

5256-S

Sponsor(s): Senate Committee on Law & Justice (originally sponsored by Senators Nelson, A. Smith and Newhouse)

Brief Description: Providing franchise investment protection.

SB 5256-S.E - DIGEST

(DIGEST AS ENACTED)

Designates the situations when an offer to sell a franchise shall be deemed to have been made in this state.

Revises provisions of chapter 19.100 RCW which establish registration requirements.

Makes it unlawful to sell a franchise that is registered without first delivering to the offeree a copy of the offering circular required by RCW 19.100.040.

Does not preclude negotiation of the terms and conditions of a franchise at the initiative of the franchisee.

VETO MESSAGE ON SB 5256-S

May 16, 1991

To the Honorable, the Senate
of the State of Washington
Ladies and Gentlemen:

I am returning herewith, without my approval as to section 15, Engrossed Substitute Senate Bill No. 5256 entitled:

"AN ACT Relating to franchise investment protection."

Washington State's Franchise Investment Protection Act is an important consumer protection statute that, through protection of franchisees, has fostered a healthy business environment for reputable franchisors. Section 15 of this act would reduce the statute of limitations to only one year for an action by a franchisee for rescission based on failure of a franchisor to register. Further, the statute of limitations would be reduced to three years for all other actions under RCW 19.100.190. Currently, the statute of limitations may vary between two and six years depending on judicial interpretation.

While I agree that providing greater certainty in the limitation of actions is desirable, the original Washington State Bar Association Franchise Act Revision Committee's recommendation provided for a more reasonable statute of limitations of two years for failure to register and four years for other actions. This initial recommendation was modified by the Legislature.

A veto of section 15 is necessary to assure continued consumer protection. Some problems with franchise agreements may not arise during the first year. Experience has shown that franchisors who fail to register often have the weakest franchises to sell and do not provide the disclosures required by the Franchise Investment Protection Act, thus exposing the purchaser to unnecessary risk. Also, the one year statute of limitations could provide an incentive to unscrupulous franchisors to sell unregistered franchises hoping the year will pass before discovery of a problem

and the franchisee's claim, however valid, will be barred from legal action.

With the exception of section 15, Engrossed Substitute Senate Bill No. 5256 is approved.

Respectfully submitted,
Booth Gardner
Governor