



## Binary Options: European vs American Types

**TRAVERSE CITY, Mich. - Nov. 19, 2014 - [PRLog](#) --** European vs American Binary Options

Binary options are a relatively new form of trading the financial markets where two possible trade outcomes are featured in the contract, with the trader making money if he selects the correct of the two outcomes. The words “binary options” mean “two options”. If the correct option is chosen by the trader, the trader gets the full payout. If the wrong option is chosen, the trade ends in a loss.

Now you probably already know all this from some of the previous posts on this blog. However, many traders do not know the difference between a European-style binary option, and an American-style binary option. This article attempts to shed some light on the nature of both styles of binary options. That way, the trader will have some understanding of how each binary options style works so that in deciding which of the two to trade, decisions can be made based on the correct information.

### EUROPEAN BINARY OPTIONS

Most of the binary options platforms we see listed online are European style binary options. Examples of brokers that offer European-style binary options most of the popular ones you will see in a typical Google search. With European-style binary options, you will get to trade unique contract types. Some of these features are as follows:

#### a) Contract Specifications

What types of contracts are traded on European binary options? We have the following trade contracts:

Touch/No Touch

In/Out: This is also known as the Boundary trade.

One Touch.

Tunnel

Call/Put

Other trade types which are variations of the Call/Put trade.

The settlement value of these contracts is in an “all or none” fashion, with losing trades settled at 0 and winning trades settled at a value of initial investment + profit payout.

#### b) Assets Traded

Assets traded using European-style options cut across stocks, commodities, currencies and stock indices. The exact assets offered will differ from one platform to another.

#### c) Regulation

Over the years, this has been a very sore point in European binary options. As little as 2 years ago, many of

the brokers operating European-style binary options were largely unregulated, did not sequester traders' accounts, and were not required to provide any form of minimum capital requirements so as to assure traders that there were enough funds to cover their withdrawal requests.

Thankfully, some sanity is being restored to the system and some of the governments in areas where European-style binary options have either strengthened existing regulatory bodies covering the traditional markets to provide regulation, or set up new agencies for this purpose. In Malta, Cyprus and Japan, active regulation of the market has been achieved so that most brokers offering European-style binary options are now regulated.

#### d) Minimum Capital Requirements

European-style binary options typically have very low capital requirements. These days, it is commonplace to see a few brokers who offer account opening for as low as \$10. While this may not serve traders who want to make good profits very well, such accounts can serve as a testing ground for those who want to risk very small amounts of money for a taste of real money trading.

There was a time when expiry times of European-style option trades were fixed, but many brokers have ditched this model and replaced them with flexible expiry settings, which allow the trader to close the trade early under certain conditions.

### AMERICAN BINARY OPTIONS

Where else would you see "American binary options" if not with brokers that are based in the US? Americans have a way of doing things a bit differently from the rest of the world, and binary options are no exception. There are unique trade types and trade conditions associated with American binary options. Some of these features are as follows:

#### a) Contract Specifications

American binary options feature binary options which are of the Buy/Sell type and which have a settlement value of 0-100. Depending on whether the trader buys or sells the option, the cost of the option is subtracted from 100 or added to 0 and multiplied by the number of units purchased.

#### b) Assets Traded

The regular asset classes traded on European options (stocks, commodities, currencies and stock indices) are also traded on American binary options platforms. However, there are also some unique asset types which represent special events specific to the US. These are:

- US Jobless Claims
- EURsystem Main Refinance Rate
- The FOMC Targeted Fed Funds Rate
- US Non-farm Payrolls

If you have traded American-style binary options, you will also notice that the contract specifications are quite different from what is obtainable with European-style binary options. We will talk more about this in

another article.

### c) Regulation

This is where American-style options are light years ahead of European binary options. Unlike in European binary options where it has been difficult to come up with a working regulatory protocol over the years, American-style binary options have been regulated from the get-go by the Commodities and Futures Trading Commission (CFTC).

### d) Minimum Capital Requirements

The minimum account opening requirement on platforms that require American-style binary options is generally higher than is obtainable on European binary options.

The great thing about American-style binary options is that traders do not have to wait until the trades expire before they can close them out. This is a flagship feature of American-style binary options.

### Conclusion

These are the basic differential features of European-style and American-style binary options. In subsequent articles, we will deal with some of the points that have been raised here in greater detail.

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