

## A Study on the Illegal Activities of Multi-level Marketing

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### Abstract

There were 662 illegal multi-level marketing cases which violated the Fair Trade Act (FTA) or Multi-Level Marketing Supervision Act (MLMSA), and punishments were meted out in all cases by the Fair Trade Commission (FTC). The illegal cases reflected the illegal activities of multi-level marketing enterprises (MLME) and recorded the law practices of the FTC. The FTC investigated the illegal multi-level marketing activities, and took chastening actions, such as imposing fines, ordering the ceasing of illegal actions, or suspending business immediately, to deal with wrongful cases and prevent the MLMEs from being unjustly enriched. In particular, the FTC adopted various measures to punish MLMEs with binary bonus systems that avoided the problems seriously affecting social and economic order. Due to negligence in legislating the Enforcement Rules of the FTA, the FTC applied the wrong rule to punish Wan-Kuo company (yjr WK Case) and that resulted in a 10-year legal suit. The WK Case became a mirror in legal practice.

From our analysis of the illegal multi-level marketing cases, we found that most of the unlawful activity consisted of violations of the procedures of multi-level marketing report filing. There were 517 illegal cases, of which 490 cases occurred during the period of the FTA and 27 cases within the period of the MLMSA. Regardless of the progression from the FTA to the MLMSA, the multi-level marketing report filing problems still constitute the most common violation. Because the MLME only had to pay small fines for the illegal cases, they paid less attention to completing the multi-level marketing report filing. Maybe the authority needs to enhance and assist the MLME in completing legal report filing. The FTC has set up an electronic multi-level marketing management system, which will be conducive to multi-level marketing report filing. In order to reduce the

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illegal practices, the FTC may use the system with either regular or random checking schemes, which will urge MLME to check their reporting systems and report actively.

**Keywords:** Multi-Level Marketing, Multi-Level Marketing Enterprise, Multi-Level Marketing Protection Foundation, Binary Bonus System, Participant.