

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

COMMISSIONERS:

Timothy J. Muris, Chairman
Mozelle W. Thompson
Orson Swindle
Thomas B. Leary
Pamela Jones Harbour

In the Matter of)	
)	
)	
A Petition for Exemption from a Trade)	Trade Regulation Rule No. 215-34
Regulation Rule Entitled "Disclosure)	
Requirements and Prohibitions Concerning)	
Franchising and Business Opportunity)	
Ventures" filed by Rolls-Royce Corp.)	
)	

ORDER GRANTING EXEMPTION

On March 31, 2003, the Commission published a notice in the *Federal Register* soliciting comments on a petition filed by Rolls-Royce Corp. ("Rolls-Royce" or "Petitioner"). Rolls-Royce sells maintenance center franchises to service its turboprop, turbofan, and industrial gas turbine engines. The petition sought an exemption, pursuant to Section 18(g) of the Federal Trade Commission Act, from coverage under the Commission's Trade Regulation Rule entitled "Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures" ("Franchise Rule").

In accordance with Section 18(g), the Commission conducted an exemption proceeding under Section 553 of the Administrative Procedure Act, 5 U.S.C. § 553, and invited public comment during a 60-day period ending May 30, 2003. No comments were received. After reviewing the petition, the Commission has concluded that the Petitioner's request should be granted.

The statutory standard for exemption requires the Commission to determine whether application of the Trade Regulation Rule to the person or class of persons seeking exemption is "necessary to prevent the unfair or deceptive act or practice to which the rule relates." If not, an exemption is warranted.

The pre-sale disclosures required by the Franchise Rule are designed to prevent deceptive acts or practices. The Rule requires franchisors to provide investors with the material information they need to make an informed investment decision in circumstances where they might otherwise lack the resources, knowledge, or ability to obtain the information, and thus protect themselves from deception.

The abuses that the disclosure remedy of the Franchise Rule is designed to prevent are most likely to occur, as the Statement of Basis and Purpose of the Rule notes, in sales where three factors are present:

- (1) A potential investor has a relative lack of business experience and sophistication;
- (2) The investor has inadequate time to review and comprehend the unique and often complex terms of the franchise agreement before making a major financial commitment; and
- (3) A significant information imbalance exists in which the prospective franchisee is unable to obtain essential and relevant facts known to the franchisor about the investment.

The petition demonstrates that potential maintenance center franchisees are and will continue to be a select group of highly sophisticated and experienced businesspeople; that they make very significant investments; and that they have more than adequate time to consider the dealership offer and obtain information about it before investing.

In particular, we note that the purchase of a Rolls-Royce maintenance center is among the most costly of franchise offerings. On average, the maintenance centers have approximately \$10 million in assets, excluding land and buildings. As a practical matter, investments of this size and scope typically involve knowledgeable investors, the use of independent business and legal advisors, and an extended period of negotiation that generates the exchange of information necessary to ensure that investment decisions are the product of an informed assessment of the potential risks and benefits.

The Commission has reviewed the potential for unfair or deceptive acts or practices in connection with the offer of Rolls-Royce maintenance centers and found no evidence or likelihood of a significant pattern or practice of abuse. If any such evidence exists, it has not yet been brought to the Commission's attention in this proceeding.

Thus, both the record in this proceeding and all prior experience to date with other Franchise Rule exemptions support the conclusion that Petitioner's sale of Rolls-Royce maintenance centers accomplishes what the Rule was intended to ensure. The conditions most likely to lead to abuses are not present in the sale of the maintenance centers, and the process generates sufficient information to ensure that applicants will be able to make an informed investment decision. For these reasons, the Commission finds that the application of the Franchise Rule to Petitioner's sale of maintenance center franchises is not necessary to prevent the unfair or deceptive acts or practices to which the Rule relates.

Accordingly, the Commission has determined that the provisions of 16 C.F.R. Part 436 shall not apply to the advertising, offering, licensing, contracting, sale or other promotion of maintenance centers by Rolls-Royce Corp. This opinion is based on the information submitted and representations made in Rolls-Royce's petition. The grant of the petition applies only to the extent that actual company practices conform to the practices described in the petition.

IT IS SO ORDERED.

By the Commission.

Donald S. Clark
Secretary

ISSUED: November 10, 2003