

# 101ST GENERAL ASSEMBLY State of Illinois 2019 and 2020 HB2448

by Rep. Elizabeth Hernandez

## SYNOPSIS AS INTRODUCED:

30 ILCS 105/5.306 225 ILCS 515/12.6	from Ch. 127, par. 141.306
815 ILCS 705/3	from Ch. 121 1/2, par. 1703
815 ILCS 705/5	from Ch. 121 1/2, par. 1705
815 ILCS 705/10	from Ch. 121 1/2, par. 1710
815 ILCS 705/16.5 new	
815 ILCS 705/22	from Ch. 121 1/2, par. 1722
815 ILCS 705/26	from Ch. 121 1/2, par. 1726
815 ILCS 705/40	from Ch. 121 1/2, par. 1740
820 ILCS 175/80	
820 ILCS 205/17.3	from Ch. 48, par. 31.17-3

Amends the Franchise Disclosure Act of 1987. Requires that prospective franchisees obtain counseling from a third-party counselor before purchasing a franchise. Requires franchisors to provide to prospective franchisees a list of third-party counselors who are approved by and who meet the qualifications established by the Attorney General. Provides for fees received under the Act to be deposited into the Child Labor, Franchise Disclosure, and Day and Temporary Labor Services Enforcement Fund. Amends the State Finance Act, the Private Employment Agency Act, the Day and Temporary Labor Services Act, and the Child Labor Law to change the name of the Child Labor and Day and Temporary Labor Services Enforcement Fund and to establish additional purposes for the renamed Fund.

LRB101 07162 JLS 52200 b

1 AN ACT concerning business.

# Be it enacted by the People of the State of Illinois,

# **represented in the General Assembly:**

- 4 Section 5. The State Finance Act is amended by changing
- 5 Section 5.306 as follows:
- 6 (30 ILCS 105/5.306) (from Ch. 127, par. 141.306)
- 7 Sec. 5.306. The Child Labor, Franchise Disclosure, and Day
- 8 and Temporary Labor Services Enforcement Fund.
- 9 (Source: P.A. 92-783, eff. 1-1-03.)
- 10 Section 10. The Private Employment Agency Act is amended by
- 11 changing Section 12.6 as follows:
- 12 (225 ILCS 515/12.6)
- Sec. 12.6. Child Labor, Franchise Disclosure, and Day and
- 14 Temporary Labor Services Enforcement Fund. All moneys received
- as fees and penalties under this Act shall be deposited into
- 16 the Child Labor, Franchise Disclosure, and Day and Temporary
- 17 Labor Services Enforcement Fund and may be used for the
- 18 purposes set forth in Section 17.3 of the Child Labor Law.
- 19 (Source: P.A. 99-422, eff. 1-1-16.)
- 20 Section 15. The Franchise Disclosure Act of 1987 is amended

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- 1 by changing Sections 3, 5, 10, 22, 26, and 40 and by adding
- 2 Section 16.5 as follows:
- 3 (815 ILCS 705/3) (from Ch. 121 1/2, par. 1703)
- 4 Sec. 3. Definitions. As used in this Act:
- 5 (1) "Franchise" means a contract or agreement, either 6 expressed or implied, whether oral or written, between two or 7 more persons by which:
  - (a) a franchisee is granted the right to engage in the business of offering, selling, or distributing goods or services, under a marketing plan or system prescribed or suggested in substantial part by a franchisor; and
  - (b) the operation of the franchisee's business pursuant to such plan or system is substantially associated with the franchisor's trademark, service mark, trade name, logotype, advertising, or other commercial symbol designating the franchisor or its affiliate; and
  - (c) the person granted the right to engage in such business is required to pay to the franchisor or an affiliate of the franchisor, directly or indirectly, a franchise fee of \$500 or more;
  - Provided that this Act shall not apply to any of the following persons, entities or relationships which may involve or acquire a franchise or any interest in a franchise:
- 24 (i) any franchised business which is operated by the 25 franchisee on the premises of the franchisor or

subfranchisor as long as such franchised business is incidental to the business conducted by the franchisor or subfranchisor at such premises, including, without limitation, leased departments and concessions; or

- (ii) a fractional franchise. A "fractional franchise" means any relationship in which the person described therein as a franchisee, or any of the current directors or executive officers thereof, has been in the type of business represented by the franchise relationship for more than 2 years and the parties anticipated, or should have anticipated, at the time the agreement establishing the franchise relationship was reached, that the sales arising from the relationship would represent no more than 20% of the sales in dollar volume of the franchisee for a period of at least one year after the franchisee begins selling the goods or services involved in the franchise; or
- (iii) a franchise agreement for the use of a trademark, service mark, trade name, logotype, advertising, or other commercial symbol designating a person who offers on a general basis, for a fee or otherwise, a bona fide service for the evaluation, testing, or certification of goods, commodities, or services; or
- (iv) a franchise relationship covered by the Petroleum Marketing Practices Act, 15 U.S.C. 2801.
- (2) "Franchisee" means a person to whom a franchise is granted and includes, unless stated otherwise in this Act: (a)

- 1 a subfranchisor with regard to its relationship with a
- 2 franchisor and (b) a subfranchisee with regard to its
- 3 relationship with a subfranchisor.
- 4 (3) "Franchisor" means a person who grants a franchise and
- 5 includes a subfranchisor with regard to its relationship with a
- franchisee, unless stated otherwise in this Act.
- 7 (4) "Subfranchise" means any contract or agreement between
- 8 a franchisor and a subfranchisor whereby the subfranchisor is
- 9 granted the right, in consideration of the payment of a
- 10 franchise fee in whole or in part for such right, to sell or
- 11 negotiate the sale of franchises. Where used in this Act,
- 12 unless specifically stated otherwise, "franchise" includes
- 13 "subfranchise."
- 14 (5) "Subfranchisor" means a person to whom the right to
- sell or negotiate the sale of subfranchises is granted.
- 16 (6) "Order" means a consent, authorization, approval,
- 17 prohibition, or requirement applicable to a specific case
- issued by the Attorney General Administrator.
- 19 (7) "Person" means an individual, a corporation, a
- 20 partnership, a joint venture, an association, a joint stock
- 21 company, a trust, or an unincorporated organization.
- 22 (8) "Rule" means any published regulation or standard of
- general application issued by the Administrator.
- 24 (9) "Sale" or "sell" includes every contract or agreement
- of sale of, contract to sell, or disposition of, a franchise or
- interest in a franchise for value.

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- 1 (10) "State" means the State of Illinois.
- 2 (11) "Fraud" and "deceit" are not limited to common law fraud or deceit.
- 4 (12) "Offer" or "offer to sell" includes every attempt to 5 offer to dispose of, or solicitation of an offer to buy, a 6 franchise, any interest in a franchise or an option to acquire 7 a franchise for value.
  - (13) "Publish" means publicly to issue or circulate by newspaper, mail, radio, or television, or otherwise to disseminate to the public.
    - (14) "Franchise fee" means any fee or charge that a franchisee is required to pay directly or indirectly for the right to enter into a business or sell, resell, or distribute goods, services or franchises under an agreement, including, but not limited to, any such payment for goods or services, provided that the Administrator may by rule define what constitutes an indirect franchise fee, and provided further that the following shall not be considered the payment of a franchise fee: (a) the payment of a reasonable service charge to the issuer of a credit card by an establishment accepting or honoring such credit card; (b) amounts paid to a trading stamp company by a person issuing trading stamps in connection with the retail sale of merchandise or services; (c) the purchase or agreement to purchase goods for which there is an established market at a bona fide wholesale price; (d) the payment for fixtures necessary to operate the business; (e) the payment of

- 1 rent which reflects payment for the economic value of the
- 2 property; or (f) the purchase or agreement to purchase goods
- 3 for which there is an established market at a bona fide retail
- 4 price subject to a bona fide commission or compensation plan.
- 5 The Administrator may by rule define what shall constitute an
- 6 established market.
- 7 (15) "Disclosure statement" means the document provided
- 8 for in Section 16 of this Act and all amendments to such
- 9 document.
- 10 (16) "Write" or "written" shall include printed,
- 11 lithographed or any other means of graphic communication.
- 12 (17) (Blank).
- 13 (18) "Marketing plan or system" means a plan or system
- 14 relating to some aspect of the conduct of a party to a contract
- in conducting business, including but not limited to (a)
- specification of price, or special pricing systems or discount
- 17 plans, (b) use of particular sales or display equipment or
- 18 merchandising devices, (c) use of specific sales techniques,
- 19 (d) use of advertising or promotional materials or cooperation
- 20 in advertising efforts; provided that an agreement is not a
- 21 marketing plan or system solely because a manufacturer or
- distributor of goods reserves the right to occasionally require
- 23 sale at a special reduced price which is advertised on the
- 24 container or packaging material in which the product is
- 25 regularly sold, if the reduced price is absorbed by the
- 26 manufacturer or distributor.

- 1 (19) "Administrator" means the Illinois Attorney General.
  - when the offer either originates from this State or is directed by the offeror to this State and received at the place to which it is directed. An offer to sell is accepted in this State when acceptance is communicated to the offeror in this State; and acceptance is communicated to the offeror in this State when the offeree directs it to the offeror in this State reasonably believing the offeror to be in this State and it is received at the place to which it is directed.
  - (b) An offer to sell a franchise is not made in this State merely because the franchisor circulates or there is circulated in this State an advertisement in (i) a bona fide newspaper or other publication of general, regular and paid circulation which has had more than 2/3 of its circulation outside this State during the past 12 months, or (ii) a radio or television program originating outside this State which is received in this State.
  - (21) "Franchise broker" means any person engaged in the business of representing a franchisor in offering for sale or selling a franchise and is not a franchisor, an affiliate of a franchisor or an officer, director or employee of a franchisor or an affiliate of a franchisor with respect to such franchise. A franchisee shall not be a franchise broker merely because it receives a payment from the franchisor in consideration of the referral of a prospective franchisee to the franchisor, if the

- 1 franchisee does not otherwise participate in the sale of a
- 2 franchise to the prospective franchisee. A franchisee shall not
- 3 be deemed to participate in a sale merely because he responds
- 4 to an inquiry from a prospective franchisee.
- 5 (22) "Salesperson" means any person employed by or
- 6 representing a franchise broker, a franchisor or an affiliate
- 7 of the franchisor in effecting or attempting to effect the
- 8 offer or sale of a franchise.
- 9 (23) "Third-party counselor" means an organization or
- 10 person approved by the Administrator to provide counseling
- services to potential franchisees under Section 16.5.
- 12 (24) "Counseling certificate" means the document provided
- for in Section 16.5.
- 14 (Source: P.A. 96-648, eff. 10-1-09.)
- 15 (815 ILCS 705/5) (from Ch. 121 1/2, par. 1705)
- Sec. 5. Prohibited practices.
- 17 (1) Sale of unregistered franchise unlawful. It is unlawful
- 18 for any person to offer or sell any franchise required to be
- 19 registered under this Act unless the franchise has been
- 20 registered under this Act or is exempt under this Act.
- 21 (2) Failure to deliver a disclosure statement and a list of
- 22 third-party counseling services unlawful. It is unlawful for
- any person to offer or sell any franchise which is required to
- 24 be registered under this Act without first providing to the
- 25 prospective franchisee at least 14 days prior to the execution

by the prospective franchisee of any binding franchise or other agreement, or at least 14 days prior to the receipt by such person of any consideration, whichever occurs first, a copy of a disclosure statement meeting the requirements of this Act and registered by the Administrator, together with a copy of all proposed agreements relating to the sale of the franchise. The franchisor shall also provide the prospective franchisee with a list containing the names and addresses of third-party counseling services approved by the Administrator. For the purposes of this Act, delivery of a disclosure statement and a list of third-party counseling services to a general partner of a partnership shall constitute delivery to the partnership and its partners and delivery of a disclosure statement to a principal officer of a corporation shall constitute delivery to the corporation and its shareholders.

- (3) Sale of franchise by unregistered franchise broker unlawful. It is unlawful for any franchise required to be registered under this Act to be offered for sale or sold in this State by a franchise broker subject to this Act who is not first registered under this Act unless exempt from registration.
- (4) Filing of untrue report unlawful. It is unlawful for any person to make or cause to be made any untrue statement of a material fact in any application, notice, or report filed with the Administrator, or to omit to state in any application, notice, or report any material fact, or to fail to notify the

- 1 Administrator of any material change in such application,
- 2 notice, or report, as required by this Act.
- 3 (Source: P.A. 90-642, eff. 7-24-98; 91-916, eff. 7-7-00.)
- 4 (815 ILCS 705/10) (from Ch. 121 1/2, par. 1710)
- 5 Sec. 10. Registration and Annual Report. No franchisor may
- 6 sell or offer to sell a franchise in this State if (1) the
- 7 franchisee is domiciled in this State or (2) the offer of the
- 8 franchise is made or accepted in this State and the franchise
- 9 business is or will be located in this State, unless the
- 10 franchisor has registered the franchise with the Administrator
- 11 by filing such form of notification and disclosure statement as
- 12 required under Section 16 and by filing with the Administrator
- 13 the counseling certificate specified in Section 16.5.
- 14 The registration of a franchise shall become effective on
- 15 the 21st day after the date of the filing of the required
- 16 materials, unless the Administrator has denied registration
- 17 under subdivision (a) (3) of Section 22.
- The registration of a franchise shall expire 120 days after
- 19 the franchisor's fiscal year end. Annually, but not later than
- 20 one business day before the registration expires, the
- 21 franchisor shall file the disclosure statement updated as of
- the date of the franchisor's prior fiscal year end.
- 23 (Source: P.A. 96-648, eff. 10-1-09.)
- 24 (815 ILCS 705/16.5 new)

1	Sec. 16.5. Counseling services and information for
2	<u>franchisees.</u>
3	(a) Prior to the purchase of a franchise, the prospective
4	franchisee shall obtain counseling from a third-party
5	counselor that meets qualification standards and follows
6	uniform counseling protocols. The qualification standards and
7	counseling protocols shall be established by the
8	Administrator. The protocols shall require a qualified
9	counselor to discuss with each potential franchise information
10	that includes the following:
11	(1) the financial implications of entering into a
12	franchisee relationship with the franchisor;
13	(2) an explanation of any mechanism for resolving
14	disputes between the franchisor and the prospective
15	franchise, including the waiver of any private right of
16	action and the effect of any arbitration provision in the
17	agreement between the franchisor and the prospective
18	franchisee; and
19	(3) any other information the Administrator may
20	require.
21	(b) The franchisee shall execute a counseling certificate
22	upon obtaining counseling. The counseling certificate shall
23	identify the date the counseling services were provided and the
24	third party that provided provided the counseling services.
25	(c) The Administrator may use a portion of the registration

fees collected under this Act to adequately fund the counseling

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### and disclosure activities required under this Section.

- 2 (815 ILCS 705/22) (from Ch. 121 1/2, par. 1722)
- 3 Sec. 22. Enforcement.
  - (a) The Administrator may suspend, terminate, prohibit or deny the sale of any franchise or registration of any franchise or salesperson if it appears to him that:
    - (1) that there has been a failure to comply with any of the provisions of this Act or the rules or orders of the Administrator pertaining thereto;  $\frac{\partial}{\partial x}$
    - (2) that the disclosure statement or any amendment thereto includes any false or misleading statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading;  $\frac{\partial F}{\partial x}$
    - (3) that the disclosure statement filed in conjunction with an initial registration under Section 10 is materially deficient; a A disclosure statement is "materially deficient" if it fails to comply with the requirements of Section 16; or
    - (4) that the sale of the franchise would constitute a misrepresentation, deceit or fraud upon prospective franchisees;  $\frac{\partial \mathbf{r}}{\partial t}$
    - (5) that any person in this State is engaging in or about to engage in false, fraudulent or deceptive practices or any device, scheme, or artifice to defraud in connection

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with the offer or sale of the franchise; or

- (6) that any person identified in the disclosure statement or any person engaged in the offer or sale of the franchise in this State has been convicted of an offense, is subject to an order or civil judgment or is a defendant in a proceeding required to be described in the disclosure statement and the involvement of such person creates an unreasonable risk to prospective franchisees; or
  - (7) (blank); <del>or</del>
    - (8) (blank); <del>or</del>
- (9) that the franchisor's enterprise or method of business includes or would include activities which are illegal where performed; or
  - (10) (blank); <del>or</del>
- (11) (blank); or-
- (12) that the certificate of counseling is false or obtained through collusion or misrepresentation of fact.

no case shall the Administrator, or any person Ιn designated by him, in the administration of this Act, incur any official or personal liability by issuing an order or other proceeding or by suspending, denying, prohibiting or terminating the registration of a franchise broker or salesperson, or by denying, suspending, terminating prohibiting the registration of franchises, or prohibiting the sale of franchises, or by suspending or prohibiting any person from acting as a franchise broker or salesperson.

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The Administrator may exercise any of the powers specified in Section 31 of this Act.

(b) The Administrator, with such assistance as he may from time to time request of the state's attorneys in the several counties, may institute proceedings in the circuit court to prevent and restrain violations of this Act or of any rule or order prescribed or issued under this Act. In such a proceeding, the court shall determine whether a violation has been committed, and shall enter such judgment or decree as it considers necessary to remove the effects of any violation and to prevent such violation from continuing or from being renewed in the future. The court, in its discretion, may exercise all powers necessary for this purpose, including, but not limited to, injunction, revocation, forfeiture or suspension of the charter, franchise, certificate of authority or privileges of any corporation, association, limited partnership or other business organization operating under the laws of this State, of domestic corporations dissolution or associations, suspension or termination of the right of foreign corporations or associations to do business in this State, or restitution or payment of damages by a franchisor to persons injured by violations of this Act, including without limitation an award of reasonable attorneys fees and costs.

24 (Source: P.A. 96-648, eff. 10-1-09.)

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Sec. 26. Private civil actions. Any person who offers, sells, terminates, or fails to renew a franchise in violation of this Act shall be liable to the franchisee who may sue for damages caused thereby. This amendatory Act of 1992 is intended to clarify the existence of a private right of action under existing law with respect to the termination or nonrenewal of a franchise in violation of this Act. In the case of a violation of Section 5, 6, 10, 11, or 15, 16, or 16.5 of this the Act, the franchisee may also sue for rescission.

No franchisee may sue for rescission under this Section 26 who shall fail, within 30 days from the date of receipt thereof, to accept an offer to return the consideration paid or to repurchase the franchise purchased by such person. Every offer provided for in this Section shall be in writing, shall be delivered to the franchisee or sent by certified mail addressed to the franchisee at such person's last known address, shall offer to return any consideration paid or to repurchase the franchise for a price equal to the full amount paid less any net income received by the franchisee, plus the legal rate of interest thereon, and may require the franchisee to return to the person making such offer all unsold goods, equipment, fixtures, leases and similar items received from such person. Such offer shall continue in force for 30 days from the date on which it was received by the franchisee and shall advise the franchisee of such rights and the period of time limited for acceptance thereof. Any agreement not to

- 1 accept or refusing or waiving any such offer made during or
- 2 prior to the expiration of said 30 days shall be void.
- 3 The term "franchisee" as used in this Section shall include
- 4 the personal representative or representatives of the
- 5 franchisee.
- 6 Every person who directly or indirectly controls a person
- 7 liable under this Section 26, every partner in a firm so
- 8 liable, every principal executive officer or director of a
- 9 corporation so liable, every manager of a limited liability
- 10 company so liable, every person occupying a similar status or
- 11 performing similar functions, and every employee of a person so
- 12 liable, who materially aids in the act or transaction
- 13 constituting the violation, is also liable jointly and
- 14 severally with and to the same extent as such person, unless
- 15 said person who otherwise is liable had no knowledge or
- 16 reasonable basis to have knowledge of the facts, acts or
- transactions constituting the alleged violation.
- 18 Every franchisee in whose favor judgment is entered in an
- 19 action brought under this Section shall be entitled to the
- 20 costs of the action including, without limitation, reasonable
- 21 attorney's fees.
- 22 (Source: P.A. 96-648, eff. 10-1-09.)
- 23 (815 ILCS 705/40) (from Ch. 121 1/2, par. 1740)
- 24 Sec. 40. Fees.
- 25 (a) The Administrator shall charge and collect the fees

- 1 fixed by this <u>Act</u> <del>Section</del>, or as prescribed by rule of the
- 2 Administrator. All fees and charges collected under this Act
- 3 Section shall be deposited into the Child Labor, Franchise
- 4 Disclosure, and Day and Temporary Labor Services Enforcement
- 5 Fund transmitted to the State Treasurer at least weekly,
- 6 accompanied by a detailed statement thereof. Such fees and
- 7 charges shall be refundable at the discretion of the
- 8 Administrator.
- 9 (b) The fee for the initial registration of a franchise
- 10 shall be \$500.
- 11 (c) The fee for filing an amended disclosure statement
- shall be \$100 if the amendment pertains to a material change,
- 13 otherwise \$25.
- 14 (d) The fee for an interpretive opinion shall be \$50.
- 15 (e) The fee for filing an initial large franchisor
- 16 exemption under Section 200.202 of Title 14 of the Illinois
- 17 Administrative Code shall be \$500 and the fee for renewals of
- this exemption shall be \$100.
- 19 (f) The fee for filing an annual report shall be \$100.
- 20 (Source: P.A. 96-648, eff. 10-1-09.)
- 21 Section 20. The Day and Temporary Labor Services Act is
- 22 amended by changing Section 80 as follows:
- 23 (820 ILCS 175/80)
- Sec. 80. Child Labor, Franchise Disclosure, and Day and

- 1 Temporary Labor Services Enforcement Fund. All moneys received
- 2 as fees and civil penalties under this Act shall be deposited
- 3 into the Child Labor, Franchise Disclosure, and Day and
- 4 Temporary Labor Services Enforcement Fund and may be used for
- 5 the purposes set forth in Section 17.3 of the Child Labor Law.
- 6 (Source: P.A. 98-463, eff. 8-16-13.)
- 7 Section 25. The Child Labor Law is amended by changing
- 8 Section 17.3 as follows:
- 9 (820 ILCS 205/17.3) (from Ch. 48, par. 31.17-3)
- 10 Sec. 17.3. Any employer who violates any of the provisions
- of this Act or any rule or regulation issued under the Act
- shall be subject to a civil penalty of not to exceed \$5,000 for
- each such violation. In determining the amount of such penalty,
- 14 the appropriateness of such penalty to the size of the business
- of the employer charged and the gravity of the violation shall
- 16 be considered. The amount of such penalty, when finally
- 17 determined, may be
- 18 (1) recovered in a civil action brought by the Director
- of Labor in any circuit court, in which litigation the
- 20 Director of Labor shall be represented by the Attorney
- 21 General;
- 22 (2) ordered by the court, in an action brought for
- violation under Section 19, to be paid to the Director of
- Labor.

Any administrative determination by the Department of Labor of the amount of each penalty shall be final unless reviewed as provided in Section 17.1 of this Act.

Civil penalties recovered under this Section shall be paid into the Child Labor, Franchise Disclosure, and Day and Temporary Labor Services Enforcement Fund, a special fund which is hereby created in the State treasury. Moneys in the Fund may be used, subject to appropriation, for exemplary programs, demonstration projects, and other activities or purposes related to the enforcement of this Act, or for the activities or purposes related to the enforcement of the Day and Temporary Labor Services Act, or for the activities or purposes related to the enforcement of the Private Employment Agency Act, or for the activities or purposes related to the enforcement of the Franchise Disclosure Act of 1987.

16 (Source: P.A. 98-463, eff. 8-16-13; 99-422, eff. 1-1-16.)