



# IOWA HOUSE DEMOCRATS

## BILL SUMMARY

# Pyramid Schemes HF 2172

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Status of Bill: On House Calendar  
Committee: Commerce 23-0  
Research Analyst: Brian Guillaume, 515-281-5159, brian.guillaume@legis.iowa.gov

Lead Democrat: Rep. Ourth  
Floor Manager: Rep. Landon

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### **Background**

According to those in the industry there are 249,000 Iowans who are involved in the direct sales industry generating around \$72 million a year in sales. The Iowa Attorney General's (AG's) office currently has the authority to prosecute schemes under the Iowa Consumer Fraud Act. There has been no case since 2004 in Iowa prosecuting Pyramid Schemes.

The AG's office spoke out against this legislation as they believe it could negatively influence their ability to prosecute pyramid schemes in Iowa and believe the current law is sufficient.

### **Summary**

This legislation seeks to define what a pyramid scheme is in Code and makes penalties for the operating of a pyramid scheme in the state.

In order to operate in a direct sales operation in Iowa the company must meet two conditions, a bona fide inventory repurchase program, which is a program allows a participant to sell back their inventory within 12 months at no less than 90% of the original cost, when the business relationship ends and is communication in writing.

The second condition includes not operating an inventory loading program, which is when a person requires or encourages a salesperson to buy more inventory than can reasonably be sold.

The bill defines a pyramid or promotional scheme as a plan or operation by which a person provides consideration for the chance to receive compensation that is primarily derived from the introduction of others into the plan or operation and not from the sale or consumption of goods, services, or intangible property by persons introduced into the plan.

Violations of the bill is considered an unlawful practice under the Code, allowing the AG to investigate, issue subpoenas, and commence civil proceedings to seek restraining orders or injunctions to prohibit a person from operating or seek termination of the business. Each violation could be punished with a penalty up to \$40,000.

A consumer may also sue to recover damages seek punitive damages up to 3 times the actual damages under certain situations.