

## Self-Imposed Code of Conduct for Multilevel Marketing Transactions

### Introduction

This Self-Imposed Code of Conduct (hereinafter referred to as the "Guideline") was formulated by the consensus of the members of the Japan Direct Selling Association (hereinafter referred to as "Members"), and its purpose is to provide products, or services by having loyal buyers participate in sales activities as independent business owners, and the form of business ("multilevel marketing undertakings" defined in the "Act on Specified Commercial Transactions" (hereinafter referred to as the "Act") by conducting proper transactions and for the sound development of the industry, thereby gaining the correct understanding and awareness of consumers and others, and enhancing the evaluation of the business in society.

This business format, in which loyal buyers of products are involved in sales activities, has seriously lost the trust of consumers due to some heartless business operators, and the excellent distribution function that this business format originally had has been undermined which has been overlooked without gaining social recognition. However, it is also true that the industry has provided a wide range of employment and work opportunities for housewives seeking supplemental income to make up a shortfall from their income, couples who find purpose in their work after retirement, or individuals who are starting their own businesses with the aim of further increasing their income. In order for society to understand this fact, it is necessary for all those involved in this business to be law-abiding and to conduct their business with a high morality that goes beyond the level of individual laws and regulations. Specifically, in addition to the regulations on multilevel marketing transactions, it is necessary to understand that multilevel marketing Transactions can also be considered door-to-door sales in that transactions are conducted with individuals who do not own a store at a location other than a sales office, and the various laws and regulations, including those on door-to-door sales, must be complied with. In addition, those who preside over multilevel marketing transactions must not only assume legal responsibility as "supervisors" as defined by the ACT, but also have the mission to realize sound business through education, guidance, and management of individual business members, and to enhance the social reputation of multilevel marketing transactions as a form of distribution.

The Japan Direct Selling Association (hereinafter referred to as "JDSA ") has established the following guidelines for its Members (including businesses affiliated with such members; the same applies hereinafter) toward the "ideal state" of this business form so that it will be accepted by society and recognized as a form of business trusted by consumers and the Members pledge to comply with these provisions.

## 1. Purpose

The purpose of this Guidelines is to protect the interests of consumers and others and to promote appropriate multilevel marketing transactions by ensuring fairness in multilevel marketing transactions and preventing damage that may be incurred by consumers who are inexperienced in commercial transactions, which stipulates the matters that Members must comply with as "supervisors" and the matters that the business members must comply with.

## 2. Scope of Application

This Guideline applies to multilevel marketing transactions conducted by organizations whose Members are supervisors, and in which the parties involved are individuals who do not own a store.

## 3. Details of Self-Imposed Code of Conduct

When conducting multilevel marketing transactions, laws and regulations including the Act must be observed. In addition, the following items must be complied.

### (1) Disclosure of Information

Members shall create documents to be delivered for disclosure of information a clear and easy-to-read manner to facilitate the understanding of the counterparty, and shall endeavor to provide information that is suited to the capacity to understand for the counterparty, for example, by providing oral supplementary explanations in addition to the delivery of written documents. In addition, when advertising or explaining the rewards that can be obtained by the counterparty in connection with the solicitation to join such business organization, Members shall make every effort to provide specific and easy-to-understand grounds by disclosing accurate and objective information that will not lead the counterparty to have excessive expectations.

### (2) Cautionary Statement

In order to guide the calm judgment of the counterparty of a solicitation, who are individuals and do not own a store, the cautionary statements should be included in the document to be delivered (the statutory document for Multilevel Marketing Transactions stipulated in the Act) with the following purpose which shall be indicated in red and in the area marked in red.

<Indication for Attention>

When joining the business organization, it should be clearly stated that the Members should make a decision based on their own judgment after thoroughly reading the documents delivered

and objectively examining the business plan and other information.

### (3) Guidance and Education for Business Members

Members, as supervisors of business organizations, shall alert their business members to the following as prohibited matters, and shall take strict action against violations thereof.

#### 1) Prohibited Acts

##### 1. Citing rare examples of income or using exaggerated expressions to emphasize income

- Showing rare examples, such as showing a statement of monthly income of JPY1.3M, and explaining as if such income is possible for anyone.
- Explaining things like "Get rich quick" or "Make a lot of money".

##### 2. Encouraging people to purchase of high ticket items on the assumption that the margin will be sufficient to settle for them.

- Explaining uncertain income as if it were certain, such as "If you introduce people, you can settle with the margin", and recommending the purchase of high ticket items.

##### 3. Inducing people to sign a contract on the premise of lending or borrowing in the name of the counterparty, or by misrepresenting the personal information of the person.

- Inducing a young person to sign a contract in his mother's name.
- Borrowing the name of a registered owner on the assumption that "I will pay for the goods".
- Instructing the borrower to enter false information in the contract, except for the name, in case the credit is not approved.

##### 4. Encouraging borrowing money.

- Encouraging people to borrow money by explaining things like, "You will definitely succeed, and the products of the company are great, so you should join even if you borrow money".

##### 5. Forcing people to purchase unnecessary and non-urgent items by mentioning that those are obviously necessary for your business.

- Forcing people to purchase unnecessary products, such as saying, "Purchasing a certain amount of products is mandatory for registering the business registration".

##### 6. Forcing people to sign contracts without fully explaining the details of the business plan and without making them aware that they are signing up for a business.

- Cases where there is actually no inventory for a plan that cannot be applied without inventory, but failing to explain this fact.
  - Inviting friends by saying, "I will be just talking about the environment, not selling products."
7. Concealing the purpose of inviting them for solicitation to the business
    - Inviting a friend to an acquaintance's home by saying, "I want to meet you" or "Invitation to an event hosted by the company" without telling the friend that it is a solicitation for the business.
  8. Inducing people to join the sales organization through job advertisements without properly announcing specific benefits or specific burdens.
    - Distributing flyers such as " Looking for people who want to earn income", without stating the registration fee or remuneration, even though the flyer is an invitation to the sales organization.
  9. Sending advertisements or materials that may be perceived as advertisements by email without the consent of the counterparty.
    - Stating as if the plan is an organization or business plan approved by the government or other public institutions.
  10. To explain that the business is licensed by the government, contrary to the fact.
  11. Soliciting aggressively and persistently in a way that makes people feel annoyed.
    - Persistently soliciting people to understand that the product is good despite the refusal from them.
- 2) The same applies to the "Prohibited acts for each product" separately stipulated for businesses run by Members.

#### (4) Return (Buyback) System

If a member conducts a multilevel marketing undertakings or has business members of the business organization it presides conduct, in order to protect individuals who do not own a store are inexperienced in commercial transactions, the Member shall establish a return system for purchased products, and comply with the provisions set forth below. If a business member withdraws from the business (e.g., withdrawal) after the cooling-off period has passed, or requests the counterparty to the contract to return purchased (including purchases) products in writing, the following criteria apply, it is necessary to take measures to complete the acceptance process for returned goods and to complete the associated settlement promptly after the date of receipt of the returned goods. However, this paragraph shall not apply in cases where the rules of mid-term cancellation or return concerning multilevel marketing contracts under the "Act on Specified Commercial Transactions" apply.

The Member shall be jointly and severally liable with the business member who received the returned goods for the repayment of debts arising from the return of such goods. If it is difficult to accept the return because the business member who is to receive the return has already left the business organization, the Member shall be the final person in charge of responding to the request for return. The details of the return (buyback) system must be clearly stated to the counterparty in the statutory document for multilevel marketing transactions stipulated by the Act.

#### <Scope of Business Members to whom the Return (Buyback) System applies>

Members and sole proprietors who do not own a store and join a business organization run by a member of this association or a business entity affiliated with a member obtains the qualification to conduct the business (if there is more than one qualification, the first qualification) within one year from the date of acquisition of the qualification.

#### <Scope of Items that may be returned>

All items (including those for self consumption), including promotional items and samples, must be unused (even used items may be returned if they have been used or consumed by the sales representative, etc.) and have been contracted for within one year from the date of the request for return.

However, the following items are not eligible for return.

- 1) Items that have been resold
- 2) Items that have been lost or damaged due to the own fault of the user.

The following items may be excluded from the scope of return if a prior written statement (a

document describing the relevant return policy) clearly indicates to the counterparty that such goods are not subject to return.

- 1) Items whose quality guarantee period or best-before date has passed and for which 90 days have elapsed since the date of delivery.
- 2) Items that are sold for a limited time only, regionally limited, or other limited sales (items not sold in regular sales), and for which 90 days have elapsed since the date of delivery.

<Amount to be refunded>

The amount to be refunded shall be the purchase price of the returned item, less a (cancellation) fee equivalent to a maximum of 10% and any commission or other specified profit already received for the purchase of the returned item. The cost of shipping and other expenses associated with the return shall be borne by the person requesting the return.

(5) Other matters to be observed

In addition to the above, Members shall take necessary measures with respect to the following matters.

1) Education for Business Members

1. It is necessary to establish an appropriate education system for all parties of the affiliated business organization in accordance with the Act and other relevant laws and regulations (e.g., Consumer Contracts Act, Act on the Protection of Personal Information, Act against Unjustifiable Premiums and Misleading Representations, Pharmaceutical and Medical Device Act) and this Guideline, and strive to improve their qualifications.
2. Business members shall be provided with the necessary education on legal obligations, including permission, notification, registration, and taxes, required for the relevant multilevel marketing business.

2) Establishment of a Complaint Handling System

1. In order to prevent problems from occurring in the business, it is necessary to make its best efforts to prevent complaints, establish a consultation service that is easily accessible to consumers and business members, and always respond seriously to the opinions received and accept such complaints with a positive attitude and strive to handle complaints appropriately and promptly.
2. Furthermore, even if the business member is an independent self-employed person, it is required to recognize that in multilevel marketing transactions, the supervisor must try to resolve business-related issues, and it should endeavor to establish a system for acceptance

and for directing and communicating with the supervisor for processing.

3. If a complaint regarding a Member occurs outside of Japan and it is difficult to resolve it in that country, the Association will carry out work related to resolution as necessary. In such cases, the Association shall cooperate with the Member to resolve the complaint.

### 3) Appropriate Explanations for Solicitation

When providing explanations or demonstrations regarding the sale of products or the solicitation for participating the business, it is necessary to endeavor to provide thorough guidance to business members to ensure that such explanations or demonstrations are accurate and appropriate and based on facts, and are not false or exaggerated. In addition, efforts shall be made to instruct business members that compensation is paid based on the sales and personal consumption of the business member and his or her downline, and remuneration cannot be earned simply by having other people join the sales system.

### 4) Connection of Debts and Credits due to Withdrawal of Business Member

In the event that a business Member withdraws from a business causes a severing of business credit and debt with uplines or downlines of the person withdrawn, measures shall be implemented to connect such relationships so that the business member will not be unfairly disadvantaged.

### 5) Solicitation to Business Members of Other Companies or Organizations

When it is commercially unethical to systematically solicit business members of other companies or organizations, it is required to make efforts to develop sound solicitation activities so that such activities will not be conducted, nor will business members within such organizations be subjected to such activities.

### 6) Solicitation of Persons considered to be inappropriate as Transaction Partners

It is necessary to that business members do not solicit anyone who is considered inappropriate for conducting business activities, such as minors, those who have just reached the age of majority, students, adult wards, wards, persons under curatorship or assistance, and others.

### 7) Disclosure of Transaction Status Related to Business

It is required to report to business members the status of transactions (sales, purchases, income and expenditure details, commissions, bonuses, discounts, product shipments, cancellations, and other related data) as necessary, and make efforts to disclose information to avoid any problems, especially with regard to payment of money.

#### 8) Optimization of Inventory

A system of checks and controls related to the amount of inventory held by business members shall be established in order not to be excessive, taking into account the sales capacity of business members, the competitiveness of the products and market environment, the return and refund policy of the company, changes over time of the products, and other factors, and that appropriate inventory is maintained.

#### 9) Materials and Resources for Sales Promotion and Training

Materials for sales promotions or trainings provided to downlines or others (these include not only tools, equipment, or goods such as books, magazines, and documents, but also electronic information such as provision of paid services, downloadable programs) are created by business members, efforts shall be made to ascertain how such materials and documents are used or sold at the business fields of the creators and their downlines or others with respect to the following points.

- i. Providing only materials of equivalent standards to those observed by Members so as not to violate relevant laws and regulations.
- ii. Not forcing other sales personnel to purchase such materials.
- iii. When selling such materials, they must be priced appropriately (i.e., not at a price that will result in excessive profits).
- iv. A return policy equivalent to that of Members is provided.
- v. The name, address, and telephone number of the Member are printed (including in an attachment to the instruction manual)

If the actual situation ascertained through the above is in violation of the terms and conditions stipulated by the Member or is misleading or fraudulent to the counterparty, necessary and appropriate actions, such as having the business member stop offering and selling the product, shall be promptly implemented.

#### 10) Cases where the business member is employed in a position other than that of the business concerned

If a business member is employed in a position other than that of the business concerned, the business member shall comply with the rules of employment (work regulations, service regulations, and others) and be given thorough guidance so as not to interfere with the business concerned.



#### Supplementary Provisions

The date of enactment of this Guideline is March 28, 2002 (the date of the resolution of the Board of Directors), and it shall come into effect on June 6, 2002. However, the provisions of "(4) Return (Buyback) System" shall be implemented from January 1, 2003, and until then, the provisions of "(3) Return (Buyback) System" stipulated in the "Self-Imposed Regulatory Guidelines for Door-to-Door Sales with Consumer Participation" shall apply.

The "Self-Imposed Regulatory Guidelines for Door-to-Door Sales with Consumer Participation" shall be abolished as of the implementation date of this Guideline.

#### Supplementary Provisions (October 5, 2004)

The revised regulations of this Guideline shall come into effect as of the date of the resolution of the Board of Directors (October 5, 2004).

#### Supplementary Provisions (March 24, 2005)

The revised regulations for this Guideline shall come into effect as of the date of the resolution of the Board of Directors (March 24, 2005).

#### Supplementary Provisions (October 8, 2009)

The revised regulations for this Guideline shall come into effect as of the date of the resolution of the Board of Directors (October 8, 2009).

#### Supplementary Provisions (April 1, 2012)

The revised regulations for this Guideline shall come into effect on the day of registration of the incorporation of public interest corporations as set forth in Article 106, Paragraph 1 of the Act on Arrangement of Relevant Acts Incidental to Enforcement of the Act on General Incorporated Associations and General Incorporated Foundations and the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundation.

#### Supplementary Provisions (May 22, 2019)

The revised regulations for this Guideline shall come into effect as of the date of the resolution of the Board of Directors (May 22, 2019).

#### Supplementary Provision (March 16, 2022)

The revised regulations for this Guideline shall come into effect as of the date of the resolution of the Board of Directors (March 16, 2022).