
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations disapply the provisions of Part XI of the Fair Trading Act 1973 in respect of certain single tier trading schemes, trading schemes in which the promoter or all the promoters and all participants are registered for Value Added Tax, and chain letters.

Part XI of the Fair Trading Act controls pyramid selling and similar trading schemes by creating offences relating to recruitment where the promise of rewards from others joining the scheme is used to persuade a participant or potential participant to make a payment, and by providing a power to make Regulations with which trading schemes must comply.

Part XI is disapplied in respect of single tier trading schemes under which all participants in the United Kingdom operate at the same level under a single promoter or a single participant and where the participants receive no benefit from recruiting new members to the scheme or only a single payment or benefit of small value and where they can receive no other benefit or payment in respect of or as a result of the membership or the activities of other participants except from the sharing of expenses or a share in the annual profit of the trading scheme or the sale of a participant's business provided such business was registered for VAT at the date of sale (regulation 3(a)). This provision will for the future exempt single tier trading schemes such as most franchises, agencies and distributorships that do not have the recruitment of new members as their main purpose from the controls of Part XI of the Fair Trading Act.

Part XI is disapplied in respect of trading schemes where the promoter or promoters and all participants are registered for VAT (regulation 3(b)).

Part XI is disapplied in respect of chain letters without a central organiser or beneficiary (regulation 3(c)).