

HOUSE BILL ANALYSIS

SSB 6586

Brief Description: Prohibiting pyramid schemes.

Sponsors: Senators Prentice and Hale; by request of the Office of the Attorney General

Hearing: February 23, 2000

Brief Summary of Bill

- Pyramid schemes are deemed illegal lotteries and participants may be found guilty of professional gambling.

BACKGROUND:

Individuals may not engage in chain distribution schemes. A chain distribution scheme is a sales device where a person makes an initial investment and receives the right to recruit others who also make an initial investment giving them the right to recruit others under similar conditions. The person who recruits others receives something of value, usually money.

Any violation of this prohibition against chain distribution schemes is an unfair or deceptive practice or is unfair competition and is a violation of the Consumer Protection Act. Violations of the Consumer Protection Act involving unfair or deceptive practices may result in a fine of \$2,000 per violation.

SUMMARY OF BILL:

Pyramid schemes are deemed to be illegal lotteries. Anyone who participates in a pyramid scheme is deemed to be engaged in professional gambling and will be subject to the penalties under the gambling laws. Professional gambling violations range from first degree which is a class B felony to third degree which is a gross misdemeanor.

Anyone who, while participating in a pyramid scheme, misrepresents the legality of the scheme or that the scheme has been approved or sanctioned by a governmental authority or

misrepresents the benefits of the plan or scheme may be guilty of a gross misdemeanor.

Integrated pyramid schemes are those offered by the same person or his or her agents, offering the same consideration at the same time and for the same general purpose, regardless of the names of the scheme.

A pyramid scheme is defined as any gift, sales or marketing plan that includes recruitment of additional participants to participate in the same gift, sales or marketing plan where (1) the participant gives or promises anything of value including a promise to abide by the plan's rules where no product or service is offered for sale, and (2) receives compensation based primarily on the introduction of other persons into the plan. Plans where bona fide products are sold to consumers under reasonable terms are not pyramid schemes.

A violation of the pyramid scheme law is an unfair and deceptive practice in violation of the Consumer Protection Act.

The law prohibiting chain distribution schemes is repealed.

RULES AUTHORITY: The bill does not contain provisions addressing the rule making powers of an agency.

FISCAL NOTE: Available for SB 6586.

EFFECTIVE DATE: The bill contains an emergency clause and takes effect immediately.