

The Finnish Direct Selling Industry Code of Conduct of the Finnish Direct Marketing Association (FDMA)

1.10.2005

1. General

1.1 Scope

The Finnish Direct Selling Industry Code of Conduct is published by the Finnish Direct Marketing Association (FDMA) and is based on the rules of the World Federation of Direct Selling Associations (WFDSA) and the Federation of European Direct Selling Associations (FEDSA). The Code concerns the relations between member companies of the FDMA and Direct Sellers, between Direct Sellers, and between Direct Selling Companies. The Code is aimed at the protection of the interests of Direct Sellers, the promotion of fair competition in the framework of free enterprise, and the enhancement of the public image of Direct Selling, which is to sell quality products to consumers at fair prices and with fair terms and conditions. All Direct Selling member companies of the FDMA pledge to abide by the Code as a condition of admission and continuing membership in the FDMA. Member companies shall require that their Direct Sellers abide by this Code as a condition of continued participation in the distribution system.

1.2 Definitions

Direct Selling refers to the marketing of consumer products or services directly to consumers, generally at their homes or the homes of others, at their workplace or other places away from permanent retail locations by a Direct Seller, who explains and demonstrates the products.

A *Company* refers to a member company of the FDMA that markets its Products through a Direct Selling organisation.

A *distribution system* refers to any organisation and methods designed for the marketing of Products.

A *Direct Seller* refers to a person who is a member of a distribution system of a Company and who sells, facilitates or assists in the sale of products of that Company away from a fixed retail location, typically at the home or workplace of the consumer.

A Direct Seller may be an independent commercial agent, independent contractor, independent dealer or distributor, employed or self-employed representative, franchisee or the like.

Earnings refers to any income achieved by a Direct Seller. Earnings may be in the form of commissions, trade margins, fixed payments, salary or wages, rewards, bonuses or in other forms.

Products refers to goods or services.

Business aids refers to any goods or services that are provided to Direct Sellers, for a charge or free of charge, to help them to conduct and develop their business and which are not intended for resale to consumers.

Fee means any payment of cash or any payment for the purchase of business aids where this payment is required from a Direct Seller when he or she enters the distribution system of a Company or as a condition for continued participation in that distribution system.

Direct Selling Companies use two different sales methods: either person-to-person sales or product demonstrations.

Recruiting includes any activity conducted for the purpose of inducing a person to become a Direct Seller.

Network Marketing is a form of Direct Selling. The term "Network Marketing" refers to the structure of a Direct Selling organisation. Sales are conducted through Direct Selling. In Network Marketing, the company either producing or marketing the product concludes contracts with Direct Sellers. Direct Sellers are entitled to recruit new Direct Sellers for the Company or to present prospective new Direct Sellers for the Company's acceptance. In Network Marketing, sales are conducted by independent Direct Sellers who work either as private persons or on behalf of the Company. They may buy the products for resale and/or for their own use, resell products to consumers or other independent Direct Sellers and sponsor, i.e., recruit, train, motivate and help, new independent Direct Sellers.

The Direct Seller's down line consists of the new direct sellers that he or she is sponsoring and the direct sellers then sponsored by them, etc. In Network Marketing, Direct Sellers earn the difference between the purchase price and the sales price of the products that they have sold. They may also earn a bonus based on the sales performance of their team. The influence of the depth (number of Direct-Seller levels) or width (number of Direct Sellers that the Direct Seller personally sponsors) of the team on the bonus may be restricted in the Company's compensation system that determines bonus payments.

1.3 Self-regulation

The Code of Conduct is a measure of self-regulation by the Direct Selling industry. When a Company ends its membership in the FDMA, it is no longer bound by the Code. The provisions of the Code, however, remain applicable to events and transactions that occur during the period of time when the Company was a member of the FDMA.

2. Relationships between Companies and Direct Sellers

2.1 Direct Sellers' compliance

Companies shall require their Direct Sellers to comply with the Code and with the FDMA Rules for Fair Play as a condition of membership in the Company's distribution system. Companies shall communicate the contents of the Code to all of their Direct Sellers.

2.2 Recruiting

Companies and Direct Sellers shall not use misleading, deceptive or unfair recruiting practices.

2.3 Business information

The information provided by a Company to Direct Sellers and prospective Direct Sellers concerning the opportunities for success, the rights and obligations of Direct Sellers as well as the typical costs and expenses shall be accurate and complete. The Company's marketing plan shall be transparent, understandable and may not be misleading. Companies shall not make any factual statements to a prospective recruit that cannot be verified or make any promise that cannot be fulfilled.

Companies shall not present the advantages of the selling opportunity to any prospective recruit in a false or deceptive manner and shall not only refer to isolated successes.

2.4 Earnings

The earnings of a Direct Seller that stem from payments other than fixed payments shall be based on his or her own sales or on the sales made by Direct Sellers that he or she sponsors and/or the sales made by their organisations. Purchases in reasonable amounts for personal use or consumption may also serve as a basis for his or her earnings.

2.5 Contractual relationship between Direct Sellers and Companies

Companies shall provide their Direct Sellers with a written agreement signed by both the Company and the Direct Seller or with a written statement containing all of the essential details of the relationship between the Direct Seller and the Company. Companies shall inform their Direct Sellers of their legal obligations such as taxes, etc. Companies and Direct Sellers shall not misuse the status of a recruit or a Direct Seller as a private person.

2.6 Fees

Companies and Direct Sellers shall not ask other Direct Sellers to demand unreasonably high entrance fees, training fees, franchise fees, fees for promotional material or other fees related solely to the Direct Seller's right to participate in the business of the sales organisation.

Companies and their Direct Sellers shall not permit practices whereby a Direct Seller pays a fee to participate in the distribution system of a Company and receives his or her earnings based on the fees paid by additional Direct Sellers introduced by him or her into said distribution system.

2.7 Right of withdrawal

Direct Sellers shall have a period of seven (7) calendar days within which to withdraw from the agreement without penalty and without having to provide a reason. The Direct Seller shall inform the Company in writing of his or her decision to withdraw from the agreement. The Company shall buy back all saleable, unused products and business aids that the Direct Seller has purchased and reimburse in full all of the sums the Direct Seller has paid. The Company does, however, have the right to deduct from the sums to be reimbursed any handling charges incurred when the agreement was made and the benefits obtained by the Direct Seller on the basis of the purchase of the products being returned. These handling charges may not exceed 10% of the purchase price (VAT excluded) of the aforementioned products and business aids.

2.8 Buyback of products

Notwithstanding the Direct Seller's right of withdrawal in accordance with Section 2.7 above, should a Direct Seller decide to end his or her relationship with the Company, the Company shall buy back all unused, saleable products purchased by the Direct Seller for resale within the previous twelve (12) months. The Direct Seller shall receive a minimum of 90% of the price that he or she paid for the products, less any benefits received by him or her on the basis of the purchase of the products being returned.

2.9 Product inventory

Companies shall not require or encourage Direct Sellers to purchase product inventory in unreasonably large amounts nor to purchase products on a regular basis where the quantity of products is unlikely to be sold or consumed within a reasonable amount of time. The following matters should be taken into account when determining the appropriate amount of product inventory: the relationship of inventory to realistic sales possibilities, the competitiveness of the products and the market environment as well as the Company's product return and refund policies.

2.10 Accounts

Companies shall provide Direct Sellers with periodic accounts pertaining to, where applicable, sales, purchases, details of the Direct Seller's earnings, commissions and bonuses, discounts, deliveries, cancellations and other relevant data in accordance with the Company's agreement

with the Direct Sellers. All of the debt due shall be paid and all deductions shall be made in accordance with good Direct Selling practices.

2.11 Education and training

Companies shall provide adequate education and training to enable Direct Sellers to act ethically by providing information on the market concerned, marketing and the products. Training may take place via training sessions, manuals, guides, or audio-visual material supplied at cost or free of charge.

3. Conduct between Companies

Member companies of the FDMA shall conduct themselves fairly towards other members.

Relationships between Companies

Companies and Direct Sellers shall refrain from using inaccurate or misleading comparisons or unfairly denigrating another Company, its Direct Sellers or products. Companies and Direct Sellers shall observe the principles of fair competition.

4. Code enforcement

4.1 The Companies' responsibility

The primary responsibility for the observance of this Code shall rest with each individual Company. In case the Code is breached, the Company shall make every reasonable effort to satisfy the complainant and reach a fair conclusion.

4.2 Monitoring the ethics of operations (Code Administration)

The Code Administrator shall monitor Companies' and Direct Sellers' observance of the Code and, when necessary, take the appropriate actions in accordance with the regulations pertaining to an ethical Code Administrator. In addition, the Code Administrator shall prepare an annual Code report. The FDMA shall establish procedures for handling complaints.

4.3 Informing consumers about the observance of the Code

Companies shall inform their consumers, in the appropriate manner, about their membership in the FDMA and about observing the Code.

Companies shall notify the FDMA in writing of their commitment to observing this Code. This obligation also applies to all members of the FDMA that were members when this Code entered into force.

4.4 The international dimension of the Code

The member companies of the FDMA carrying out Direct Selling in countries other than Finland shall observe the World Code of Conduct for Direct Selling of the World Federation of Direct Selling Associations (WFDSA). In those cases, however, where a Company is a member of the Direct Selling Association of the country in which the Direct Selling takes place, it shall observe the Code of Conduct for Direct Selling of the country in question.

5. Entry into force

This Code of Conduct shall enter into force on 1 October 2005.