illegal in the United States,” Kosanovich noted. “But you have to be a registered, regulated entity, of which, if memory serves me correctly, there are only two. And there are more than two binary options entities soliciting US clients.”

Kosanovich was presumably referring to the Nadex and Cantor Exchanges in Chicago, which are US-regulated. They differ from Israeli and other offshore binary options companies in that they merely bring buyers and sellers together, and do not employ a “bucket shop” structure whereby the customer’s loss is the company’s gain.

A source close to the Nadex exchange said in a [November interview](#) that he thinks it highly unlikely that any Israeli binary options companies, most of which are fraudulent and none of which has been approved for regulation by the Israeli Securities Authority, would pass muster and obtain regulation in the United States.

Beyond investigating the companies themselves, Kosanovich also said that the FBI was providing information to credit card companies so they can recognize binary options transactions and understand the nature of the industry.

“We think part of the solution is educating both issuing and acquiring banks as to what exactly this is. If they see their customers request a charge for this, they know exactly what is associated with this.”

Each credit card transaction involves at least four parties: the cardholder, the merchant, the issuing bank and the acquiring bank. Cardholders initiate a transaction when they seek to acquire a good or service from a retailer or merchant. When the merchant charges the cardholder’s credit card, the merchant’s acquiring bank will up-front the money to the merchant, then ask for reimbursement from the bank that issued the credit card. The issuing bank is later repaid by the cardholders themselves.

One recent victim of binary options fraud told The Times of Israel that when he showed executives at his issuing bank articles about the fraudulent nature of the industry, he was able to successfully get his money back through a chargeback.

Asked if binary options was a particularly sophisticated form of fraud, [as some have suggested](#), Kosanovich replied, “Here at the FBI we have a unit specifically dedicated to money laundering. We’ve seen everything under the sun. Some are very sophisticated and some are not. Those who like to ply their craft in the financial fraud world can be very creative.”

A spokeswoman for the FBI said that anyone out there with a complaint or tip about binary options fraud can contact their local FBI field office or the agency’s Internet crime complaint center, www.IC3.gov. Anyone with information should also notify the SEC and CFTC, the spokeswoman said, so that the complaints can be examined for possible civil regulatory issues as well.

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The Times of Israel has been exposing Israel’s largely fraudulent [binary options](#) industry in a series of articles since last March, beginning with an article entitled “[The Wolves of Tel Aviv](#),” and has estimated that the industry here numbers over 100 companies, most of which are fraudulent and employ a variety of ruses to steal their clients’ money. These firms lure their victims into making what they are duped into believing will be profitable short-term investments, but in the overwhelming majority of cases the clients wind up losing all or almost all of their money. Thousands of Israelis work in the field, which is estimated to have fleeced billions of dollars from victims all over the world in the past decade.

The Prime Minister’s Office in October condemned the industry’s “[unscrupulous practices](#)” and called for the entire industry to be outlawed worldwide. Responding to The Times of Israel’s reporting on the widely fraudulent industry, on January 2, the Knesset’s State Control Committee held a [hearing](#) on the government’s failure to shut down binary options fraud. The committee chair, MK Karin Elharar (Yesh Atid), demanded that the police begin enforcement activity against fraudulent binary options firms in the next month and that the Israel Securities Authority urgently advance legislation to shut down the entire industry. Israel Police ignored Elharar’s invitation to the meeting and did not attend. A follow-up hearing is scheduled for February 28.