

## DIRECT SELLING CODE OF CONDUCT

### SECTION 1 – GENERAL

The “Direct Selling Code of Conduct” (hereinafter referred to as the “Code”) has been drawn up and adopted by AVEDISCO – Associazione Vendite Dirette Servizio Consumatori (the Italian Direct Selling Association) – so as to promote high standards of business ethics in the Direct Selling industry.

The provisions of this Code provide all industry operatives with a series of specific rules of conduct: the Code is not only a tool for international and national self-regulation, but also a reference document providing useful guidelines for law-makers.

The ultimate aim of the rules is to create an awareness of the responsibilities involved in Direct Selling among all operatives and lay down stringent rules governing competition among the member companies and their relations with AVEDISCO.

#### 1.1. Scope

The Code contains principles of ethical conduct for both direct selling companies and direct sellers. All direct selling operatives are to closely adhere to the principles of fair competition, specifically as regards:

- companies’ and direct sellers’ direct and indirect relations with consumers;
- relations between companies on the one hand and direct sellers on the other;
- relations between direct selling companies;
- relations between Association members.

#### 1.2 Glossary of terms

For the purposes of this Code:

- (1) ‘direct selling’ means any selling method which is based on the explanation or demonstration of products to a consumer by direct selling companies through a salesperson, hereinafter called ‘direct seller’, away from business premises, typically in the consumer’s home or in any premises where the consumer may be, albeit temporarily, for personal reasons or for work, study, entertainment or leisure purposes.
- (2) ‘consumer’ means any natural person who buys products for purposes which can be regarded as outside his trade, business or profession.
- (3) AVEDISCO means the national association of direct selling companies which represents the direct selling industry in Italy and is a member of FEDSA.
- (4) ‘direct selling company’ or ‘company’ means any business entity which markets products through a distribution system based on direct selling and which is a member of AVEDISCO.
- (5) ‘distribution system’ means any organization and methods designed for the marketing of products within the direct selling channel.

- (6) 'direct seller' means any natural or legal person who is member of the distribution system of a direct selling company and who promote, directly or indirectly, the sale of products of that company away from business premises.
- (7) 'product' means any good, tangible or intangible, or service.
- (8) 'party selling' means direct selling to a group of consumers invited by a host to that end.
- (9) 'order form' means any document used to order products.
- (10) 'recruiting' means any activity conducted for the purpose of offering a person the opportunity to become a direct seller.
- (11) 'earnings' means any income achieved by a direct seller in the form of commissions, fixed or variable, direct or indirect, rewards, bonuses or in other forms.
- (12) 'business aid' means any good or service which is designed to help direct sellers to conduct and develop their business and which is intended for sale to direct sellers or provided free of charge to them and not intended for resale to consumers.
- (13) '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 enters the distribution system of a direct selling company or on a periodic basis.
- (14) 'code administrator' means an independent person or body appointed by AVEDISCO to monitor member companies' observance of the DSA's code and to resolve complaints under the code.

### **1.3 Companies**

Every AVEDISCO member company pledges to abide by the Code as a condition of admission and continuing membership in the DSA. Every member company shall be required to promote to the public its DSA affiliation and the national code.

### **1.4 Direct sellers**

Direct sellers shall be required by their companies to adhere to the Code or to rules of conduct meeting its standard as a condition of membership in the companies' distribution systems. To this end companies are required to distribute the Code, although in a short form, to their direct sellers.

### **1.5 Self-regulation**

The Code is a measure of self-regulation by the direct selling industry. It is not a law, and its obligations require a level of ethical behavior which exceeds existing legal requirements. Non-observance does not create any civil law responsibility. With termination of its membership in AVEDISCO, a company is no longer bound by the Code, the provisions of which remain applicable to events or transactions occurring during the time a company was member.

### **1.6 Law**

Companies and direct sellers are bound to comply with the requirements of law and therefore the Code does not restate all legal obligations.

### **1.7 Extraterritorial effect**

AVEDISCO member companies and their direct sellers are also bound, before starting any recruiting and commercial activities in a foreign country, to adopt all the necessary measures to comply with the requirement of law and with the provisions of the local DSA's Code of Conduct. In the absence of a local DSA's Code, companies and direct sellers are bound to comply with the WFDSA World Codes of Conduct for Direct Selling.

## **SECTION 2 - CONDUCT TOWARDS CONSUMERS**

**The present section is aimed at achieving the satisfaction and protection of consumers, 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 on fair terms and conditions to consumers.**

### **2.1 Prohibited practices**

Direct selling companies and direct sellers undertake to perform their business and promotional activities basing themselves on principles of correctness and transparency; when dealing with consumers they shall not, therefore, have recourse to misleading, deceptive or unfair sales practices.

### **2.2 Identification and demonstration**

From the beginning of the contact with a consumer, direct sellers shall identify themselves and their company and explain the purpose of their solicitation. They must show the ID card released by the company, according to the law, after communication to local Police Department.

Prior to the conclusion of the sale, direct sellers shall provide an explanation and/or a demonstration of the product, as well as the following information:

- a) the identity of the company and its address;
- b) the main characteristics of the products being offered;
- c) the price of the products including all taxes;
- d) delivery costs, where appropriate;
- e) the terms of payment, credit arrangements and delivery;
- f) the existence of a right of withdrawal, cancellation or substitution;
- g) the terms of any guarantee;
- h) details and limitation of after-sales service.

The information given to the consumer shall be provided in a clear and comprehensible manner with due regard to the principles of good faith in commercial transactions so that the consumer may understand the nature of the offer and the obligation undertaken with an order. Special attention shall be given to the principles governing the protection of those who are unable, pursuant to national legislation, to give their consent, such as minors.

### **2.3 Presentation of offer**

Direct sellers shall display due diligence in helping the consumer assess the nature of the offer, ensuring that the consumer fully understands the information and giving him/her enough time to carefully assess the contract as a whole. Product demonstration is to be carried out bearing in mind the needs of the individual consumer.

Promotional literature or offers sent by mail are not to contain any misleading or deceptive descriptions, statements or illustrations and are to state the company's name and address or telephone number.

### **2.4 Verbal promises**

Direct sellers shall not make verbal promises that directly or by implication may deceive the consumer with regards to the term of the offer.

## **2.5 Answers to questions**

Direct sellers shall give accurate and understandable answers to all questions from consumers concerning the product and the offer.

## **2.6 Fairness**

Direct sellers shall not abuse the trust of individual consumers, shall respect the lack of commercial experience of consumers and shall not exploit a consumer's age, illness, lack of understanding or lack of language knowledge.

## **2.7 Testimonials**

Companies and direct sellers shall not refer to any testimonial or endorsement which is not authorized, not true, obsolete or otherwise no longer applicable, not related to their offer or used in any way likely to mislead the consumer.

## **2.8 Comparison and denigration**

Companies and direct sellers shall refrain from using comparisons which are likely to mislead or which are incompatible with principles of fair competition. Points of comparison shall not be unfairly selected and shall be based on facts which can be substantiated. Companies and direct sellers shall not unfairly denigrate any firm or product directly or by implication. Companies and direct sellers shall not take unfair advantage of the goodwill attached to the trade name and symbol of another firm or product.

## **2.9 Respect of privacy**

Member companies and direct sellers shall guarantee that the processing of the consumer's personal data be made with all due respect of the rights, freedom and dignity of the human being,.

Personal, telephone or electronic contact shall be made in a reasonable manner and during reasonable hours to avoid intrusiveness. A direct seller shall discontinue a demonstration or sales presentation upon the request of the consumer.

## **2.10 Order form**

An order form shall be delivered to the consumer at the time of sale, which shall identify the company and the direct seller and provide the consumer with the full contact details of the company and where applicable the direct seller, and all material terms of the sale (corresponding to 2.2). All terms shall be clearly legible.

## **2.11 Cooling-off and return of goods**

Companies shall make sure that any order form contains a cooling-off clause permitting the customer to withdraw from the order within the legal terms, and to obtain reimbursement of any payment or goods traded in. Companies offering an unconditional right of return shall provide it in writing with non misleading wording.

## **2.12 Guarantee and after-sale service**

Terms of a guarantee or a warranty, details and limitation of after-sales service, the name and address of the guarantor, the duration of the guarantee and the remedial action open to purchaser shall be clearly set out in the order form or other accompanying literature or provided with the product.

## **2.13 Referral selling**

Companies and direct sellers shall not induce a consumer to purchase products based upon the representation that a consumer can reduce or recover the purchase price by referring other

consumers to the sellers for similar purchases, if such reductions or recovery are contingent upon some unsure future event.

#### **2.14 Performance**

Any order shall be executed as quickly as possible and in any case within 30 days from the day following that on which the consumer signs the order, unless the parties have agreed otherwise.

Consumers shall be informed if companies or direct sellers are unable to perform their side of the contract on the grounds that the products ordered are unavailable. In that case, consumers may either:

- obtain a refund of any sums they have paid as soon as possible and in any case within 30 days, or
- receive from the company or direct seller products of equivalent quality and price, where this possibility was provided for prior to the conclusion of the contract or in the contract.

#### **2.15 Safety**

The information provided with the product must include accurate and detailed information as to its use and, where relevant, detailed safety rules.

#### **2.16 Complaints**

Direct selling companies and direct sellers must intervene timely to solve equitably any complaint or grievance filed by the consumer and in particular those concerning correct order execution.

Should a consumer complain about a direct seller's behaviour, the company is to immediately investigate and take the necessary steps to correct any anomalies that might emerge.

A specific procedure has been drawn up by the AVEDISCO Board of Directors to facilitate complaint resolution.

### **SECTION 3 - CONDUCT TOWARDS DIRECT SELLERS**

**The present section concerns the relations between Direct Selling companies and Direct Sellers and between Direct Sellers. This section is aimed at the protection of Direct Sellers, the promotion of fair competition in the framework of free enterprise, the ethical representation of the Direct Selling industry's earning opportunity and the enhancement of the public image of the Direct Selling.**

#### **3.1 Compliance with the Code**

Companies shall disseminate contents of the Code among all their direct sellers, who shall be required to adhere to it or to rules of conduct meeting its standards as a condition of membership in the Companies' distribution systems.

Companies also pledge to take all necessary steps to prevent and, if necessary, put an end to any action, behaviour or conduct of their direct sellers amounting to a breach of this Code.

#### **3.2 Recruiting**

Companies and direct sellers shall not use misleading deceptive or unfair recruiting practices.

#### **3.3 Business information**

Information provided by the company to its direct sellers and to prospective direct sellers concerning the opportunity and related rights, obligations, typical costs and expenses shall be accurate and complete. The company's marketing plan shall be transparent, understandable and not misleading. Companies shall not make any factual representation to a prospective recruit which cannot be verified or make any promise which cannot be fulfilled. Companies

shall not present the advantages of the selling opportunity to any prospective recruit in a false or deceptive manner.

### **3.4 Earnings**

Earnings of a direct seller other than fixed payments shall relate to his own sales to consumers and to similar sales made by direct sellers for whom he has support and motivation responsibilities. Purchases in reasonable amounts for personal use or consumption made by a direct seller and the direct sellers for whom he has such responsibilities may also serve as a basis for his earnings.

Companies and direct sellers shall not misrepresent the actual or potential sales or earnings of their direct sellers. Any earnings or sales representations made shall be based upon documented facts and shall not only refer to isolated successes.

### **3.5 Relationship**

The company shall give to the direct seller, at the start of his activities, a written statement that shall contain all essential details of the relationship between the direct seller and the company. Companies shall inform their direct sellers of their legal obligations, including any applicable licenses, registrations, taxes and social contributions.

Companies and direct sellers shall not misuse a direct seller's private sphere, social, intellectual or emotional sensitivities resulting in exploitation.

### **3.6 Right of withdrawal**

The direct seller shall have a period of at least ten working days in which to withdraw from his agreement without penalty and without giving any reason.

The period for exercise of this right shall begin from the day of conclusion of the agreement. The direct seller shall inform the company in writing of his decision to withdraw from the agreement.

Where the right of withdrawal has been exercised by the direct seller, the company shall buy back all products and business aids that the direct seller purchased and reimburse free of charge all sums paid by the direct seller. Refund of said sums is subject to the integrity of the goods and business aids returned.

### **3.7 Fees**

Companies and direct sellers shall not ask other direct sellers to assume unreasonably high entrance fees, training fees, franchise fees, fees for promotional materials, and other fees related solely to the right to participate in the business.

Companies and their direct sellers shall not permit practices whereby a direct seller pays a fee to participate in the distribution system of a direct selling company, and receives earnings based on fees paid by additional direct sellers introduced by him into that distribution system.

### **3.8 Product inventory**

Companies shall not encourage direct sellers to purchase a product inventory nor require to purchase products.

### **3.9 Buy back**

Notwithstanding the direct seller's right of withdrawal (3.6), should a direct seller decide to put an end to his relationship with the company, the company shall buy back all products and business aids still saleable purchased by the direct seller. The terms of this buy-back will be that the direct seller will receive, within 30 days, a minimum of 90% of the purchase price,

less any earnings or benefits received by the direct seller based upon the purchase of the products being returned.

### **3.10 Accounts**

Companies shall provide direct sellers with periodic accounts concerning, as applicable, sales, purchases, details of earnings, commissions, bonuses, discounts, deliveries, cancellations and other relevant data, in accordance with the company's arrangement with the direct sellers. All monies due shall be paid and any withholdings made in a commercially reasonable manner.

### **3.11 Education and training**

Companies shall provide adequate education and training to enable direct sellers to operate ethically and professionally. Training may be accomplished by training sessions, written manuals, guides, or audio-visual material supplied at a reasonable price or free of charge.

## **SECTION 4 - CONDUCT BETWEEN COMPANIES**

**The present section concerns the relations between Direct Selling companies member of AVEDISCO in order to promote a fair competition in the framework of free enterprise and to enhance the public image of Direct Selling.**

### **4.1 Principle**

AVEDISCO member companies are requested to conduct themselves fairly towards other members. Therefore they must avoid any action, activity or behavior that may cause damage, also of image, to another company either directly or through their direct sellers.

### **4.2 Enticement**

Companies and direct sellers should not entice away or solicit any direct sellers by systematic enticement towards other companies' direct sellers.

### **4.3 Denigration**

Companies shall not unfairly denigrate nor allow their direct sellers to unfairly denigrate another company's product, its sales and marketing plan or any other feature of that company.

### **4.4 Social solidarity**

The companies undertake to provide AVEDISCO with any information which might prove useful for the development of the Direct Selling industry and shall do all they reasonably can, though never renouncing their autonomy, to take a common stand when confronting external problems and interventions.

Relations between the member companies must be informed by principles of social solidarity such as:

- preventive consultation for initiatives which may impact on or interfere with the activity of other members;
- preventive confrontation, be this directly or via AVEDISCO, about any potential cause of conflict;
- referral to conciliation and arbitration of any possible cause of conflict, as foreseen by the AVEDISCO Articles and Bye-Laws.

## **SECTION 5 - CODE ENFORCEMENT**

### **5.1 Companies' responsibility**

The primary responsibility for the observance of the Code shall rest with each individual company. In case of any breach of the Code, companies shall make every reasonable effort to satisfy the complainant.

### **5.2 AVEDISCO's responsibility**

AVEDISCO shall provide a person responsibility for complaint handling and shall make every reasonable effort to ensure that complaints are settled.

### **5.3 Code Administrator**

AVEDISCO appoint an independent person or body as Code Administrator in order to monitor companies' observance of the Code by appropriate actions. The Code Administrator shall settle any unresolved complaint based on breaches of the Code and shall furnish an annual report on the operation of the Code.

### **5.4 Actions**

Actions to be determined by member companies, also upon request from AVEDISCO, or by the Code Administrator may include: cancellation of orders, return of products purchased, refund of payments, issuance of a warning to the company or its direct sellers, termination of the direct seller's relationship with the company, fines, expulsion and the publication of such actions or sanctions.

### **5.5 Complaint handling**

Companies, AVEDISCO and Code Administrators must operate in line with the specific procedure drawn up by the AVEDISCO Board of Directors.

### **5.6 Publication**

This Code is published by AVEDISCO and is made known as widely as possible. Printed copies are made available free of charge to the public.

## **SECTION 6 – SANCTIONS AND FINAL DISPOSITIONS**

### **6.1. Breach of Code**

In the event of conduct in breach of Section 4 of this Code by a company, also via its direct sellers, recourse shall be had to the Conciliation and Arbitration Commission (Commission) as per AVEDISCO Articles and Bye-Laws.

In the event of an action, activity or behaviour in breach of Sections 2 and 3 of this Code by a Company or its direct sellers, the Commission shall adopt the measures listed here below.

### **6.2 Procedure**

The Commission notifies the breach to the company involved; said company will be granted a term, established by the Commission itself, not inferior to 30 days, to prepare its defence and will anyway be entitled to present its version of events should it request to. The Commission will have to ensure a proper debate according to a procedure that will be specifically laid down on each separate occasion and be such as to ensure the parties' right of defence.

Should the breach be proved to have taken place, the Commission shall communicate to the offending company the remedy decided and if any of the sanctions under 6.3, 6.4, 6.5 shall apply.

### **6.3. Reprimand**

Should a company breach the Code for the first time, it will be officially reprimanded in writing by the Commission, save for major instances when the sanctions specified here below may apply.

### **6.4. Censure**

Should the company reprimanded persist in the prohibited practice or violate the Code for the second time, the Commission may ask the AVEDISCO Board of Directors to censure the company and impose a financial sanction from 1,000 to 25,000 Euro, said sum to be allocated to didactic activities, study, research, training or other AVEDISCO promotional activities.

### **6.5 Exclusion from membership**

Should the censured company persist in the prohibited practice or violate the Code for the third time, the Commission may suggest that the AVEDISCO Board of Directors, as well as imposing the above mentioned sanction for a sum not inferior to 5,000 Euro, rule for exclusion from the Association. In the event of exclusion for breach of the Code, the AVEDISCO Board of Directors may direct that the exclusion be notified in three newspapers having a nationwide circulation, the expenses of this to be borne by the company excluded from membership.