

HCS HBs 1120 & 1138 -- PYRAMID SALES SCHEMES

SPONSOR: Jones (088)

COMMITTEE ACTION: Voted "Do Pass with HCS" by the Standing Committee on Commerce by a vote of 7 to 0.

The following is a summary of the House Committee Substitute for HBs 1120 & 1138.

Currently, the definition of "pyramid sales scheme" includes any plan or operation which relies upon the recruitment of additional persons to participate in such plan or operation for a monetary benefit, rather than for the actual sale or distribution of goods, services, or products for purposes of resale to consumers. This bill repeals the current definition and provides that "pyramid sales scheme" is a plan or operation that gives consideration for the opportunity to receive compensation from bringing persons to the plan or operation rather than from the sale and consumption of goods, services, or intangible property by a participant or other persons introduced into the plan or operation. It limits the number of people who can participate in the plan and includes a plan or operation in which a person, on giving any consideration, obtains goods, services, or intangible property in addition to the right to receive compensation.

The bill does not prohibit a plan or operation where the participants give consideration in order to receive compensation based upon the purchase of goods, services, or intangible property for personal use, consumption, or resale as long as the plan or operation does not cause inventory loading and is a bona fide inventory repurchase program as the terms are defined in the bill.

This bill requires a person to clearly define a bona fide repurchasing program in any recruitment literature, sales manual, and contracts with independent salespersons. In addition, an entity is required to specify which inventory is excluded from a bona fide inventory repurchase program as seasonal, discontinued, or special promotion products.

The following is a summary of the public testimony from the committee hearing. The testimony was based on the introduced version of the bill.

PROPONENTS: Supporters say that the bill is taken from model legislation which has been adopted by several states. In a pyramid sales scheme the purpose is to discourage inventory buildup. The bill is really protecting not only consumers but also sellers that get into the direct sales opportunities. It is a business that

stay-at-home moms or people who set up a business on their own can do without much overhead. The bill is supported by the Direct Selling Association under consumer protection and anti pyramid scheme legislation. The bill seeks to provide a delineation between the bad actors and those who are the legitimate companies. The bad actors are prosecuted and discouraged. Direct selling industry doesn't involve any overhead and the bill protects both the sellers and customers.

Testifying in person for the bill were Representative Jones; Missouri Retailers; Amway; John Webb, District Selling Assoc.; and Arnie C. Dienoff.

OPPONENTS: There was no opposition voiced to the committee.

Written testimony has been submitted for this bill. The full written testimony and witnesses testifying online can be found under Testimony on the bill page on the House website.