

107TH CONGRESS
2D SESSION

H. R. 4881

To prohibit pyramid promotional schemes, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 6, 2002

Mr. BARTON of Texas (for himself and Mr. HALL of Texas) introduced the following bill; which was referred to the Committee on Energy and Commerce

A BILL

To prohibit pyramid promotional schemes, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Anti-Pyramid Pro-
5 motional Scheme Act of 2002”.

6 **SEC. 2. FINDINGS.**

7 The Congress finds the following:

8 (1) Pyramid promotional schemes, chain letters,
9 and related schemes are enterprises—

1 (A) that finance returns to participants
2 through sums taken from newly attracted par-
3 ticipants;

4 (B) in which new participants are prom-
5 ised large returns for their investments; and

6 (C) involve fraud and deceptive sales tac-
7 tics, and lead to the victimization of unwitting
8 individuals of limited means.

9 (2) Pyramid promotional schemes, chain letters,
10 and related schemes constitute a threat in interstate
11 commerce and to the financial well-being of the citi-
12 zens of the United States.

13 (3) The advent of the global Internet makes
14 pyramid promotional schemes international threats.

15 **SEC. 3. DEFINITIONS.**

16 In this Act:

17 (1) COMPENSATION.—The term
18 “compensation”—

19 (A) subject to subparagraph (B), means a
20 payment of any money, thing of value, or finan-
21 cial benefit conferred in return for inducing an-
22 other person to become a participant in a pyr-
23 amid promotional scheme; and

24 (B) does not include payments that are
25 based on sales of goods or services by a person

1 to others, including anyone who is purchasing
2 the goods or services for actual use or consump-
3 tion.

4 (2) CONSIDERATION.—The term
5 “consideration”—

6 (A) subject to subparagraph (B), means
7 the payment of cash or the purchase of goods,
8 services, or intangible property; and

9 (B) does not include—

10 (i) the purchase of goods or services
11 furnished at cost to be used in making
12 sales and not for resale; or

13 (ii) time and effort spent in pursuit of
14 sales or recruiting activities.

15 (3) PARTICIPANT.—The term “participant”
16 means a person who gives consideration for the op-
17 portunity to receive compensation in return for in-
18 ducing others to join a pyramid promotional scheme.

19 (4) PERSON.—The term “person” means an in-
20 dividual, a corporation, a partnership, or any asso-
21 ciation or unincorporated organization.

22 (5) PROMOTE.—The term “promote” means to
23 contrive, prepare, establish, plan, operate, advertise,
24 or to otherwise induce or attempt to induce another

1 person to be a participant in a pyramid promotional
2 scheme.

3 (6) PYRAMID PROMOTIONAL SCHEME.—The
4 term “pyramid promotional scheme”—

5 (A) means any plan or operation by which
6 a participant gives consideration for the oppor-
7 tunity to receive compensation that is derived
8 primarily from the introduction of other persons
9 into the plan or operation rather than from the
10 sale and consumption of goods, services, or in-
11 tangible property by a participant or other per-
12 sons introduced into the plan or operation; and

13 (B) includes such a plan or operation
14 under which—

15 (i) the number of persons who may
16 participate is limited either expressly or by
17 the application of conditions affecting the
18 eligibility of a person to receive compensa-
19 tion under the plan or operation; or

20 (ii) a participant, on giving any con-
21 sideration, obtains any goods, services, or
22 intangible property in addition to the right
23 to receive compensation.

1 **SEC. 4. RULES TO PROHIBIT OPERATING PYRAMID PRO-**
2 **MOTIONAL SCHEME.**

3 Not later than one year after the date of the enact-
4 ment of this Act, the Federal Trade Commission shall pro-
5 mulgate a rule under section 18(a) of the Federal Trade
6 Commission Act (15 U.S.C. 57a(a)) providing that it shall
7 be an unfair or deceptive act or practice under section 5
8 of such Act (15 U.S.C. 45) for any person, by the use
9 of any means or instrumentality of transportation or com-
10 munication in interstate or foreign commerce, to promote,
11 offer, sell, or attempt to sell a participation or the right
12 to participate in a pyramid promotional scheme.

13 **SEC. 5. STATE ENFORCEMENT.**

14 (a) ACTIONS UNDER STATE LAW.—Nothing in this
15 Act or the Federal Trade Commission Act prohibits an
16 authorized State official from proceeding in State court
17 on the basis of an alleged violation of any civil or criminal
18 statute of such State.

19 (b) ACTIONS UNDER FEDERAL LAW.—The attorney
20 general of any State or territory of the United States may,
21 upon finding any person is engaged or is about to engage
22 in any act or practice that constitutes a pyramid pro-
23 motional scheme in violation of the rule promulgated
24 under section 4, bring an action in the appropriate district
25 court of the United States to enjoin such act or practice
26 and to obtain other appropriate relief on behalf of resi-

1 dents of such State. Such court may grant a temporary
2 restraining order, or a preliminary or permanent injunc-
3 tion.

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