

Understanding Multilevel Marketing Laws & Regulations

The Complete Resource



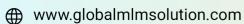
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Introduction







MLM businesses are growing rapidly. According to the Direct Selling Association, approximately 14.6 million people participated in MLM businesses as of 2022. That's 8% of the total population.

Therefore, the MLM businesses affect a huge number of people, and the Federal Trade Commission's duty lies in safeguarding them. When MLM businesses knowingly or unknowingly function as pyramid schemes, it leads to scrutiny, penalties, and loss of trust.

To operate smoothly and maintain a reputable standing in the MLM industry, businesses must be familiar with MLM rules and regulations.

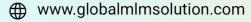
For coming up with this article, we have checked all the laws and regulations governing MLM compliance and brought you a complete overview.

In the end, you'll be well aware of MLM regulations and their compliance requirements.



What are the MLM Laws, Rules, and Regulations?







In the simplest possible terms, MLM laws, rules and regulations refer to the legal guidelines set by the Federal Trade Commission (FTC) and other organizations that monitor the functioning of MLM companies to ensure that they don't operate as pyramid or Ponzi schemes, market their products truthfully, communicate with distributors transparently, and maintain proper documentation as required.

Now, let us provide a few examples where direct selling compliance fails when businesses knowingly or unknowingly break the network marketing rules and regulations.

There's a skincare company falsely claiming that its products can remove acne in seven days. However, this claim was rejected by many consumers, who filed complaints against the company for its fraudulent act. As a result, an investigation was initiated, and the company's license was suspended.

Now, this could be true of any company that is operating in the same industry, be it MLM or not.

So, let's provide you with instances that are directly linked with MLM compliance:

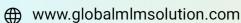
- A distributor purchased the inventory, but wasn't able to sell it. He puts in a return request, which the MLM company rejects. As the distributor lost money, it can put the business under scrutiny under the Federal Trade Commission's guidelines.
- A distributor made sales by himself but wasn't interested in recruiting new distributors and training them. The MLM company rejected the payout as the distributor had not built a downline. It's illegal to force a distributor to build a downline, and the company came under scrutiny.

These are some basic examples, and as we dig deeper, you'll understand how even a minor misstep can lead to a major compliance issue.



Multilevel Marketing Laws and Regulations in the United States







There is no one specific multi-level marketing law according to which MLM businesses can ensure compliance. Rather, there are multiple relevant acts from which one needs to grab what's directed to MLM compliance.

That's one of the reasons why MLM compliance appears complicated, and businesses fall into the pyramid pit without even knowing about it.

To explain to you about the <u>MLM regulations landscape</u> in the USA, we have gone through each of the relevant acts and picked what's useful.

Section 5 of the Federal Trade Commission Act (FTC Act)—An Essential MLM Act

In the Statement of Enforcement Principles Regarding "Unfair Methods of Competition" Under Section 5 of the FTC Act, it is mentioned that:

"Congress chose not to define the specific acts and practices that constitute unfair methods of competition in violation of Section 5, recognizing that application of the statute would need to evolve with changing markets and business practices. Instead, it left the development of Section 5 to the Federal Trade Commission as an expert administrative body, which would apply the statute on a flexible case-by-case basis, subject to judicial review."

Therefore, there's no direct mention of MLM practices under section 5 of the Federal Trade Commission Act (FTC Act). Still, it is considered the governing act for the MLM business.

The key to MLM compliance lies in ensuring that the MLM business doesn't fall under "Unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce."

Because there are no direct guidelines in the FTC Act, MLM businesses struggle to identify the exact compliance requirements.

However, the FTC released a separate resource for "Business Guidance Concerning Multi-Level Marketing" to support MLM businesses in aligning their practices with core consumer protection principles. The resource covers:

- When an MLM falls under the definition of an illegal pyramid scheme and how to maintain compliance to ensure it does not.
- Guidance regarding representations about income and earnings claims to current and prospective participants.
- Agent Liability for making claims and overall compliance.



In this section, we'll discuss the Federal Trade Commission's recommendations to ensure your MLM business stays compliant. However, one must note that these are recommendations and do not represent the views of the commission and are not legally binding.

Let's discuss compliance requirements for different aspects.

Aspect: Compensation Plan

Compliance Requirement

- MLM regulations suggest that the compensation plan must focus on sales to the end user rather than recruitment.
- The compensation plan must not require recruits to create a downline to earn lucrative rewards.
- Multiple levels of downline should not be necessary for earning significant compensation. The compensation plan structure must allow the person to make sales even without creating downlines.
- The MLM business must focus on product sales to real customers who are end users, not a part of the MLM network.
- The distributor must not purchase and consume the products for the sake of qualifying for the sales reward.
- MLM must not suggest that distributors can recoup their investment through product sales made by their downline.
- Businesses must not incentivize inventory loading.
- Rewards must not be completely unrelated to retail sales.
- The distributors must not make large or regular purchases in order to be eligible for rewards. Therefore, you need to track distributors so that they don't buy products only to earn personal PV. They need to make sales for you to stay compliant.

Note: Here, "large" and "regular" can be subjective. Therefore, you need to take stringent action if you track repeated purchases without sales. Also, your compensation plan must be designed in such a way that it puts a cap on how much a person can keep in their inventory.



Aspect: Training

Compliance Requirement

- Training must inform participants to focus on retail sales rather than recruitment.
- Compliance best practices must be explained during the training program.
- Recruits should be made aware of what to commit to regarding the products and earnings, and what not to.
- Training must not promote meeting sales quotas by purchasing products themselves, even when there's no demand.

Aspect: Earning and Expenditure Claims

- The MLM business must convey the previous and existing participants' experiences with the engagement, which mentions the distributor's success or failure.
- The information must include the amounts they purchased, sold, and earned, as well as the amount of additional expenses they incurred. This is to ensure that participants know what they are getting into and what the probability is of becoming successful.
- When an MLM business or its distributor is making earnings claims, there should be a reasonable basis for making the claim and supporting evidence, such as an annual sales report and the distributor's personal earnings details.
- Earning claims must not be based on subjective beliefs.
- The earning claims should not be misleading, such as "work for a limited time and make significant income." One must show the actual picture that X number of people earned Y amount of income by working for Z hours.
- Top earners' testimonials mentioning the income and lifestyle achievements in testimonials are considered misleading as per multi-level marketing laws, as most distributors won't experience it. Therefore, one must not present atypical income as a general expectation, even if it contains a disclaimer. The same is valid for lifestyle claims.
- Even making claims that participation will help them replace their job and pay off debt is illegal, or if you wish to make this claim, you need to show data supporting this as the typical result.



- Disclosure's information must align with the advertising. If the disclosure is presented digitally, the information must be present on the webpage and not on hyperlinks and mouse-overs. Prospects must be able to read the claim and disclosure one after another.
- MLM must obtain expense details from distributors regularly. If they don't have that data, it's better not to make an earnings claim.
- The MLM business must only use the word "free" for material rewards and trips when they are free for real, and there are no hidden fees or ownership restrictions.

Aspect: Marketing

Compliance Requirement

- Multi level marketing laws require that promoted benefits must come with proof and must not be misleading.
- Income expectations should be realistic and inspired by real-life examples. There should not be a promotion based on hypothetical situations.
- MLM companies and their distributors should be 100% truthful to prospects regarding the type of opportunity offered, and also provide them with general details.
- Conditions for a "free" item must be mentioned in the same document and not communicated through a hyperlink.

Aspect: Agent Liability

- It is essential to note that MLM businesses will be held accountable for FTC violations committed by their agents/distributors/participants. Therefore, to avoid this, MLM businesses must:
 - Conduct compliance training
 - Monitoring agent activities and keeping an automated alert system in place that indicates whenever there's a violation
 - The agent must obtain approval before making an income claim.
 - Businesses must keep a copy of their agents' advertisements, conversations, and video conferences.



Aspect: Purchases

Compliance Requirement

- Agents must not be encouraged to purchase a large initial inventory to start their business or to qualify for specific compensation.
- Personal purchases must not falsely be attested as sales to family and friends.
- Overall, the purchases must not be made by participants other than for retail and self-use.
- The purchase threshold should not bind distributors to make a purchase to earn income, maintain the compensation level, or qualify for bonuses.

Aspect: Buyback/ Refund

- A buyback provision must be present that allows the distributors to return unsold products to the MLM for a refund.
- The buyback provision should not be too complicated or difficult to navigate.
- Upline must not pressurize its downline to avoid seeking refunds.
- The buyback policy should state the factors according to which a refund will be provided, and what the maximum and minimum losses that the purchaser can face are.
- Also, it must be mentioned whether the MLM business will provide a refund for travel experiences, training costs, and conferences.



Aspect: Record Keeping

Compliance Requirement

- Documenting sales receipts is not mandatory as per multi level marketing laws, but recommended, as it works as evidence that the sales are made to the end user. These should not only include the sales through distributors, but also direct sales from the company to end customers.
- Record the earnings of each individual by documenting their sales and expenditures and ultimately calculating the net profit.

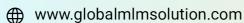
Aspect: Product Claims Advertisement

- Every claim about the product must be truthful and not misleading. It should be backed by substantiation research and evidence that the product performance and results align with the claims.
- Endorsement must reflect the endorser's honest opinion regarding the product, and it must not make any claim that the MLM business and its marketers are not allowed to legally make.
- Whatever claim is presented and how the audience consumes it must be backed by a reasonable basis.
- The language used in the product claim, advertising, and disclosure should be clear and straightforward. Any statement must not distract from or contradict the claims made.
- MLM marketers must properly disclose potential risks (if any) related to products.



FTC Business Opportunity Rule, MLM Law







Under the FTC's business opportunity rules, the business opportunity seller must provide prospective buyers with all necessary information regarding the business opportunity. The information should be disclosed in the disclosure document given to the prospective participant. This is to enable prospective participants to evaluate a business opportunity, its benefits, and associated risks.

Most MLM businesses don't fall in this category. This rule is applied only when the business arrangement meets the legal definition of a "business opportunity." However, it's recommended to follow the practices mentioned under the business opportunity rule because it helps build trust and supports overall compliance.

In the context of network marketing, the business opportunity seller can be considered the MLM business, and the buyer of the business opportunity can be considered the distributor.

The business opportunity rule allows a commercial arrangement where the seller or MLM business solicits a prospective buyer in exchange for initial products, which are refundable in case the distributor decides not to continue. Misrepresenting an MLM opportunity as an employment opportunity is illegal as per multi-level marketing laws. Besides that, the material assistance that MLM businesses plan to provide distributors should be clearly mentioned and followed.

Now, let's discuss what information needs to be disclosed before making the commercial arrangement.

Identifying Information

The MLM business must provide the distributor with the general information about the company:

- Registered name of the company
- Business address
- Telephone number
- Member details who recruited the distributor
- The date when the disclosure document is presented to the person



Earning Claims

It is recommended to share the earnings and provide the prospect with an honest picture to stay compliant with multi level marketing laws under Section 5 of the Federal Trade Commission Act (FTC Act).

There are certain points that you must take into consideration while making the earning claims:

- It must be supported by reasonable evidence when asserted.
- Maintain the written documents supporting the earning claims.
- The start and end dates for which the claimed earning is made.
- The number of people who became distributors for whom the claimed earning is calculated.
- Present the average earnings, the earnings of the top 10% of distributors, and the earnings of the top 1% of distributors.
- If you are located in multiple countries, claim details must be provided for all countries separately. It'll even be better if you can provide state/province-specific earning claims.
- The earnings claim should be available in the general media as well as provided to the prospect before recruiting.



Let's take Herbalife's example of how it presents the earnings claim:

Key Information About Being an Herbalife Independent Distributor

How to join?

You join by purchasing an initial Distributorship kit, the International Business Pack/Digital Starter Kit. (\$54.95). There is no other required purchase.

As a Distributor, you can:

- Buy Herbalife® products at a discount for your own or household use
- Sell Herbalife® products to customers to make a Retail Profit. An example is shown on the right:
- · Recruit others who want to consume or sell Herbalife® products and earn commissions and bonuses from Herbalife based on their activity
- You cannot earn any money by only recruiting or only sponsoring someone



The majority of Distributors in 2024 joined only to receive a discount on Herbalife® products and do not sell products or recruit others.

How much can a Distributor earn in a typical month?

In 2024, about 113,000 U.S. Distributors ordered products for resale from Herbalife and about 102,000 of them earned money from their sales and the sales of those they sponsored. In a typical month, about 50,600 earned money, including those making supplemental income. Here is what they earned in a typical month before expenses:

First-Year Distributors (about 6,000) (about half earned in five months or more in 2024)	All Other Distributors (about 44,600) (about half earned in six months or more in 2024)
50% (about 3,000) earned more than \$154 in a month	50% (about 22,300) earned more than \$268 in a month
Top 10% (about 600) earned more than \$1,144 in a month	Top 10% (about 4,400) earned more than \$4,982 in a month
Top 1% (about 60) earned more than \$5,389 in a month	Top 1% (about 445) earned more than \$19,679 in a month In 2024, the tenure of the Top 1% typically ranged from five to 11 years.

There are no guarantees for success. Some Distributors will succeed, while some will not. As with all business, success requires hard work, skill and dedication.

What if it doesn't work?

- You can cancel your Distributorship at any time. If you are in your first year, you can cancel and receive a full refund of your International Business Pack/Digital Starter Kit.
- If you cancel your Distributorship, you can return unopened products you purchased within the last year for a full refund. We even pay for shipping.
- Please contact 855-757-4747 for more information



It provides the following information:

- The year for which the earning is claimed; it must be updated every year
- How distributors made the earnings
- Number of distributors who ordered products for resale and how many of them earned money from sales.
- Earnings for the distributors for their first year and overall earnings for all distributors, categorized under top 50%, top 10%, and top 1%.
- The statement "There are no guarantees for success.... "makes a difference. It ensures that no one questions the MLM business of following unfair or deceptive acts. However, working hard and skills can be subjective, and there's no way to measure them. Therefore, you need to define the number of hours and level of skills the distributor needs and share this information before the prospect joins the business.

It's recommended that distributors be informed of a specific range of actual or potential sales, or gross or net income or profits. For new MLM companies, it can be based on market research and competitor performance. However, companies already working with distributors must show the income generated through them.

MLM businesses must provide the prospect with the predictive analysis for the earnings based upon the available data, earnings of the past, existing distributors, and probability.

Tip: Earning claims should be complemented with the efforts required to generate the income, and details on how the MLM business supports the distributor if it doesn't work out.



Information Regarding the Criminal History

If the member who recruited the distributor, the MLM business founder, or any of the people in management authority such as officers, sales managers, directors, or people who perform similar functions as management authority are subject to any civil or criminal action for misrepresentation, fraud, securities law violations, or unfair or deceptive practices, including violations of any FTC Rule, within the 10 years immediately preceding the date that the business opportunity is offered, then the MLM business needs to disclose this information publicly.

The business should give individual details for every legal action:



Name of the principal parties



Case number



Full name of the court



Filing date



Brief, accurate statement describing the legal action (100 words max)

Cancellation or Refund Policy

MLM business needs to mention that it provides the distributor with the right to ask for a refund or cancellation of the purchase.

MLM compliance best practices include a buyback policy as well.

Let's take Herbalife's example here:

- Herbalife allows the distributor to return all the products within 30 days of purchase for a full refund.
- After 30 days, the distributors are still eligible for a refund, but no bonuses are provided, and a 10% service charge is levied.
- The products must be in good condition, unopened, and must have a sufficient shelf life of at least four months.



- Distributors are also required to offer a 30-day money-back guarantee to their customers.
- Shipping costs are not covered by Herbalife.

What's important from the MLM business's perspective is that they state each and every term clearly and accurately. For instance, Herbalife openly mentioned that it's a 30-day purchase, and "it doesn't provide a refund on shipping costs."

Such clarity is required to stay compliant.

Misrepresenting any term or condition of the seller's refund or cancellation policies leads to non-compliance.

Distributor References and Prospect Privacy

MLM businesses should provide true and not misrepresented references of distributors who purchased the same business opportunity within the last three years. If the number of purchasers within the last three years is more than 10, then you can limit the references to 10 purchasers who are located nearest to the prospective purchaser's location and provide the information as mentioned in the previous point.

Provide the prospect with the name, state, and telephone number of all the purchasers.

The prospect's approval should be obtained to allow the company to share their details with future prospects. Otherwise, it goes against the privacy laws if you share the details without approval.

Territorial and Geographical Details

A network marketing business must provide accurate details if the distributor is provided with a designated geographic area. The person must know where they can sell and where they can't.

Also, if the MLM business claims to provide an exclusive territory to a distributor, they must not locate additional purchasers or offer the same or similar goods or services as the purchaser through an alternative channel of distribution.



Straightforward Compensation Plan

As per the business opportunity rule, any misrepresentation in the compensation plan is against multi level marketing laws. To guide what needs to be added and how it should be added, there are prohibited practices mentioned, where the seller represents the MLM business and the purchaser represents the distributor.

- There must be a well-documented compensation plan available to prospects even before they join.
- There must not be a misrepresentation of how or when commissions, bonuses, incentives, premiums, or other payments from the seller to the purchaser will be calculated or distributed.
- There must not be misrepresentation of the cost, or the performance, efficacy, nature, or central characteristics of the business opportunity or the goods or services offered to a prospective purchaser.

Record Retention

Record retention has always been an important aspect for compliance with multi-level marketing laws. It not only offers the audit trail to the FTC but also helps businesses to stay compliant. So, here is the list of records that MLM businesses need to prepare and retain:



Earnings claim statement and its proof



Disclosure document



A contract between the MLM business and the distributor, mentioning all the information required by the law

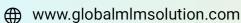


Straightforward compensation plan



Other Rules and Regulations that are Applicable to the MLM Business







CAN-SPAM Act

Though the name is CAN-SPAM Act, it simply means you can't spam. If your MLM business or its distributors use email or any electronic mail message to primarily advertise or promote your products or services, the CAN-SPAM Act is applicable as one of the multi-level marketing laws. It applies to both bulk messaging and one-on-one messaging.

Here are the CAN-SPAM Act guidelines that you need to follow while sending emails to prospects and customers:

- A false or misleading header is prohibited.
- The subject line must not be deceptive.
- Your message must clearly show that it's an advertisement.
- It's essential to disclose the complete physical postal address to the recipients.
- There must be a clear explanation of how recipients can opt out of getting any more marketing emails.
- When a person opts out, fulfill the request within 10 business days.
- Monitor your distributors and ensure that they follow the same practices.

The Federal Trade Commission shared detailed questions and answers on the CAN-SPAM Act.

Restore Online Shoppers' Confidence Act

Restore Online Shoppers' Confidence applies to all the sellers that sell their products and services online, whether it's an MLM business, their distributors, or other e-commerce businesses. We'll discuss what the Restore Online Shoppers' Confidence Act requires MLM businesses and distributors to follow to ensure compliance:

- They must provide the prospects and potential customers, or participants, with clear, accurate information online.
- They must give other sellers an opportunity to fairly compete for consumers' business.
- MLM businesses and its distributors must protect the customer data and must not engage in the process of "data pass" and share customers' billing information, including but not limited to payment details, with any third parties, as these third parties can mislead customers into paying for membership clubs with misleading information and aggressive sales tactics.



- Charging through the negative option feature (as defined in the Federal Trade Commission's Telemarketing Sales Rule) will be considered unlawful, unless the MLM business and its distributor:
 - Provides clear and easy-to-understand information regarding all material terms of the transaction before obtaining the consumer's billing information.
 - Obtains the consumer's informed consent before charging through any of the payment methods to provide the products or services.
 - Ensure simple mechanisms for consumers to stop recurring charges.

Any violation of the Restore Online Shoppers' Confidence Act will be considered a violation of a rule under section 5 of the Federal Trade Commission Act regarding unfair or deceptive acts or practices.

The Consumer Review Fairness Act

The Consumer Review Fairness Act (CRFA) is to safeguard people's right to share their honest opinion regarding the products, services, or conduct of a company, including MLM businesses.

To comply with this regulation, MLM businesses:

- Must not establish contracts with distributors and end users that prohibit them from
 putting out their honest review, including but not limited to reviews on online portals
 and social media websites. These reviews can be uploaded as text, photos, videos,
 and any other media type. It not only harms the prospects but also the other
 businesses that are gaining positive reviews through sheer hard work and effort.
- Must not impose a penalty fee or threaten legal action on someone who gives a review.
- Must not require people to give up their intellectual property rights in the content of their reviews.

However, there are some exceptions to these MLM regulations where the reviews can be removed and prohibited:

- When it contains private or confidential information.
- When it is considered inappropriate and illegal to make a certain statement.
- When it is unrelated to the company's products and services.
- When it is misleading or false.



Compliance Starts Now!







Several multi level marketing laws govern MLM compliance. However, from the MLM perspective, Section 5 of the Federal Trade Commission Act and the Business Opportunity Rule are the most important ones.

You still need to comply with other laws as well, which we mentioned in the article.

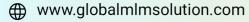
After going through all the relevant laws and regulations, we identify that the best way to stay compliant is to be true to your distributors and end customers. And you must inform, train, and monitor your distributors to follow the same.

If your MLM business follows ethical practices and keeps proof of it, compliance will be achieved.



Frequently Asked Questions







1. What is the MLM Act?

In the USA, there's no specific "MLM Act," but MLM companies must comply with consumer protection laws and Federal Trade Commission (FTC) guidelines. These regulations ensure companies don't operate illegal pyramid schemes, require truthful income claims, fair marketing practices, and protect distributors and consumers from misleading or deceptive business models.

2. What laws regulate MLMs in the USA?

MLMs are regulated by:

- Section 5 of the Federal Trade Commission (FTC) Act
- The FTC Business Opportunity Rule applies when MLM participation is presented as a business opportunity
- CAN-SPAM Act for marketing
- The Consumer Review Fairness Act for review

3. Does the FTC require MLMs to disclose earnings?

Yes, as per MLM rules and regulations, if an MLM or its distributors make income claims, they must have a reasonable basis for the claim, provide written evidence if requested, and disclose what the typical participant earns, so recruits are not misled.

4. Do MLMs have to offer refunds or buyback policies?

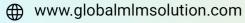
Yes, it is essential for compliance to offer a refund or buyback policy. It includes:

- Buying back unsold inventory from distributors who quit
- Refunding at least 90% of the original cost.
- Disclosing this refund policy clearly in their contracts



About Global MLM Software







Global MLM Software developed by Global MLM Solution is a robust and comprehensive solution designed specifically for the multi-level marketing (MLM) industry.

Trusted by over 100+ global clients across 25+ countries, Global MLM Software has successfully completed 300+ projects in 12+ industries, earning a strong 4.7 average rating. These numbers reflect its credibility, versatility, and commitment to delivering high-quality MLM solutions on a global scale.

With its advanced features and customizable modules, it empowers MLM businesses to streamline operations, enhance distributor management, and maximize profitability. The software offers tools for commission calculation, replicated websites, e-commerce integration, distributor onboarding, and more.

It supports multi-language and multi-currency functionality, enabling businesses to expand internationally.

With mobile optimization and social media integration, distributors can easily manage their business on the go and leverage social networks for promotion.

Backed by secure payment gateways and data migration capabilities, Global MLM Software is a game-changer for MLM businesses aiming for growth, efficiency, and success.









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