

A Study on the Domestic Franchise Information Disclosure Regulations

1. Study Background

The number of domestic franchise stores has achieved more than ten thousand. The types of operations are diverse and business is booming. As a result, joining franchises is one of the main choices for people deciding to start their own businesses. To maintain trading order in the franchise market, assure free and fair competition among franchise businesses and prevent franchisors from abusing their information advantages to engage in unfair transactions, the Fair Trade Commission has established the Disposal Directions (Guidelines) on the Business Practices of Franchisors in which it is stipulated franchisors are required to disclose important franchise information when or before entering contracts with franchisees. Since they were established in 1999, the Disposal Directions have been amended seven times. The significance and appropriateness of items of information to be disclosed as specified therein for franchisors and parties interested in becoming franchisees as well as whether such information is consistent with reality after franchisees begin operation call for further examination.

2. Study Methods and Process

Comparison and document analysis are adopted in this study. Initially, an overview of documents associated with definitions related to franchise and chain operations is presented. The current condition and development of the franchise market are analyzed and items of information to be disclosed as specified in the Disposal Directions on the Business Practices of Franchisors are applied as the main theme of study. Franchise-related cases the Fair Trade Commission has processed in recent years are reviewed and sorted out to discuss the types of disputes and violations likely to occur between franchisors and franchisees when such items of information are not disclosed. In addition, according to the results of a questionnaire survey administered by the Fair Trade Commission in 2016 to solicit the opinions and suggestions of parties intending to join franchises and those with actual franchisee experience about the aforesaid Disposal Directions, calculation and analysis are conducted to identify the items of franchise information valued and cared about by trading counterparts. In the end, differences in franchise information disclosure regulations in and outside the country are compared to assess the effectiveness of such regulations in our country and the direction in future law enforcement.

3. Main Suggestions

To maintain order in the franchise market, the government has to intervene to improve information asymmetry by establishing related regulations. However, taking into account factors such as new tendencies, industrial structure adjustments, prevalence of technological applications and change of lifestyle, the government has to observe market developments, obtain related transaction information and keep track of transaction pattern changes to see if the contents of regulations still comply with actual needs and are appropriate. The outcome of this study indicates that, compared to regulations in other countries, the Disposal Directions on the Business Practices of Franchisors are not excessively strict. In fact, they are just right for the needs of parties who are interested in joining franchises but informationally disadvantaged. Nevertheless, in government intervention and regulation, it must be made sure there

are no overcorrection and no negative influence on market efficiency. Suggestions regarding franchise regulations from the franchise industry, experts and scholars must be valued and reviewed to find out the suitability of such suggestions for franchise regulations and the interests of trading counterparts. For this reason, the following suggestions with regard to franchise information disclosure regulations are proposed :

A. Avoiding falling behind other countries and reviewing domestic franchise regulations at the right time:

Besides keeping track of the developments in the franchise market, the FTC should also keep an eye on transaction patterns in the franchise industry and disputes between franchisors and franchisees, as well as review the contents of regulations at the right time to see if they require revision. For example, as electronic applications are prevalent, a lot of expression of understanding and documents are transmitted electronically. Is it feasible to loosen regulation or supplement additional provisions? Moreover, can disclosure of information through open channels help balance information asymmetry?

B. Analyzing the behavior of not disclosing franchise information under the Fair Trade Law:

As specified in the aforementioned Disposal Directions, a number of items of franchise information must be disclosed. In reality, however, there are so many types of franchise businesses and transaction contents are different. As a consequence, the effect of failure to disclose franchise information also varies. It is possible that other transaction information may also be significant in certain types of franchise businesses. The public should be prevented from concluding that only the items of information to be disclosed as specified in the Disposal Directions need to be disclosed. Analysis of related violations should be conducted principally based on whether there is any factor that makes a constituent element of violation of Article 25 of the Fair Trade Law.

C. Enhancing educational propaganda of related laws and regulations to assure franchisors, franchisees and parties interested in joining franchises have a certain level of understanding to jointly maintain trading order in the market:

Besides franchisors (supply end), the targets of promotion of related laws and regulations should also include franchisees and parties interested in joining franchises (demand end) to remind them of their rights and interests and increase their awareness of related laws and regulations to reduce transaction disputes and jointly maintain trading order in the market.