



Uniform Code of Conduct
Version 4.0 || Dated: 10th Feb 2015



Federation Of Direct Selling Association

Introduction:

Federation of Direct Selling Association (FDSA) is a voluntary social organization formed with an objective to look into the activities of all Direct Selling / Direct Marketing / Network Marketing companies in India and to guide them in establishing legitimate and ethical business practices.

The Association is able to muster good support from several genuine Direct Marketing companies pan India. Hence, it has become imminent to have a uniform code of conduct, ethical business practices and guidelines to all member companies of FDSA.

Govt. of India has constituted an Inter-ministerial committee Under the Chairmanship of Secretary – Dept of Consumer Affairs wherein representatives from Ministry of Finance, Ministry of Home Affairs, RBI, Ministry of Consumer Affairs, Ministry of Corporate Affairs, Ministry of Law & Justice, SEBI are parties engaged with a composition and terms of reference to review and submit a report. The committee has done an extensive job of various case studies, review of existing laws in neighboring nations, consultations with the Industry stake holders and associations like us.

The Final report of the committee dated 14th June 2014, section 10 - Conclusion is as follows;

“Based on the deliberations, the committee concluded that what is required immediately is clarity on the legislation/regulatory framework for business operations like Direct Selling/ Network / multilevel companies. This can be resolved by not enacting a separate law but by amending the existing Prize. Chits and Money circulation schemes (Banning) Act, 1978 under the purview of the Department of Financial Services. The amendment needs to provide a clear distinction between various money-circulation-based models including direct selling. Unless and until this is done there will continue to be confusion and therefore, ambiguity in interpretation of the model of operation as well as beneficiaries of such business activities. **While the onus for providing the requisite legislative framework for a competitive business environment lies with the government, the industry on its part is also morally bound to ensure transparency in their activities with the guarantee for protection of consumer interests.**”

Pursuant to the above, FDSA formulated guidelines and further keeping efforts to improvise time to time as per the guidance of Govt. of India and other Industry experts to maintain a uniform code of conduct among all member companies in the Federation with transparency in their business & transactions to help the consumer to protect his rights, distributor for his moral rights of reasonable remunerations and the company to sustain their business for years together.



Federation Of Direct Selling Association

The following FDSA Guidelines are in the best interest of the Direct Selling / Network Marketing industry in India, where either the company or the distributor / consumer will not face any losses. In addition, The Govt. will also get huge revenues in the form of various taxes.

I. Definitions:

1. Direct Selling

Direct selling means marketing or sales of goods or service directly to the end user / consumer using word of mouth publicity, display and/or demonstrations of the goods or services, and / or distribution of pamphlets.

2. Direct Selling Entity

Direct selling Entity means a business entity as recognized by law for the time being in force including but not limited to a company duly incorporated under the Indian Companies Act, a registered Partner Ship Firm, constituted under the Indian Partnership Act, Co-Operative society registered under the Co-operative Societies Act, however shall not include Proprietary concern and HUF, that engages /engaged in the business of direct selling.

3. Direct Seller

Direct seller means a person who is authorised by the Direct Selling Entity to engage into the business of Direct Selling.

4. Consumer

An individual who buys goods or services for personal use and not for manufacture or resale and shall have the same meaning as provided under the Consumer Protection Act, 1986.

5. Distributor

A person who is engaged in the business of promoting or conducting direct selling by self or through Direct Seller/s is called a Distributor.

6. Distributionship

Means the authentication/License granted by the Direct selling entity to an eligible applicant to engage in the business of Direct selling as Distributor.

7. Goods or Services

Goods or Services shall have the same meaning as defined in the Sale of Goods Act and section 3(26) of the General Clauses Act, 1897, that is, it shall include every kind of movable property or service other than actionable claims and money.



Federation Of Direct Selling Association

8. Sale

'Sale' means any transfer of property in goods or services for cash or deferred payment or other valuable consideration, including a transfer of property in goods or services involved in the execution of a contract, but does not include a mortgage, hypothecation, charge or pledge. Explanation I.-A transfer of goods on hire- purchase or other installment system of payment shall, notwithstanding that the seller retains a title to any goods as security for payment of the price, be deemed to be a sale.

9. Sales Commission

Sale Commission means compensation payable to the direct seller/Distributor for effecting sale of goods or services as stipulated herein by whatever name it is called.

II. Conditions for Permissible Direct Selling

- a. Should be a Direct Selling Entity, having sales tax / Vat, Income Tax, TDS, Service Tax and Shops and Establishment registration and other license as may be required as per the law and regulations of its principle place of business.
- b. Partnership Deed or Memorandum of Association or bye-laws as the case may be should clearly state their nature of business as direct selling. (Those who do not have such specific clauses should get their memorandum of Association or Partnership Deed as the case may be amended within 2 months from the date of publication of these Guide lines)
- c. The Direct Selling Entities should maintain websites with complete details of their products and/or services, terms and conditions, details of direct selling and all relevant information about the company and business in detail. The websites shall be updated regularly and shall furnish all necessary information as required by any law or regulations/guidelines as applicable.
- d. Shall pay sales commission at the agreed rate within the agreed period as per the terms stipulated in the distribution/direct seller appointment agreement, on the sales affected directly by direct seller/distributor or through his team.
- e. Shall give facility to verify the authenticity of the Direct seller / Distributor through the official website on furnishing the Unique Identification number of the Direct Seller/Distributor.
- f. Should have a consumer grievance cell that endeavor redressal of consumer grievances within 7 days from the date of receiving any complaints. Direct Selling



Federation Of Direct Selling Association

Entity shall maintain a consumer Complaint Register and shall record the complaints, settlement / outcome. Such register shall make available for inspection as and when required by the FDSA.

- g. Website shall have provision for registering consumer complaints online. There should a procedure to declare that How much time wil the company to respond or resolve the complaints registered. The complainant should be provided with a copy of registration complaint for his future reference.
- h. The Direct selling entity shall provide Photo Identity Cards to the Direct Seller/ Distributors and Direct Seller/Distributor shall visibly display the identity card at the time of soliciting the sales.

III. Appointments / Authorisations:

- a. Direct Selling Entity shall enter into an agreement for appointment only after scrutinizing the application of the intending person in a prescribed format with necessary supporting documents such as;
 - i. Photo ID card
 - ii. Address Proof
 - iii. PAN Card
 - iv. Aadhar Card
 - v. Other certificates
- b. An agreement of terms of such appointment should be executed between the Direct Selling Entity and distributor/direct seller.
- c. No application should be considered unless such applicant is attained the age of majority under the Indian Contract Act to enter into an Agreement.
- d. Each Direct Seller/Distributor shall be allotted Unique Identification Numbers and Photo Identity Card upon granting license / permission to start direct selling.

IV. Prohibitions:

- a. Shall not allot more than one Distributor ship to a single individual/entity.
- b. Shall not pay sales commission unrelated to their respective sales volume.
- c. Shall not sell goods or services with the knowledge that such goods or services are inferior or exceeded its validity period as per the manufacturer or service provider.



Federation Of Direct Selling Association

V. General Conditions:

- a. Packages of the Goods sold by the Direct Selling Entity should display details under the weights and measurements Act like
 - i. Name and address of the Manufacturer / importer
 - ii. Name and address of the marketing company
 - iii. Year and month of Manufacturing / import
 - iv. Expiry date in case of consumables
 - v. Content, quantity
 - vi. MRP
 - vii. Customer care number and Address
- b. No sale should be affected by the Direct Selling entity on accepting "cash". All sales and consideration for direct sale transaction should be affected through bank.
- c. Accounts of individual distributor shall be maintained properly and should be made available through World Wide Web and/or printed form to be sent periodically to the respective distributor/direct seller
- d. Sales commission should be distributed to the respective Distributors on or before the agreed date of settlement as per the terms of appointment as distributor/direct seller.
- e. No sale shall be affected unless obtained an order form duly signed by the prospective consumer.
- f. "Goods sold by the Direct Selling entity should carry guaranty / warranty of the manufacturer. However consumer should be given opportunity to exchange/return the goods if finds any manufacturing defect or the product purchased is not useful for the purpose it was meant, within 7 days from the date of purchase.
- g. The Direct Selling individual distributor should have provision to exit from the distributionship as and when they wish to do so, by accepting the unsold & intact condition inventory, a detailed exit policy & procedures to be specified in the distributionship agreement.

VI. Rewarding plan:

There is no specific frame to control the model of Rewarding plans but it is mandatory to follow the below:

1. The offering of business opportunity should be subjected to solicitation.



Federation Of Direct Selling Association

2. Companies opting for registration / renewal fee should not offer any benefits / commissions on the registration charges.
3. The Rewarding system / business model should offer bonuses / commissions / benefits based only on volume of sales ONLY. The benefits from direct selling business should not be on head count or on the proceedings of downline enrollment counts etc.

Any kind of returns on investment, fixed returns, interests, periodical returns are not permitted under Direct Selling business.

4. The Rewarding system / business model should have proven arithmetic propositions.
5. The Rewarding system should also have scope to achieve commissions by the distributors even without any down-line (Self purchase or own sponsored consumer sales).
6. A Distributor should be allowed to operate only on a single ID or position or Business centre in the Rewarding system.

VII. General Business Ethics / Code of conduct:

Every Direct Selling Company should specify general business ethics / code of conduct applicable for every distributor.

VIII. Information Readiness (Ready information file):

1. Every Direct Selling Company should maintain a file with all relevant documents that include:
 - a. Certificate issued by Registrar Of Companies and MOA.
 - b. Xerox copies of TIN, DIN of Directors, TAN, PAN.
 - c. Certificate of Sales Tax, Service Tax, CST Registrations.
 - d. Copies of all Sales Tax Returns filed with the authorities.
 - e. Copies of Service Tax Returns filed with the authorities.
 - f. Copies of IT Returns of company filed with the authorities.
 - g. TDS Statements of Distributors and respective challans paid.
2. Every Direct Selling Company should maintain KYC / KYD (Know Your Customer / Know Your Distributor) as a mandatory process. Specific formats are to be provided on their websites to be available for all at any time.



Federation Of Direct Selling Association

IX. Grievance Redressal Mechanism:

Every Direct Selling Company must have a complaint redressal mechanism to address any problem of their customers / distributors.

The business activities which are not comply with the above code of conduct of a Direct Selling / Direct Marketing would be dealt appropriately through FDSA policy of self-policing with the relevant authorities.

* * *