

Illinois Issues "Large Franchisor" and Internet Exemptions

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Illinois has at long last adopted a "large franchisor" exemption from registration requirements. New state regulations, designed in part to conform to the 1998 changes to the Illinois Franchise Disclosure Act, also create an exemption for Internet offers and new exemptions from franchise broker requirements. The new regulations took effect on September 7, 1999.

The new large franchisor exemption establishes net worth and experience requirements similar to those of large franchisor exemptions in other states. But, for Internet offers, Illinois has taken a slightly different path from other states. The new regulation defines an "Internet Offer" as any communication of an offer to sell a franchise made through the Internet, the World Wide Web, or any other similar proprietary or common carrier electronic delivery system. Internet Offers, as defined, are exempt from registration if the franchisor limits contact with prospective Illinois franchisees to keeping a prospect list and notifying such prospects that no further discussion about the franchise can take place until the franchise is registered in Illinois.

By permitting contacts for the purpose of maintaining a prospect list, the Illinois approach departs from the policy statement on Internet offers issued by the North American Securities Administrators Association and followed by other states (including, recently, New York).

The new franchise broker exemptions are for "isolated transactions" and trade show promoters. The "isolated transaction" exemption applies to a referral source that provides the name of a prospective franchisee to a franchisor but has no other involvement in the franchise sales process and has made no referral to that franchisor during the preceding 12 months. The trade show promoter exemption applies to persons who organize events, shows, or facilities in which franchises are advertised. Under the new regulations, a franchisor need not register the referral source or trade show promoter as a franchise broker in Illinois.

Illinois joins California, New York, and Virginia in making recent legislative and regulatory changes. California has adopted a statutory "fractional franchise" exemption that will go into effect on January 1, 2000; unlike fractional franchise exemptions in other states, it will require a filing with the state franchise administrator in order to claim the exemption. New York, as noted above, has adopted an exemption for Internet offers along the lines of the NASAA policy. And Virginia has amended its regulations to clarify the filing process for amendments and renewals.

To obtain black-lined copies of the Illinois regulations, contact a member of the franchise group..