

4. Supervisory Regulations Governing Multi-Level Sales (2012)

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by Fair Trade Commission Order (81) Kung Mi Fa Tzu No. 001

Amendments Promulgated on June 16, 1999
by Fair Trade Commission Order (88) Kung Mi Fa Tzu No. 01588

Amendments Promulgated on April 24, 2002
by Fair Trade Commission Order Kung Mi Fa Tzu
No. 0910003680

Amendments Promulgated on November 26, 2003
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by Fair Trade Commission Order Kung Mi Fa Tzu
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by Fair Trade Commission Order Kung Mi Fa Tzu
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Amendment to Articles 15 and 16 Promulgated on
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by Fair Trade Commission Order Kung Jing Tzu No.
10114614211

CHAPTER ONE GENERAL PROVISIONS

Article 1

These Regulations are promulgated pursuant to the provisions of Article 23-4 of the Fair Trade Act ("the Act" for short).

Article 2

The provisions of these Regulations shall apply to relevant matters including any multi-level sales enterprise' filing for record, inspection of activities, required CPA certification of and public disclosure of financial statements, matters requiring notice to participants, the content of participation agreements, the protection of participants' interests, conduct

prohibited as materially affecting the interests of participants, and managerial obligations toward participants.

Article 3

(Deleted)

Article 4

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CHAPTER TWO PROCEDURES OF REPORT FILING FOR RECORD

Article 5

Prior to engaging in multi-level sales operations, a multi-level sales enterprise, should prepare a complete and truthful report containing the following items, and apply for record by the central competent authority:

1. the name of the enterprise, the actual paid in capital, the representative or legally responsible natural person, location, date of establishment, and documents pertaining to the corporation and business registration;
2. primary place of business and other business operating places;
3. the date of commencement of multi-level sales operations;
4. conditions for participating in the multi-level sales plan or organization;
5. the multi-level sales structure, including commissions, bonuses and other economic benefits provided, conditions for earning such remuneration, methods of calculation, and estimates for the highest percentage such payments constitute within the overall sales income;
6. the participation agreement terms and conditions as well as the form of the contract;
7. the itemized products or services for sale, prices, unit costs, uses of the product or service, place of origin or source, and other related matters;

8. for enterprises which have a partial refund policy providing a standard for determining the degree of use or damage of a product or service pursuant to Article 23-2 or 23-3 of the Act, provide the standard and its contents; and
9. such other matters as may be required by the central competent authority.

The format and process of report discussed in the preceding paragraph may be prescribed by the central competent authority.

Article 6

Multi-level sales enterprises which fail to provide a complete report meeting the requirements of paragraph one of the preceding article, shall be deemed to not have filed a complete report, and the central competent authority may return their report, and order them to resubmit a complete one for record.

If it deems necessary, the central competent authority may order a multi-level sales enterprise to provide additional materials to supplement any item listed in paragraph one of the preceding article.



Regarding any of the requirements in paragraph one of the preceding article, the central competent authority may in its discretion determine it to be appropriate, to order the multi-level sales enterprise to provide additional supplemental amendments to the report; if the amendatory supplements are not filed, then the preceding paragraph may be applied.

Article 7

Except for changes regarding the unit costs in Article 5(1)(vii), all other alterations in the required materials submitted in the report for the multi-level sales enterprise, should be reported prior to their going into effect. But for items included within the scope of Article 5(1)(i) above, which may have changed, it is permitted to report within 15 days of the change.

The format and process of making amendment to the report discussed in the preceding paragraph may be prescribed by the central competent authority.

Article 8

Multi-level sales enterprises which intend to cease their multi-level sales operations, should file a written report with the central competent authority prior to cessation.

Article 9

The central competent authority shall record in a roster the names of multi-level sales enterprises found, upon checking, to have fully reported all the information in paragraph 1 of Article 5.

The roster of multi-level sales enterprises and the important developments of the relevant information thereof shall be published by the central competent authority.

The publication referred to in the preceding paragraph may take the form of publication on the World Wide Web site, or other forms sufficient to make the information widely known to the public.

Article 10

If a multi-level sales enterprise listed in the roster is found, upon checking, to have relocated to an unknown location or shows no evidence of operation, the central competent authority may note such circumstances in the roster.

CHAPTER THREE RIGHTS AND OBLIGATIONS OF PARTICIPANTS

Article 11

Before a participant takes part in the sales organization or plan of a multi-level sales enterprise, the enterprise shall inform the participant of the following particulars, and shall make no dissembling, false, or misleading presentations:

1. Paid-up capital and gross business volume in the preceding year, or, if the enterprise has been operating for less than one year, the cumulative business volume for the months of operation;
2. multi-level sales system, which shall include the contents of the attainable benefits, acquiring requirements and measuring methods from goods or services directly promoted or sold by participants as well as from goods or services promoted or sold by participants who joined the multi-level sales system posteriorly.
3. laws and regulations relevant to multi-level sales;
4. obligations and responsibilities of a participant;
5. the itemized products or services for sale, prices, unit costs, uses of the product or service, place of origin or source, and other related matters;
6. conditions, terms, and scope of warranties against defects of the goods or services;
7. conditions of withdrawal by a participant from the organization or plan, and rights and obligations arising from the withdrawal; and
8. such other matters as may be required by the central competent authority.

Shall make no false or misleading presentations on items listed in the preceding paragraph when a participant introduces another person to take part in the organization or plan.

Article 12

A multi-level sales enterprise shall enter into a participation contract in writings with that who intends to take part in the sales organization or plan as a participant; the participation contract shall include the matters prescribed in items 2 through 8 of paragraph 1

of the preceding article.

The writings referred to in the preceding paragraph may not be in the form of an electronic document.

Article 13

The content of written contract, which should be disclosed by multi-level sales enterprise to participants, in accordance with item 7, paragraph 1 of article 11, should include articles 23-1 through 23-3 of the Act, except for those are beneficial to participants.

Article 14

The method for handling a request by a participant to return goods in the event a multi-level sales enterprise rescinds or terminates the contract for breach of operational rules or plans by such participant or other reasons attributable to such participant, shall be specified in the contract.

Article 15

A multi-level sales enterprise shall prepare the balance sheet and income statement for its multi-level sales operations in the previous accounting year before the end of May each year and keep them in its main office.

When the capital of a multi-level sales enterprise reaches the amount specified in Paragraph 2, Article 20 of the Company Act or the total sales in the previous accounting year exceeds NT\$100,000,000, the aforesaid financial statements shall require auditing and certification by a certified public accountant.

Participants may request to inspect the aforesaid financial statements of the multi-level sales enterprise to which they belong and the multi-level sales enterprise may not refuse such requests without justifiable reasons.

Multi-level sales enterprises that had already met either of the conditions set forth in Paragraph 2 before the last amendment to these Regulations took effect on September 28, 2012 shall act according to Paragraph 1 and have the financial statements kept in the main office ,audited and certified by a certified public accountant from 2013 onwards.

Article 16

Multi-level sales enterprises may not recruit incapacitated persons to be participants.

A multi-level sales enterprise recruiting a person with limited capacity to be a participant shall first obtain the written consent from the legal representative of such a person and also attach the said written consent to the contract.

The written consent referred to in the preceding paragraph may not be an electronic document.

Incapacitated persons who had signed a contract with a multi-level sales enterprise before the last amendment to these Regulations took effect on September 28, 2012 may continue their multi-level sales activities until they withdraw from the said multi-level sales scheme or organization.

CHAPTER FOUR SALES ACTIVITIES

Article 17

A multi-level sales enterprise may not engage in any of the following activities:

1. requiring a participant to pay any fee obviously incommensurate with the cost in the name of training, seminars, social activities, meetings, or other like activities;
2. requiring a participant to pay or undertake any security deposit, breach penalty, or other liability, where such is obviously unreasonable;
3. requiring a participant to purchase goods in a quantity that would obviously be impossible for an average person to sell out in a short period, unless it is agreed that the price shall be paid only after the goods are re-sold;
4. unjustifiably withholding commissions, bonuses, or other economic benefit payable to a participant after rescission or termination of the contract;
5. stipulating that a participant shall be paid greater benefits only after he pays training fees obviously incommensurate with the cost or pays other obviously unjustifiable consideration;
6. giving specific persons preferential treatment in a manner contrary to the multi-level sales organization or plan, such that the commissions, bonuses, or other economic benefits that should be available to other participants would be diminished;

7. improperly hindering a participant from returning goods arising from rescinding the contract or terminating the contract;

8. requiring a participant to undertake obviously unfair obligations.

The provisions of the preceding paragraph shall apply mutatis mutandis to participants.

Article 18

For purposes of regulating the activities of its participants in respect of multi-level sales, a multi-level sales enterprise shall stipulate that the following are breaches of contract by the participant, and shall prescribe methods for handling such breaches and faithfully enforce them:

1. promoting or selling goods or services, or recruiting participants to the sales organization, by deceptive or misleading means;
2. raising funds from other persons in the name of the multi-level sales enterprise or through its organization;
3. engaging in sales activities by means that run counter to public order or good morals;
4. affecting the market trading order or creating heavy losses to consumers by improper direct sales calls;
5. engaging in sales activities that violate the Criminal Code or other laws or regulations governing industry and commerce.

Article 19

When recruiting participants by advertising or other means of communication to the public, a multi-level sales enterprise shall make it clearly known that it is engaged in multi-level sales activities; neither may it recruit participants under the guise of recruiting employees or on other pretense.

The provisions of the preceding paragraph shall also apply to participants.

Article 20

When promoting or selling goods or services or recruiting participants by means of declared cases of success, a multi-level sales enterprise or its participants shall concretely explain the time periods, benefits obtained, and course of development of

such cases, and may not make false or misleading representations.

Article 21

After a participant joins the sales organization or plan of a multi-level sales enterprise, the enterprise shall educate and train the participant with respect to laws and regulations relevant to multi-level sales and to channels for filing complaints about infractions of law by enterprises.

CHAPTER FIVE INSPECTION OF BUSINESS

Article 22

A multi-level sales enterprise shall prepare and keep in its principal place of business the following written materials, and record therein on a monthly basis its development within the territory of the Republic of China:

1. the organizational system of the enterprise overall and at each level of its hierarchy;
2. total number of participants, and numbers of participants that joined and withdrew in the relevant month;
3. each participant's name or appellation, citizen's ID card number or number appeared on the business license, address, and contact telephone number; and the areas in which the participants are mainly located;
4. written participation contracts signed with the participants;
5. types, quantities, and monetary amounts of the goods or services sold, and other matters related thereto;
6. status of the payment of commissions, bonuses, or other economic benefits;
7. status of the handling of return of goods by participants and the aggregate amount of purchase price refunds paid.

The materials in the preceding paragraph shall be kept for five years; the same shall apply in the case of an enterprise that ceases multi-level sales activities.

The written materials in the first paragraph may be stored by means of electronic data storage media.

Article 23

The central competent authority may at any time dispatch personnel to inspect the materials provided for in the preceding article, or order an enterprise to provide those materials at regular intervals; the enterprise may not impede, refuse, or evade such inspection or order.

CHAPTER SIX SUPPLEMENTARY PROVISIONS

Article 24

(Deleted)

Article 25

(Deleted)

Article 26

The Regulations shall be in force from the date of promulgation.

