

# SENATE BILL REPORT

## SSB 6586

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As Passed Senate, February 15, 2000

**Title:** An act relating to the prohibition of chain letters, pyramid schemes, gifting clubs, and pyramid sales schemes.

**Brief Description:** Prohibiting pyramid schemes.

**Sponsors:** Senate Committee on Commerce, Trade, Housing & Financial Institutions (originally sponsored by Senators Prentice, Hale, Winsley, Goings, Oke and Gardner; by request of Attorney General).

**Brief History:**

**Committee Activity:** Commerce, Trade, Housing & Financial Institutions: 2/3/2000 [DPS].

Passed Senate, 2/15/2000, 35-10.

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### SENATE COMMITTEE ON COMMERCE, TRADE, HOUSING & FINANCIAL INSTITUTIONS

**Majority Report:** That Substitute Senate Bill No. 6586 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Shin, Vice Chair; Gardner, Hale, Rasmussen, T. Sheldon and Winsley.

**Staff:** Catherine Mele (786-7470)

**Background:** Current law prohibits individuals from engaging in chain distribution schemes. There are three circumstances that must all be present before there is an illegal scheme: (1) a person must make an investment to obtain the right to recruit others into a program; (2) when new recruits enter the program the original recruiter is given money or anything of value; (3) the new recruits must make an investment to obtain the right to recruit others in the program, and then receive money or something of value when others enter the program.

A violation of the chain distribution scheme law is an unfair and deceptive act or practice, or an unfair method of competition under the Consumer Protection Act. Generally, the civil penalties that a court may impose on the perpetrator are an injunction to stop the act, \$2,000 in fines per violation, restitution to injured parties, court costs, and attorney fees.

There are concerns that the chain distribution law fails to address various forms of pyramid schemes, and does not provide direct criminal penalties for involvement in pyramid and chain distribution schemes.

**Summary of Bill:** Pyramid schemes are deemed illegal lotteries. Persons that participate in pyramid schemes may be charged with professional gambling.

Professional gambling in the first degree is a class B felony. When a defendant is guilty of a class B felony, the court may impose a sentence of ten years or a fine of \$20,000.

Professional gambling in the second degree as a class C felony. When a defendant is guilty of a class C felony, the court may impose a sentence of five years or a fine of \$10,000.

Professional gambling in the third degree is a gross misdemeanor. When a defendant is guilty of gambling in the third degree, the court may impose a sentence up to one year in jail and fines not more than \$5,000.

It is a gross misdemeanor for any person to misrepresent the legality of a pyramid scheme or to misrepresent the benefits of a pyramid scheme.

Persons that participate in pyramid schemes are subject to civil penalties under the Consumer Protection Act.

The chain distribution scheme law is repealed.

**Appropriation:** None.

**Fiscal Note:** Requested on January 28, 2000.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** This bill is an Attorney General request bill. It makes clear that these schemes are fraud and are illegal. The Attorney General's office has seen a proliferation of these schemes in the last six months in Washington. Some people make money but these schemes are bound to fail, because there are not enough people in the world to keep these pyramids going. The members of multi-level marketing clubs have worked with the Attorney General's office to create a substitute bill that assures that folks that engage in legitimate sales of products are not committing illegal acts. The leaders of these schemes use pressure tactics to get new people to join so that they can make more money.

**Testimony Against:** Some gifting programs originated in Canada and are designed to empower women. The Dinner Party does not mislead and it is a selfless group of women. The passage of this bill creates the loss and the victims. These groups give freely to charities and they should not be deemed illegal lotteries. Women heal during the process of joining and participating in our groups. They heal emotionally, spiritually, and physically, and they open their eyes to a whole new way of looking at life. There has been misleading media information about these groups and this has caused a frenzy against these clubs.

**Testified:** Lisa Browne (pro); Karen Fredricks, Laura Taylor-Jensen, Dinner Party (con); Richard Shepal, Shepal Law Office (con); Kyle and Lori Petterson, Dinner Party (pro); Sally Gustafson, AG Consumer Protection (pro).