

Pyramid Scheme or Multi-Level Marketing? What is the difference?

Overview

A multi-level marketing (“MLM”) scheme is a sales strategy in which the salesperson is financially incentivised to recruit and sell inventory to additional salespeople. This is a strategy used by direct sales companies to sell products and services with distributors earning a percentage of their recruits’ sales. The distinction between a multi-level marketing scheme and a pyramid scheme is that a pyramid scheme primarily relies on recruitment whereas a MLM scheme relies on the sale of products to generate revenue. Members of MLM schemes can generate profits without the element of recruitment.

In contrast to a MLM scheme, a pyramid scheme is generally considered to be a fraudulent investment pitch which promises unrealistic profits from underlying transactions. Early participants in the scheme are paid large returns leading them to recommend the scheme to others. These returns are paid out using funds from new members. When there are no new investors, the pyramid scheme collapses. As such, pyramid schemes often disguise themselves as sellers of legitimate products when their focus is to make profits through recruitment. They often highlight how easy it is to earn money and that the way one can earn money is by recruiting new members to join such schemes.

Pyramid schemes were popular during the 1970s as it created additional side income which were appealing during a period of economic uncertainties. In response, the US Federal Trade Commission started commencing action against pyramid schemes disguised as MLM schemes and made attempts to enact an anti-pyramid bill in the 1970s. The Singapore government similarly recognised the harmful effects pyramid schemes and enacted laws to prohibit them.

The *Multi-Level Marketing and Pyramid Selling (Prohibition) Act 1973* (the “Act”) serves as Singapore’s cornerstone legislation governing MLM activities. Enacted to regulate MLM schemes and protect consumer interests, the Act attempts to establish clear boundaries for legitimate business operations while prohibiting pyramid schemes that prioritise recruitment over sales.

In a global context where MLM models are often viewed with scepticism, Singapore’s legal framework attempts to strike a balance between fairness, consumer protection and innovative business models. Businesses operating or intending to operate MLM schemes in Singapore must navigate Singapore’s regulatory landscape to avoid severe penalties, including fines and imprisonment.

By focusing on the requirements for MLM schemes, this article aims to provide businesses with the knowledge required to comply with the relevant Singapore laws and regulations.

Background

MLM refers to a business model where participants earn income not only through direct sales but also through the sales of individuals they recruit into the program. This cascading structure allows participants to benefit from the efforts of their recruits and the recruits of those recruits creating a network-based revenue model.

The Act defines MLM as “any scheme or arrangement for the distribution or the purported distribution of a commodity by which –

- (a) a person may in any manner acquire a commodity or a right or a licence to acquire the commodity for sale, lease, licence or other distributions;
- (b) that person received any benefit, directly or indirectly, as a result of –
 - (i) the recruitment, acquisition, action or performance of one or more additional participants in the scheme or arrangement; or
 - (ii) the sale, lease, licence or other distribution of the commodity by one or more additional participants in the scheme or arrangement; and
- (c) any benefit is or may be received by any other person who promotes or participates in the scheme or arrangement (other than a person referred to in paragraph (a) or an additional participant referred to in paragraph (b)).”

Exceptions to the Act

The *Multi-Level Marketing and Pyramid Selling (Excluded Schemes and Arrangements) Order* (the “**Order**”) sets out specific exceptions that are not caught by the Act. These provisions are designed to protect Singaporean consumers while at the same time promoting a conducive environment for legitimate businesses.

Certain types of business and schemes as stated in the Order are expressly excluded from the scope of the Act. These include:

- (a) financial advisory schemes;
- (b) insurance business; and
- (c) any master franchise scheme or arrangement, or any class of such scheme or arrangement, whereby a person is given the right to sub-franchise a franchise,

subject to the conditions set out in the Order.

Additionally, any scheme or arrangement which satisfies all of the following terms and conditions will not be caught by the Act. These terms and conditions are:

- (a) a person shall not be required to provide any benefit or acquire any commodity in order to participate in the scheme or arrangement, other than the purchase of sales demonstration equipment or materials at a price not exceeding their cost which are not for resale and for which no commission or bonus or any advantage will be given to another person;
- (b) any benefit received —

- (i) by any promoter of, or participant in, the scheme or arrangement accrues as a result of the sale, lease, licence or other distribution of a commodity to any other person; or
 - (ii) by any promoter of the scheme or arrangement accrues as a result of the performance of one or more participants in relation to the sale, lease, licence or other distribution of a commodity to any other person;
- (c) subject to the paragraph above, no benefit shall be received by any person as a result of the introduction or recruitment of one or more persons to be participants in the scheme or arrangement;
- (d) a promoter of the scheme or arrangement shall not make, or cause to be made, any representation to any person that benefits will accrue under the scheme or arrangement in a manner other than as specified in sub-paragraph (b) above;
- (e) a promoter of the scheme or arrangement shall, in respect of any representation relating to the actual or potential accrual of any benefit under the scheme or arrangement, maintain fair and accurate records of the maximum, minimum, median, average and mode benefits that have accrued to the promoter and participants in the scheme or arrangement, duly audited by an auditor for each financial year;
- (f) a promoter of the scheme or arrangement shall not, and shall take reasonable steps to ensure that participants in the scheme or arrangement do not —
- (i) knowingly make, or cause or permit to be made, any representation relating to the scheme or arrangement or to the commodity which is false or misleading;
 - (ii) knowingly omit, or cause or permit to be omitted, any material particular relating to the scheme or arrangement or to the commodity;
 - (iii) knowingly engage in, or cause or permit, any conduct that is misleading or likely to mislead as to any material particular relating to the scheme or arrangement or to the commodity; or
 - (iv) in promoting the scheme or arrangement or the commodity, use, or cause or permit to be used, fraud, coercion, harassment, or unconscionable or unlawful means.
- (g) the commodity shall be distributed with a full refund or buy-back guarantee that is exercisable by every participant in the scheme or arrangement on reasonable commercial terms and within a period of at least 60 days from the date of distribution of the commodity to the participant; and
- (i) every participant in the scheme or arrangement shall be informed in writing, at the time of the distribution of the commodity to the participant, of the existence of the guarantee and the manner in which it can be exercised.

Conclusion

Singapore's regulatory framework under the Act and Order provides a distinction between legitimate MLM schemes and illegal pyramid selling arrangements. Companies intending to enact a MLM scheme or arrangement should carefully structure their business to ensure compliance with the Act.

Should you have any queries as to how this update may affect you or your organisation or require further information, please do not hesitate to email us.



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This article is intended to discuss the Multi-Level Marketing and Pyramid Selling (Prohibition) Act 1973, and it is not intended to be comprehensive nor should it be construed as legal advice. This article is updated as of 11 February 2025.

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