Wednesday,
January 29, 2003

Part III

Federal Trade Commission

16 CFR Part 310
Telemarketing Sales Rule; Final Rule
FEDERAL TRADE COMMISSION
16 CFR Part 310
Telemarketing Sales Rule

AGENCY: Federal Trade Commission.
ACTION: Final Amended Rule.

SUMMARY: In this document, the Federal Trade Commission (“FTC” or “Commission”) issues its Statement of Basis and Purpose (“SBP”) and final amended Telemarketing Sales Rule (“amended Rule”). The amended Rule sets forth the FTC’s amendments to the Telemarketing Sales Rule (“original Rule” or “TSR”). The amended Rule is issued pursuant to the Commission’s Rule Review, the Telemarketing and Consumer Fraud and Abuse Prevention Act (“Telemarketing Act” or “Act”) and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (“USA PATRIOT Act”).

EFFECTIVE DATES: The amended Rule will become effective March 31, 2003. Full compliance with § 310.4(a)(7), the caller identification transmission provision, is required by January 29, 2004. The Commission will announce at a future time the date by which full compliance with § 310.4(b)(1)(iii)(B), the “do-not-call” registry provision, will be required. The Commission anticipates that full compliance with the “do-not-call” provision will be required approximately seven months from the date a contract is awarded to create the national registry.

ADDRESSES: Requests for copies of the amended Rule and this SBP should be sent to: Public Reference Branch, Room 130, Federal Trade Commission, 600 Pennsylvania Avenue, N.W., Washington, DC 20580. The complete record of the proceeding is also available at that address. Relevant portions of the proceeding, including the amended Rule and SBP, are available at http://www.ftc.gov.


SUPPLEMENTARY INFORMATION: The amended Rule: (1) retains most of the original Rule’s requirements concerning deceptive and abusive telemarketing acts or practices without major substantive changes; (2) establishes a national “do-not-call” registry maintained by the Commission; (3) defines “upselling” to clarify the amended Rule’s application to these transactions, requires specific disclosures for upsell transactions, and expressly excludes upselling transactions from certain exemptions in the amended Rule; (4) requires that sellers and telemarketers accepting payment by methods other than credit and debit cards subject to certain protections obtain express verifiable authorization from their customers; (5) retains the exemptions for pay-per-call, franchise, and face-to-face transactions, but makes these transactions subject to the national “do-not-call” registry and certain other provisions in the abusive practices section of the Rule; (6) specifies requirements for the use of predictive dialers; (7) requires disclosures and prohibits misrepresentations in connection with the sale of credit card loss protection plans; (8) requires an additional disclosure in connection with prize promotions; (9) requires disclosures and prohibits misrepresentations in connection with offers that include a negative option feature; (10) eliminates the general media and direct mail exemptions for the telemarketing of credit card loss protection plans and business opportunities other than business arrangements covered by the Franchise Rule; (11) requires telemarketers to transmit caller identification information; (12) eliminates the use of post-transaction written confirmation as a means of obtaining a customer’s express verifiable authorization when the goods or services are offered on a “free-to-pay conversion” basis; (13) prohibits the disclosure or receipt of the customer’s or donor’s unencrypted billing information for consideration, except in limited circumstances; and (14) requires that the seller or telemarketer obtain the customer’s express informed consent to all transactions, with specific requirements for transactions involving “free-to-pay conversions” and prerequested account information.

Statement of Basis and Purpose

I. Background

A. Telemarketing and Consumer Fraud and Abuse Prevention Act.

The early 1990s saw heightened Congressional attention to burgeoning problems with telemarketing fraud. The culmination of Congressional efforts to protect consumers against telemarketing fraud occurred in 1994 with the passage of the Telemarketing Act, which was signed into law on August 16, 1994. The purpose of the Act was to combat telemarketing fraud by providing law enforcement agencies with new tools and to give consumers new protections.

The Telemarketing Act directed the Commission to issue a rule prohibiting deceptive and abusive telemarketing acts or practices, and specified, among other things, certain acts or practices the FTC’s rule must address. The Act also required the Commission to include provisions relating to three specific abusive telemarketing acts or practices: (1) a requirement that telemarketers may not undertake a pattern of unsolicited telephone calls which the consumer would consider coercive or abusive of his or her right to privacy; (2) restrictions on the time of day telemarketers may make unsolicited calls to consumers; and (3) a requirement that telemarketers promptly and clearly disclose in all sales calls to consumers that the purpose of the call is to sell goods or services, and make other disclosures deemed appropriate by the Commission, including the nature and price of the goods or services sold. Section 6102(a) of the Act not only required the Commission to define and prohibit deceptive telemarketing acts or practices, but also authorized the FTC to define and prohibit acts or practices that “assist or facilitate” deceptive telemarketing. The Act further directed the Commission to consider including recordkeeping requirements in the rule. Finally, the Act authorized state Attorneys General, other appropriate state officials, and private persons to bring civil actions in federal district court to enforce compliance with the FTC’s rule.

2 Statutes enacted by Congress to address telemarketing-related crimes.
5 Examples of practices that would “assist or facilitate” deceptive telemarketing under the Rule include credit card laundering and providing contact lists or promotional materials to fraudulent sellers or telemarketers. See 60 FR 43842, 43853 (Aug. 23, 1995).
B. Original Rule.

The FTC adopted the original Rule on August 16, 1995.8 The Rule, which became effective on December 31, 1995, requires that telemarketers promptly tell each consumer they call several key pieces of information: (1) the identity of the seller; (2) the fact that the purpose of the call is to sell goods or services; (3) the nature of the goods or services being offered; and (4) in the case of prize promotions, that no purchase or payment is necessary to win.9 Telemarketers must, in any telephone sales call, also disclose cost and other material information before consumers pay.10 In addition, the original Rule requires that telemarketers have consumers’ express verifiable authorization before using a demand draft (or “phone check”) to debit consumers’ bank accounts.11 The original Rule prohibits telemarketers from calling before 8:00 a.m. or after 9:00 p.m. (in the time zone where the consumer is located), and from calling consumers who have said they do not want to be called by or on behalf of a particular seller.12 The original Rule also prohibits misrepresentations about the cost, quantity, and other material aspects of the offered goods or services, and the terms and conditions of the offer.13 Finally, the original Rule bans telemarketers who offer to arrange loans, provide credit repair services, or recover money lost by a consumer in a prior telemarketing scam from seeking payment before rendering the promised services,14 and prohibits credit card laundering and other forms of assisting and facilitating fraudulent telemarketers.15

The Rule expressly exemptts from its coverage several types of calls, including calls where the transaction is completed after a face-to-face sales presentation, calls subject to regulation under other FTC rules (e.g., the Pay-Per-Call Rule,16 or the Franchise Rule),17 calls initiated by consumers that are not in response to any solicitation, calls initiated by consumers in response to direct mail, provided certain disclosures are made, and calls initiated by consumers in response to advertisements in general media, such as newspapers or television.18 Lastly, catalog sales are exempt, as are most business-to-business calls, except those involving the sale of non-durable office or cleaning supplies.19

C. Rule Review and Request for Comment.

The Telemarketing Act required that the Commission initiate a Rule Review proceeding to evaluate the Rule’s operation no later than five years after its effective date of December 31, 1995, and report the results of the review to Congress.20 Accordingly, on November 24, 1999, the Commission commenced the mandatory review with publication of a Federal Register notice announcing that Commission staff would conduct a forum on January 11, 2000, limited to examination of issues related to the “do-not-call” provision of the Rule, and soliciting applications to participate in the forum.21 On February 28, 2000, the Commission published a second notice in the Federal Register, broadening the scope of the inquiry to encompass the effectiveness of all the Rule’s provisions. This notice invited comments on the Rule as a whole and announced a second public forum to discuss the provisions of the Rule other than the “do-not-call” provision. In response to this notice, the Commission received 92 comments from representatives of industry, law enforcement, and consumer groups, as well as from individual consumers.22

The commentators generally praised the effectiveness of the TSR in combating the fraudulent practices that had plagued the telemarketing industry before the Rule was promulgated. They also strongly supported the Rule’s continuing role as the centerpiece of federal and state efforts to protect consumers from interstate telemarketing fraud. Commenters consistently stressed that it is important to retain the Rule. However, commentators were less sanguine about the effectiveness of the Rule’s provisions dealing with consumers’ right to privacy, such as the “do-not-call” provision and the provision restricting calling times. They also identified a number of areas of continuing or developing fraud and abuse, as well as the emergence of new technologies that affect telemarketing for industry members and consumers alike. Commenters identified several changes in the marketplace that had occurred in the five years since the Rule was promulgated and that threatened the Rule’s effectiveness. Those changes included increased consumer concern about personal privacy,24 the development of novel payment methods,25 and the increased use of...
preacquired account telemarketing and upselling. The practice of preacquired account telemarketing—who a telemarketer acquires the customer's billing information prior to initiating the telemarketing call or transaction—has increasingly resulted in complaints from consumers about unauthorized charges. Billing information can be preacquired in a variety of ways, including from a consumer's bank or credit card company, from the consumer in a previous transaction, or from another source. In many instances, the consumer is not involved in the transfer of the billing information and is unaware that the seller possesses it during the telemarketing call.

The practice of "upselling" has also become more prevalent in telemarketing. Through this technique, customers are offered additional items for purchase after the completion of an initial sale. In the majority of upselling scenarios, the seller or telemarketer already has received the consumer's billing information, either from the consumer or from another source.

References to the Rule Review Forum transcript are cited as "RR Tr." followed by the appropriate page designation.

Telemarketers on behalf of charitable organizations. Because enactment of the USA PATRIOT Act took place after the comment period for the Rule Review closed, the Commission did not raise issues relating to charitable fundraising by telemarketers in the Rule Review.

Section 1011(b)(3) of the USA PATRIOT Act amends the definition of "telemarketing" that appears in the Telemarketing Act, 15 U.S.C. §6106(4), expanding it to cover any "plan, program, or campaign which is conducted to induce . . . a charitable contribution, donation, or gift of money or any other thing of value, by use of one or more telephones and which involves more than one interstate telephone call . . . ." In addition, §1011(b)(2), among other things, adds a new section to the Telemarketing Act directing the Commission to include new requirements in the "abusive telemarketing acts or practices" provisions of the TSR. Finally, §1011(b)(1) deprecates "abusive telemarketing acts or practices" provision of the Telemarketing Act, 15 U.S.C. §6102(a)(2), by specifying that "fraudulent charitable solicitation" is to be included as a deceptive practice under the TSR.

E. Notice of Proposed Rulemaking

On January 30, 2002, the Commission published its NPRM, proposing revisions to the TSR ("proposed Rule") in order to ensure that consumers receive the protections that the Telemarketing Act mandated, and to effectuate §1011 of the USA PATRIOT Act. The Commission proposed a number of changes, including a national "do-not-call" registry maintained by the FTC, a ban on receiving from or disclosing to a third party a consumer’s billing information, a prohibition against blocking caller identification information, and a requirement that sellers or telemarketers accepting payment by check, credit, or debit card provide customers with a copy of the call, together with a statement that they may contact the Commission and make such other disclosures as the Commission considers necessary. During the course of this NPRM proceeding, the Commission received about 64,000 electronic and paper comments from representatives of industry, law enforcement, consumer and privacy groups, and from individual consumers. On June 5, 6 and 7, 2002, the Commission held a forum ("June 2002 Forum") to discuss the issues raised by commenters regarding the FTC's proposed revisions. The forum was open to the public, and time was reserved to receive oral comments from members of the public in attendance. During the forum, the Commission announced that it would accept supplemental comments until June 28, 2002. The forum proceeding was transcribed and placed on the public record.

33 Of these, more than forty-five were supplemental comments from organizations and individuals, and about 15,000 supplemental comments were from Gottschalks' customers submitted by Gottschalks. Simultaneous with, but separate from, the NPRM proceeding, the Commission has been exploring possible methods for implementing the proposed national "do-not-call" registry. Consumer groups and state law enforcement representatives also generally supported the proposed amendment, although they expressed concern about the effect of the proposal on state "do-not-call".

34 References to the June 2002 Forum transcript are cited as "June 2002 Tr. " followed by the appropriate page designation.

35 June 2002 Tr. II at 254. References to the June 2002 Forum transcript are cited as "[Name of Commenter]-Supp. at [page number]", virtually all of which argued that the Commission does not have the authority to issue a user fee, or that it was premature to propose a user fee because the Commission needs more information upon which to base the proposal. The user fee proposal remains under review as the Commission continues to evaluate the issues raised in the comments.

36 Much of the record in this proceeding can be viewed on the FTC's website at http://www.ftc.gov/bcp/rulemaking/tsr-tsreview.htm. In addition, the full paper record is available in Room 130 at the FTC, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580, telephone number: 1-202-263-2222.
that many of the changes in the marketplace that have occurred since the original Rule was promulgated have led to the growth of deceptive and abusive practices in areas not adequately addressed by the original Rule. The amended Rule addresses these practices by responding to the changes in the marketplace in a manner consistent with the intent of Congress in enacting the Telemarketing Act and §1011 of the USA PATRIOT Act. The Commission believes that the amended Rule strikes a balance, maximizing consumer protections without imposing unnecessary burdens on the telemarketing industry. Each of the amendments is discussed in detail in this SBP. A summary of the major changes from the original Rule is set forth below. The amended Rule:

- Supplements the current company-specific “do-not-call” provision with a provision that will empower a consumer to stop calls from all companies within the FTC’s jurisdiction by placing his or her telephone number on a central “do-not-call” registry maintained by the FTC, except when the consumer has an “established business relationship” with the seller on whose behalf the call is made;
- Permits consumers who have put their numbers on the national “do-not-call” registry to provide permission to call to any specific seller by an express written agreement;
- Explicitly exempts solicitations to induce charitable contributions via outbound telephone calls from coverage under the national “do-not-call” registry provision;
- Modifies §310.3(a)(3) to require express verifiable authorization for all transactions except when the method of payment used is a credit card subject to protections of the Truth in Lending Act and Regulation Z, or a debit card subject to the protections of the Electronic Fund Transfer Act and Regulation E;
- Modifies §310.3(a)(3)(iii), the provision allowing a telemarketer to obtain express verifiable authorization by sending written confirmation of the transaction to the consumer prior to submitting the consumer’s billing information for payment;
- Mandates disclosures in the sale of credit card loss protection, and prohibits misrepresenting that a consumer needs offered goods or services in order to receive protections he or she already has under 15 U.S.C. §1643 (limiting a cardholder’s liability for unauthorized charges on a credit card account);
- Explicitly mandates that all required disclosures in §310.3(a)(1) and §310.4(d) be made truthfully;
- Expands upon the current prize promotion disclosures to include a statement that any purchase or payment will not increase a consumer’s chances of winning;
- Prohibits disclosing or receiving, for consideration, unencrypted consumer account numbers for use in telemarketing, except when the disclosure or receipt is to process a payment for goods or services or a charitable contribution pursuant to a transaction;
- Prohibits causing billing information to be submitted for payment, directly or indirectly, without the express informed consent of the customer or donor;
- Sets out guidelines for what evidences express informed consent in transactions involving preacquired account information and “free-to-pay conversion” features;
- Requires telemarketers to transmit the telephone number, and name, when available, of the telemarketer to any caller identification service;
- Prohibits telemarketers from abandoning any outbound telephone call, and provides, in a safe harbor provision, that to avoid liability under this provision, a telemarketer must: abandon no more than three percent of all calls answered by a person; allow the telephone to ring for fifteen seconds or four rings; whenever a sales representative is unavailable within two seconds of a person’s answering the call, play a recorded message stating the name and telephone number of the seller on whose behalf the call was placed; and maintain records documenting compliance;
- Extends the applicability of most provisions of the Rule to “upselling” transactions;
- Prohibits denying or interfering in any way with a consumer’s right to be placed on a “do-not-call” list;
- Requires maintenance of records of express informed consent and express agreement;
- Narrows certain exemptions of the Rule;
- Clarifies that facsimile transmissions, electronic mail, and other similar methods of delivery are direct mail for purposes of the direct mail exemption; and
- Modifies various provisions throughout the Rule to effectuate expansion of the Rule’s coverage to include charitable solicitations, pursuant to Section 1011 of the USA PATRIOT Act, and adds new mandatory disclosures and prohibited misrepresentations in charitable solicitations.

F. The Amended Rule.

The Commission has carefully reviewed the entire record developed in its rulemaking proceeding. The record, as well as the Commission’s law enforcement experience, leave little doubt that important changes have occurred in the marketplace, and that modifications to the original Rule are necessary if consumers are to receive the protections that Congress intended to provide when it enacted the Telemarketing Act. Based on that record and on the Commission’s law enforcement experience, the Commission has modified the proposed Rule published in the NPRM and now promulgates this amended Rule, as described in this SBP.

The Commission’s decision to retain certain provisions of the original Rule while supplementing or amending others is made pursuant to the Rule Review requirements of the Telemarketing Act, and pursuant to the rulemaking authority granted to the Commission by that Act to protect consumers from deceptive and abusive practices, including practices that may be coercive or abusive of the consumer’s interest in protecting his or her privacy. The Commission’s decision to amend the original Rule also is made pursuant to the authority granted to the Commission by §1011 of the USA PATRIOT Act.

As discussed in detail herein, the Commission believes that it is necessary to amend the original Rule to ensure that the Telemarketing Act’s goals are met—that is, encouraging the growth of the legitimate telemarketing industry, while curtailing those practices that are abusive or deceptive. The record in this rulemaking proceeding demonstrates...
G. Proposed Rule Adopted with Some Modifications.

Based on the entire record in this proceeding, the amended Rule adopted by the Commission is substantially similar to the proposed Rule. However, the amended Rule contains some important differences from the proposed Rule. These further modifications to the original Rule were based on the recommendations of commenters and on the Commission’s more comprehensive law enforcement experience in certain areas over the months since publishing the NPRM.

The major differences between the proposed Rule and the amended Rule adopted here are as follows:

- The definition of “charitable contribution” no longer contains exceptions for religious and political groups;
- Sellers who have an “established business relationship” with the consumer are exempted from the national “do-not-call” registry;
- For-profit telemarketers who solicit charitable contributions are exempted from the national “do-not-call” registry, but remain subject to the entity-specific “do-not-call” provision;
- The original Rule’s definition of “outbound call” has been reinstated, and the proposed Rule modified to require specific disclosures in an upsell transaction;
- Disclosures regarding negative option features are required;
- Express verifiable authorization is required for all payments, except those made by a credit or debit card subject to certain statutorily-mandated consumer protections;
- For express oral authorization to be deemed verifiable, a seller must ensure the customer’s or donor’s receipt of the date the charge will be submitted for payment (rather than the date of the payment) and identify the account to be charged with sufficient specificity such that the customer or donor understands what account is being used to collect payment (rather than provide the account name and number);
- The use of written post-sale confirmations is permitted, subject to the requirement that such confirmations be clearly and conspicuously labeled as such; however, this method is not permitted in transactions involving a “free-to-pay conversion” feature and preacquired account information;
- In charitable solicitations, the prohibited misrepresentation regarding the percentage or amount of any charitable contribution that will go to a charitable organization or program is no longer delimited by the phrase “after any administrative or fundraising expenses are deducted;”
- The Rule now specifies that billing charges to a consumer’s account without the consumer’s authorization is an abusive practice and a Rule violation; and the Rule now requires that a customer’s express informed consent be provided in every transaction;
- The ban on the transfer of consumers’ billing information has been replaced with a ban on transferring unencrypted consumer account numbers;
- The failure to transmit caller identification information is prohibited, rather than the affirmative blocking of such information;
- Abandoned calls are prohibited, subject to a “safe harbor” that requires a telemarketer to: abandon no more than three percent of all calls answered by a person; allow the telephone to ring for fifteen seconds or four rings; whenever a sales representative is unavailable within two seconds of a person’s answering the call, play a recorded message stating the name and telephone number of the seller on whose behalf the call was placed; and maintain records documenting compliance;
- Records of express informed consent or express agreement must be maintained;
- The exemptions for certain kinds of calls are explicitly unavailable to upselling transactions;
- The exemption for business-to-business telemarketing is once again available to telemarketing of Web services and Internet services, as well as the solicitation of charitable contributions.

II. Discussion of the Amended Rule

The amendments to the Rule do not alter § 310.7 (Actions by States and Private Persons), or § 310.8 (Severability), although § 310.8 (Severability) has been renumbered as § 310.9 in the amended Rule. Section 310.8 of the amended Rule is now reserved.

A. Section 310.1 — Scope of Regulations.

Section 310.1 of the amended Rule states that “this part [of the CFR] implements the Telemarketing Act, as amended,” reflecting the amendment of the Telemarketing Act by § 1011 of the USA PATRIOT Act. As noted in the NPRM, § 1011(b)(3) of the USA PATRIOT Act amends the definition of “telemarketing” that appears in the Telemarketing Act, 15 U.S.C. § 6306(4), by inserting the underscored language:

The term ‘telemarketing’ means a plan, program, or campaign which is conducted to induce purchases of goods or services or a charitable contribution, donation, or gift of money or any other thing of value, by use of one or more telephones and which involves more than one interstate telephone call. . . .

In addition, § 1011(b)(2) adds a new section to the Telemarketing Act requiring the Commission to include in the “abusive telemarketing acts or practices” provisions of the TSR:

a requirement that any person engaged in telemarketing for the solicitation of charitable contributions, donations, or gifts of money or any other thing of value, shall promptly and clearly disclose to the person receiving the call that the purpose of the call is to solicit charitable contributions, donations, or gifts, and make such other disclosures as the Commission considers appropriate, including the name and mailing address of the charitable organization on behalf of which the solicitation is made.

Finally, § 1011(b)(1) amends the “deceptive telemarketing acts or practices” provision of the Telemarketing Act, 15 U.S.C. § 6102(a)(2), by inserting the underscored language:

The Commission shall include in such rules respecting deceptive telemarketing acts or practices a definition of deceptive telemarketing acts or practices which shall include fraudulent charitable solicitations and which may include acts or practices of entities or individuals that assist or facilitate deceptive telemarketing, including credit card laundering.

Notwithstanding the amendment of these provisions of the Telemarketing Act, neither the text of § 1011 nor its legislative history suggests that it amends § 6105(a) of the Telemarketing Act—the provision which incorporates the jurisdictional limitations of the FTC Act into the Telemarketing Act and, accordingly, the TSR. Section 6105(a) of the Act states:

Except as otherwise provided in sections 6102(d) [with respect to the Securities and Exchange Commission], 6102(e) [Commodity Futures Trading Commission], 6103 [state Attorney General actions], and 6104 [private consumer actions] of this title, this chapter shall be enforced by the Commission under the Federal Trade Commission Act (15 U.S.C. § 41 et seq.). Consequently, no activity which is outside of the jurisdiction of that Act shall

— Pat Sotol, Acting General Counsel, Federal Trade Commission, June 28, 2001
be affected by this chapter. (emphasis added).41

One type of “activity which is outside the jurisdiction” of the FTC Act, as interpreted by the Commission and federal court decisions, is that conducted by non-profit entities. Sections 4 and 5 of the FTC Act, by their terms, provide the Commission with jurisdiction only over persons, partnerships, or “corporations organized to carry on business for their own profit or that of their members.”42

Reading the amendments to the Telemarketing Act effectuated by § 1011 of the USA PATRIOT Act together with the unchanged sections of the Telemarketing Act compels the conclusion that for-profit entities that solicit charitable donations now must comply with the USA PATRIOT Act, although the Rule’s applicability to charitable organizations themselves is unaffected.43 The USA PATRIOT Act brings the Telemarketing Act’s jurisdiction over charitable solicitations in line with the jurisdiction of the Commission under the FTC Act by expanding the Rule’s coverage to include not only the sale of goods or services, but also charitable solicitations by for-profit entities on behalf of nonprofit organizations.

The Commission received numerous comments regarding the change in scope to the TSR required by the USA PATRIOT Act amendments of the Telemarketing Act. Some comments supported the Commission’s interpretation of the USA PATRIOT Act amendments, and the coverage of for-profit telemarketers who solicit on behalf of exempt charitable organizations.44 However, the majority of commenters who addressed this issue believed the Commission had misinterpreted the mandate of the USA PATRIOT Act amendments. Law enforcement agencies and consumer groups, including NAAG and NASCO, generally expressed the view that the Commission had underestimated the jurisdictional powers conferred on it by the USA PATRIOT Act amendments, and urged that the Rule apply not only to for-profit solicitors who call on behalf of charities, but also to the charities themselves.45 These commenters argued that the language of the USA PATRIOT Act and its legislative history do not support limiting the applicability of the TSR to telemarketers who call on behalf of non-profits, rather than extending it to cover charitable organizations as well.46

On the other hand, most non-profit organizations that commented argued that the Commission’s interpretation of the USA PATRIOT Act amendments was too expansive. Several of these commenters argued that in adopting § 1011 of the USA PATRIOT Act, “Congress meant only to apply certain disclosure requirements—and not the other aspects of the Rule—to professional fund raisers for charities and to for-profit entities soliciting charitable contributions for their own philanthropic purposes.”47 Others suggested that “Congress intended only to address bogus charitable solicitation where the non-profit or charitable cause or organizational scheme itself is of a criminal or fraudulent nature.”48 These commenters cite statements made by the legislation’s chief sponsor to the effect that concerns about fraudulent charities prompted him to introduce the legislation.49

The Commission believes that concerns about bogus charitable fundraising in the wake of the events of September 11, 2001, in large measure propelled passage of § 1011 of the USA PATRIOT Act.50 But the fact remains that Congress did more than impose upon the solicitation of charitable contributions by for-profit telemarketers prohibitions against misrepresentation and basic disclosure obligations. Indeed, the USA PATRIOT Act amendments alter the scope of the entire TSR by altering the key definition of the statute—“telemarketing”—to encompass charitable solicitation. Moreover, the text of § 1011 expressly directs the Commission to address both deceptive and abusive acts or practices.51 Thus, there is no textual support for the notion that § 1011 excludes from its grant of authority over charitable solicitations the power to prohibit deceptive or abusive practices.52

41 Section 6105(b) reinforces the point made in § 6105(a), as follows: “The Commission shall prevent any person from violating a rule of the Commission under section 6102 of this title in the same manner, by the same means, and with the same jurisdiction, powers, and duties as though all applicable terms and provisions of the Federal Trade Commission Act (15 U.S.C. § 41 et seq.) were incorporated into and made a part of this chapter. Any person who violates such rules shall be subject to the penalties and entitled to the same privileges and immunities provided in the Federal Trade Commission Act in the same manner, by the same means, and with the same jurisdiction, power, and duties as though all applicable terms and provisions of the Federal Trade Commission Act were incorporated into and made a part of this chapter.” (emphasis added).

42 Section 5(a)(2) of the FTC Act states: “The Commission is hereby empowered and directed to prevent persons, partnerships, or corporations . . . from using unfair or deceptive acts or practices in or affecting commerce.” 15 U.S.C. 45(a)(2). Section 4 of the Act defines “corporation” to include: “any company, trust, so-called Massachusetts trust, or association, incorporated or unincorporated, which is organized to carry on business for its own profit or that of its members . . . .” 15 U.S.C. 44 (emphasis added).

43 A fundamental tenet of statutory construction is that “a statute should be read as a whole, . . . [and that] provisions introduced by the amendatory act should be read together with the provisions of the original section that were . . . left unchanged . . . as if they had been originally enacted as one section.” 1A NORMAN J. SINGER, SUTHERLAND STATUTES & STAT. CONSTR. § 22:34 (6th ed. 2002), citing, inter alia, Brothers v. First Leasing, 724 F.2d 789 (9th Cir. 1984); Republic Steel Corp. v. Costle, 581 F.2d 1228 (6th Cir. 1978); Am. Airlines, Inc. v. Remis Indus., Inc., 494 F.2d 196 (2d Cir. 1974); Archr. via Kansas Tpk Auth., 336 F.2d 222 (10th Cir. 1964); Nat’l Ctr. for Preservation Law v. Landrieu, 496 F. Supp. 716 (D.S.C. 1980); Conoco, Inc. v. Hodel, 626 F. Supp. 287 (D. Del. 1986); Kirchner v. Kansas Tpk Auth., 811 F. Supp. 667 (D. Mass. 1989). Thus, in construing a statute and its amendments, “[j]effort is to be given to each part, and they are to be interpreted so that they do not conflict.” Id.

44 See, e.g., AARP-NPRM at 4; AFP-NPRM at 3 (arguing that the USA PATRIOT Act gives the FTC jurisdiction over for-profit telemarketers soliciting on behalf of non-profits, agreeing that the disclosures required by amended Rule § 310.4(e) are necessary, and that disclosures mirror the disclosures required by AFP’s code of ethics); ASTA-NPRM at 1; Make-a-Wish-NPRM, passim; MBNA-NPRM at 6 (the Rule amendments to effectuate the USA PATRIOT Act’s provisions “reflect Congress’ intent and are limited in scope and impact while providing important consumer benefits.”).

45 See, e.g., NAAG-NPRM at 50-51; NASCO-NPRM at 3-4.

46 See NAAG-NPRM at 50-51; NASCO-NPRM at 3-4 (the USA PATRIOT Act refers to “fraudulent charitable solicitations,” and requires disclosures by “any person conducting a charitable solicitation,” also noting that the USA PATRIOT Act was passed in the wake of September 11, 2001, and in response to misrepresentations by non-profits as well as their for-profit telemarketers.).

47 See 4585Federal Register / Vol. 68, No. 19 / Wednesday, January 29, 2003 / Rules and Regulations
Some non-profit commenters also argued that the Commission’s interpretation of the USA PATRIOT Act produced, in effect, a double standard, regulating charities who outsource their telemarketing, but not those who conduct their own telemarketing campaigns. Others opined that this conduct their own telemarketing, but not those who produced, in effect, a double standard, interpretation of the USA PATRIOT Act amendments did not expand the charitable solicitations made via telemarketing, but not those who solicit on behalf of non-profits, and numbers of non-profit commenters is intended by Congress when it passed campaigns. Others opined that this produced, in effect, a double standard, interpretation of the USA PATRIOT Act amendments did not expand the charitable solicitation provision, is unfair given the jurisdiction under the TSR to make direct regulation of non-profit organizations possible. Nevertheless, reading the amendatory act together with the original language, as it must, the Commission has sought to give full effect to the directive of Congress set forth in the USA PATRIOT Act amendments.

Another argument raised by large numbers of non-profit commenters is that regulating for-profit telemarketers who solicit on behalf of non-profits, and in particular, the Commission’s jurisdiction under the TSR to make direct regulation of non-profit organizations possible. Nevertheless, reading the amendatory act together with the original language, as it must, the Commission has sought to give full effect to the directive of Congress set forth in the USA PATRIOT Act amendments.

Commenters’ Proposals.

Noting the Commission’s jurisdictional limitations with respect to banks, MBNA requested that the Rule explicitly state that it is “inapplicable to entities exempt from coverage under § 5(a)(2) of the [FTC Act].” MBNA also recommended that the Rule extend this exemption to “entities acting on behalf of banks” by applying the “entities acting on behalf of banks” exception such entities regulated by the Bank Service Company Act, 15 U.S.C. § 45(a)(2), concerning services they provide for banks. MasterCard challenged the Commission’s statement that it can regulate third-party telemarketers who call on behalf of a bank, and urged that the Commission explicitly exempt “any bank subsidiary or affiliate performing services on behalf of a bank.” ABA recommended that the amended Rule clarify that “non-bank operating subsidiaries of banks as defined by the banking agencies’ are exempt.”

The Commission notes that, from the inception of the Commission has asserted that parties acting on behalf of exempt organizations are not thereby exempt from the FTC Act, and thus, for example, “a nonbank company that contracts with a bank to provide telemarketing services on behalf of the bank is covered” by this Rule. This reading is consistent with the

outbound telephone calls from the “do-not-call” registry provision. Only the less restrictive entity-specific “do-not-call” provision included in the original Rule will apply to charitable solicitation telemarketing. However, both the entity-specific “do-not-call” provisions and the “do-not-call” registry provisions apply to commercial telemarketing to induce purchases of goods or services. This approach fulfills the Commission’s intention that the TSR be consistent with First Amendment principles, whereby a higher degree of protection is extended to charitable solicitation than to commercial solicitation. Moreover, as a practical matter, the Commission believes that this approach will enable charities to continue soliciting support and pursuing their missions.

53 See, e.g., March of Dimes-NPRM at 2.
54 See IUPA-NPRM at 1.
55 See Reesee-NPRM at 2.
56 See, e.g., FOP-NPRM at 2; HBC-NPRM at 1; Italian American Police-NPRM at 1; Lautman-NPRM at 2; Leukemia Society-NPRM at 1-2; NCLF-NPRM at 1; Angel Food-NPRM at 1; North Carolina FFA-NPRM at 1; SO-CT-NPRM at 1; SO-NJ-NPRM at 1; SO-WA-NPRM at 1; Reese-NPRM at 2; SHARE-NPRM at 3; Stage Door-NPRM at 1.
57 See, e.g., PAF-NPRM at 1; AOP-Supp. at 1; Chesapeake-Supp. at 1.
58 MBNA-NPRM at 2. Accord Fleet-NPRM at 2 (arguing that the Office of the Comptroller of the Currency already provides significant guidance to banks on managing risks that may arise from their business relationships with third parties); AFSA-NPRM at 3.
59 MBNA-NPRM at 2. See also AFSA-NPRM at 3.
61 ABA-NPRM at 3.
62 60 FR at 43843, citing, inter alia, Official Airline Guides v. FTC, 830 F.2d 920 (2d Cir. 1980) (holding that the air carrier exemption from the FTC Act did not apply to a firm publishing schedules and fares for air carriers, which was not itself an air carrier); FTC/Direct Mktg. Ass’n., Complying with the Telemarketing Sales Rule (Apr. 1996) (“TSR Compliance Guide”) at 7.
66 Minnesota v. Fleet Mastercard, 181 F. Supp. 2d 995 (D. Minn. 2001) (noting that the applicable definition under the Federal Deposit Insurance Act (“FDIA”) is “any national bank, State bank, District Bank, and any Federal branch and insured branch.”
67 This approach is consistent with that laid out in the SBP of the original Rule. See 60 FR at 43843.
68 See FTC-NPRM at 3, 4-5.
aware of none. SBC claims that the cases cited by the Commission in the NPRM in support of its authority provide no support for Commission jurisdiction over a common carrier’s agent assisting in selling common carrier services. In fact, in one of those cases, the publisher of what the court described as “the primary market tool of . . . virtually every (air) carrier . . . in the United States” was held not to be exempt under the exemption for air carriers. Accordingly, the Commission declines to revise its position.

Citigroup requested that the amended Rule clarify that certain financial services providers, such as insurance underwriters and registered brokers-dealers, are exempt from the Rule. NAIFA requested similar clarification regarding insurance companies, as well as an explicit statement of exemption in the Rule. The Commission believes that the explicit statement of the Commission’s jurisdictional limitation over broker-dealers is abundantly clear, and thus no express exemption for these entities is necessary.

In contrast to these requests to circumscribe or restate the Commission’s jurisdiction under the Rule, a number of commenters urged the expansion of the Rule’s scope beyond its current boundaries. As NCL put it, “[b]ecause the Commission’s general jurisdiction does not include significant segments of the telemarketing industry, such as common carriers and financial institutions, the Rule does not provide comprehensive protection for consumers or a level playing field for marketers.” Others argued that the Commission should assert jurisdiction over intrastate calls as well as interstate calls.

As the Commission stated in the NPRM, “telemarketing refers to the sales or promotional activities, including the propagation and promulgation of such activities, which are engaged in, through telephone calls to the prospect that are made in order to induce the purchase of goods or services. Furthermore, such activities are imposed on the prospect through an actual oral interchange, or dialogue, with another party who is party to the telemarketing call and who has not been the subject of solicitation.”

Accordingly, the Commission declines to revise its position. CITGroup-NPRM at 10.

Finally, one commenter suggested that the Commission expressly state its jurisdiction over prerecorded telephone solicitations and facsimile advertisements. The Commission believes that sales calls using prerecorded messages may fall within the Rule’s definition of “telemarketing,” provided the call is not exempt and provided the call meets the other criteria of “telemarketing.” Thus, a sales call using a prerecorded message may be “telemarketing” if it is part of a plan, program, or campaign for the purpose of inducing the purchase of goods or services or inducing a donation to a charitable organization, is conducted by use of one or more telephones, and involves more than one interstate call. However, the fact that prerecorded sales calls may be “telemarketing” does not affect the fact that such calls are already prohibited, except with the consumer’s prior express consent, under regulations promulgated by the FCC pursuant to the TCPA. Similarly, FCC regulations already prohibit unsolicited facsimile advertisements, although facsimiles also are a form of direct mail subject to the TSR. The Commission notes in the discussion of § 310.6(b)(6) below that it considers facsimiles to be a form of direct mail solicitation. Thus, under § 310.6(b)(6), a seller using a facsimile advertisement to induce calls from consumers may not claim the direct mail exemption unless the facsimile truthfully discloses the material information listed in § 310.3(a)(1) (or contains no material misrepresentation regarding any item contained in § 310.3(d) if the solicitation is for a charitable contribution).

B. Section 310.2 — Definitions.

The amended Rule retains the following definitions from the original Rule unchanged, apart from renumbering: “acquirer,” “ATTorney General,” “cardholder,” “Commission,” “credit,” “credit card,” “credit card sales draft,” “credit card system,” “customer,” “investment opportunity,” “merchant,” “merchant agreement,” “person,” “prize,” “prize promotion,” “seller,” and “State.”

Based on the record developed in this matter, the Commission has determined to retain the following definitions from

67 FR at 4497 (citing 60 FR at 43843, citing FTC v. Miller, 549 F.2d 452 (7th Cir. 1977) and Official Airline Guides), see note 62 above.

68 See also Horick-NPRM at 1; PRC-NPRM at 3-4; Myrick-NPRM at 1.

69 See Worsham-NPRM at 6.

70 See Section 2 of the McCarran-Ferguson Act, 15 U.S.C. 1012(b) (the business of insurance, to the extent that it is regulated by state law, is exempt from the Commission’s jurisdiction pursuant to the FTC Act).

71 NCL-NPRM at 2. See also Horick-NPRM at 1; PRC-NPRM at 3-4; Myrick-NPRM at 1.

72 See Official Airline Guides, see note 62 above. See also cases cited above in note 63, rejecting exemption claims of telemarketers for exempt organizations.

73 See CITGroup-NPRM at 10.


75 See Section 2 of the McCarran-Ferguson Act, 15 U.S.C. 1012(b) (the business of insurance, to the extent that it is regulated by state law, is exempt from the Commission’s jurisdiction pursuant to the FTC Act).

76 NCL-NPRM at 2. See also Horick-NPRM at 1; PRC-NPRM at 3-4; Myrick-NPRM at 1.

77 See Official Airline Guides, see note 62 above. See also cases cited above in note 63, rejecting exemption claims of telemarketers for exempt organizations.

78 See CITGroup-NPRM at 10.

79 As the Commission stated when it promulgated the Rule, “[t]he final Rule does not include special provisions regarding exemptions of parties acting on behalf of exempt organizations; where such a company would be subject to the FTC Act, it would be subject to the Final Rule as well.” 60 FR at 43843. Although some commenters, such as SBC (SBC-NPRM at 5-6) and Wells Fargo (Wells Fargo-NPRM at 2), took issue with this proposition, the fact remains that the Telemarketing Act states explicitly that “no activity which is outside the jurisdiction of that Act shall be affected by this chapter.” 15 U.S.C. 6106(b). Thus, when an entity not exempt from the FTC Act engages in telemarketing, that conduct falls within the Commission’s jurisdiction under the TSR. Id.; TSR Compliance Guide at 12.

80 See Worsham-NPRM at 6.

81 47 CFR 64.1200(a)(2).

82 47 CFR 64.1200(a)(3).

83 VISA stated that the definition of “customer” is too broad, encompassing not only “the person who is party to the telemarketing call and who would be liable for the amount of a purchase as the contracting party, but also would include any person who is liable under the terms of the payment device.” VISA-NPRM at 7. Although the term “customer,” defined to mean “any person who is or may be required to pay for goods or services offered through telemarketing,” is broad in scope, the Commission believes this breadth is necessary to effect the purposes of the Rule. Further, the Commission believes that the term “customer,” taken in context of the various Rule sections in which it is used, is not confusing. Therefore, the Commission makes no change in the amended Rule to the definition of “customer.”

84 One commenter recommended that the Commission clarify that an investment vehicle whose main attribute is that it provides tax benefits would be considered an “investment opportunity” under the Rule. Thayer-NPRM at 6. The Commission believes that such a tax-advantaged investment would come under the present definition, which is predicated on representations about “past, present, or future income, profit, or appreciation.” The Commission believes that any such investment opportunity would only result in a tax advantage because of its ability to produce income or appreciation, regardless of whether that income is positive (and tax-deferred or tax-exempt) or negative (resulting in deductible losses). Thus, the Commission has retained the original definition of “investment opportunity” in the amended Rule.

85 As the Commission stated when it promulgated the Rule, “[t]he Final Rule does not include special provisions regarding exemptions of parties acting on behalf of exempt organizations; where such a company would be subject to the FTC Act, it would be subject to the Final Rule as well.” 60 FR at 43843. Although some commenters, such as SBC (SBC-NPRM at 5-6) and Wells Fargo (Wells Fargo-NPRM at 2), took issue with this proposition, the fact remains that the Telemarketing Act states merely that “no activity which is outside the jurisdiction of that Act shall be affected by this chapter.” 15 U.S.C. 6106(b). Thus, when an entity not exempt from the FTC Act engages in telemarketing, that conduct falls within the Commission’s jurisdiction under the TSR. Id.; TSR Compliance Guide at 12.
the proposed Rule unchanged, apart from renumbering: “caller identification service,” “door,” “telemarketer,” and “telemarketing.” The amended Rule modifies the definitions put forth in the NPRM for the terms “billing information,” “charitable contribution,” “material,” and “outbound telephone call.” Finally, the amended Rule adds five definitions that were not included in the NPRM proposal. They are: “established business relationship,” “free-to-pay conversion,” “negative option feature,” “preacquired account information,” and “upselling.” The Commission discusses each of these definitions below, along with the comments received regarding them, and the Commission’s reasoning in making a final determination regarding each of these definitions.

§ 310.2(c) — Billing information

The proposed Rule included a definition of the term “billing information,” which was used in proposed § 310.3a(3), the express verifiable authorization provision, and proposed § 310.4a(5), the section that addressed preacquired account telemarketing. Under the definition proposed in the NPRM, the term “billing information” encompassed “any data that provides access to a consumer’s or donor’s account, such as a credit card, checking, savings, or similar account, utility bill, mortgage loan account, or debit card.”

The Commission received numerous comments regarding this definition as it pertained to the express verifiable authorization and preacquired account provisions of the proposed Rule. The use of the term in the express verifiable authorization provision drew less comment, perhaps because that provision merely required that the customer or donor receive such billing information if express verifiable authorization of payment is to be deemed verifiable. Comments from consumer groups generally favored the “billing information” definition, noting that the breadth of the term would prove beneficial to consumers. AARP, for example, stated that the definition, as employed in the proposed preacquired account telemarketing provision, “is broad enough so as not to leave any doubt in the mind of the telemarketer regarding what can and cannot be shared.” Law enforcement representatives and some consumer groups expressed their concern that, as broad as the definition might seem, it should be further expanded to encompass encrypted data, and other kinds of information that can allow access to a consumer’s account. Industry commenters, on the other hand, argued precisely the opposite, requesting that the definition be narrowed and that it specifically exclude encrypted data, or other specified items unique to that commenter’s business practices. Instead, industry commenters recommended, “billing information” should be limited to account information that “in and of itself, is sufficient to effect a transaction” against a consumer’s account. Virtually all of these comments were made in the context of the proposed Rule provision regarding preacquired account telemarketing, which would have prohibited the disclosure or receipt of “billing information” except when provided by the customer or donor to process payment.

As noted below in the discussions of amended Rule §§ 310.4a(5) and (6), the Commission has tailored its approach to preacquired account telemarketing, thereby addressing many of the concerns raised by commenters on both sides regarding the proposed definition of “billing information.” The amended Rule’s approach to preacquired account telemarketing—which no longer focuses on the sharing of “billing information” in anticipation of telemarketing, but instead prohibits “[c]ausing billing information to be submitted for payment, directly or indirectly, without the express informed consent of the customer or donor”—obviates the concerns about the breadth of the term, and whether it includes or excludes encrypted account numbers. However,

86 See, e.g., Green Mountain-NPRM at 31 (“If the Commission intends to adopt its proposal to amend the TSR to add a new Section 310.4a(5) to ban the use of preacquired billing information obtained from third parties, it should exempt names, addresses, electricity meter identifiers, and electricity usage patterns from its definition of ‘billing information.’”)

87 See, e.g., ARDA-NPRM at 8. ARDA argued that information that would fall within the definition of “billing information” — such as a customer’s or donor’s date of birth — may be collected during a call for purposes other than to effect a charge. ARDA cited examples including “eligibility to enter a contest or drawing” or “demographic purposes.”

88 The Roundtable is an industry coalition of over 80 telemarketers that focuses on legal and regulatory issues.”

89 Law enforcement representatives and some consumer groups expressed their concern that, as broad as the definition might seem, it should be further expanded to encompass encrypted data, and other kinds of information that can allow access to a consumer’s account. Industry commenters, on the other hand, argued precisely the opposite, requesting that the definition be narrowed and that it specifically exclude encrypted data, or other specified items unique to that commenter’s business practices. Instead, industry commenters recommended, “billing information” should be limited to account information that “in and of itself, is sufficient to effect a transaction” against a consumer’s account. Virtually all of these comments were made in the context of the proposed Rule provision regarding preacquired account telemarketing, which would have prohibited the disclosure or receipt of “billing information” except when provided by the customer or donor to process payment.

As noted below in the discussions of amended Rule §§ 310.4a(5) and (6), the Commission has tailored its approach to preacquired account telemarketing, thereby addressing many of the concerns raised by commenters on both sides regarding the proposed definition of “billing information.” The amended Rule’s approach to preacquired account telemarketing—which no longer focuses on the sharing of “billing information” in anticipation of telemarketing, but instead prohibits “[c]ausing billing information to be submitted for payment, directly or indirectly, without the express informed consent of the customer or donor”—obviates the concerns about the breadth of the term, and whether it includes or excludes encrypted account numbers. However,
the amended Rule includes a definition of “preacquired account information,” which encompasses both encrypted and unencrypted account information, to address specifically the practice of preacquired account telemarketing.96 Consequently, after consideration of the record in this proceeding, and in light of the more focused approach to the provisions in which the term is used, the Commission has decided to retain the proposed definition of “billing information,” with a minor modification. The definition now encompasses “any data that enables any person to obtain access to a customer’s or donor’s account, such as a credit card, checking, savings, share or similar account, utility bill, mortgage loan account, or debit card.” (emphasis added). The Commission believes that this syntactical modification, substituting the phrase “that enables any person to obtain access” for the phrase “that provides access,” makes the definition more precise and somewhat easier to understand. The definition retains the broad scope of its predecessor in order to capture the myriad ways a charge may be placed against a customer’s account,98 yet has more limited effect in the context of the approach adopted in the amended Rule to address preacquired account telemarketing and express verifiable authorization.

§ 310.2(d) — Caller identification service

The definition of “caller identification service” comes into play in § 310.4(a)(7) of the amended Rule, discussed below. In the NPRM, the Commission proposed to define “caller identification service” to mean “a service that allows a telephone subscriber to have the telephone number, and, where available, name of the calling party transmittable contemporaneously with the telephone call, and displayed on a device in or connected to the subscriber’s telephone.” As the Commission explained in the NPRM, the definition intends the meaning of “caller identification service” to be sufficiently broad to encompass any existing or emerging technology that provides for the transmission of calling party information during the course of a telephone call.99 Those few commenters who addressed the definition supported the Commission’s proposal.99 Therefore, the amended Rule adopts § 310.2(d), the definition of “caller identification service,” unchanged from the proposal.

§ 310.2(e) — Charitable contribution

The original Rule did not include a definition of “charitable contribution” because originally the term “telemarketing” in the Telemarketing Act, which determined the scope of the TSR, was defined to reach telephone solicitations only for the purpose of inducing sales of goods or services.100 The proposed Rule added a definition of the term “charitable contribution” because § 1011 of the USA PATRIOT Act Amended the Telemarketing Act to specify that “telemarketing” now includes not only calls to induce purchases of goods or services but also calls to induce “a charitable contribution, donation, or gift of money or any other thing of value.”101 The Commission has determined that the term “charitable contribution,” defined for the purposes of the Rule to mean “any donation or gift of money or any other thing of value” succinctly captures the meaning intended by Congress. Therefore, the Commission has retained this definition from the proposed Rule. It has, however, determined to modify the proposed definition to eliminate the exemptions included in the proposed Rule.

The proposed definition in the NPRM expressly excluded donations or gifts of money or any other thing of value solicited by or on behalf of “political clubs, committees, or parties, or constituted religious organizations or groups affiliated with and forming an integral part of the organization where no part of the net income inures to the direct benefit of any individual, and which has received a declaration of current tax exempt status from the United States government.”102 This proposed exemption drew strong comment and criticism. NASCO recommended that a definition of “constituted religious organizations” be included in the Rule to set clear boundaries for what kinds of groups were intended to be included.103 Hudson Bay stated that “establishing governmentally preferred groups, such as religious organizations or political parties, and providing them with superior access to the public, is in our opinion unquestionably a violation of the Fourteenth Amendment’s guarantee of equal protection and of the First Amendment.”104 Similarly, DMA-Nonprofit stated “the Commission has no authority to single out agents of religious organizations for exemption . . . [T]here is no language in the [USA PATRIOT Act] that allows the Commission to make this distinction.”

Based on careful consideration of the record, the Commission is persuaded that no exemptions based upon the type of organization engaged in telemarketing are warranted, and that all telemarketing (as defined in the Telemarketing Act as amended by the USA PATRIOT Act) conducted by any entity within its jurisdiction should be covered by the TSR. This does not mean that the Commission believes political fundraising is within the scope of the Rule.106 It means only that the TSR applies to all calls that are part of any “plan, program, or campaign” that is conducted by any entity within the FTC’s jurisdiction, involving more than one interstate telephone call for the purpose of inducing a purchase of goods or services or a charitable contribution, donation, or gift of money or any other thing of value. Thus, for example, if a for-profit telemarketer on behalf of a religious organization

96 See amended Rule § 310.2(w), and related discussion below.
98 The record shows that a telemarketer or seller may provide anything from complete account numbers to mother’s maiden name to initiate a charge for a telemarketing transaction, depending on its relationship with another seller, financial institution, or billing entity. See, e.g., Assurant-NPRM at 4.
99 See amended Rule § 310.2(w), and related discussion below.
100 Proposed Rule § 310.2(f).
101 NASCO-NPRM at 6.
102 Proposed Rule § 310.2(f).
103 NASCO-NPRM at 6.
104 Hudson Bay-NPRM at 12.
105 DMA-Nonprofit-NPRM at 5-6. See also Not-For-Profit Coalition-NPRM at 41.
106 The USA PATRIOT Act is consistent with a basic common law distinction between charities and political organizations. “Gifts or trusts for political purposes or the attainment of political objectives generally have been regarded as not charitable in nature. Also . . . a trust to promote the success of a political party is not charitable in nature.” 15 Am. Jur. 2d Charities § 60 (2002). In this regard, it is noteworthy that Congress elsewhere has established a regulatory scheme applicable to political fundraising. 2 U.S.C. §§ 431-455.
(presumably non-profit) political club or constituted religious organization were to engage in a “plan, program, or campaign” involving more than one interstate telephone call to induce a purchase of goods or services or a charitable contribution, that activity would be within the scope of the TSR. But if such a for-profit telemarketer on behalf of the same client made calls that were not for the purpose of inducing a purchase of goods or services or a charitable contribution, those calls would not be within the scope of the TSR.

Commenters also addressed the scope of the term “or any thing of value” in the definition of “charitable contribution” in the proposed Rule, suggesting exemptions to limit this definition. Red Cross urged the Commission to exempt blood from the definition of “charitable contribution” because, it argued, “blood donations are not ‘a thing of value’ in a fiduciary sense.” Blood Centers agreed with this position, arguing that while “the donor’s blood is of great value to the recipient of the blood donation . . . , the donor is not being asked to part with anything other than his or her time.” Blood Centers also argued that donations of blood are of grave importance to save lives, and so are distinguishable from typical commercial and even charitable telemarketing calls. Another argument raised by Blood Centers in support of its position that a blood donation should be excluded from the definition of “charitable contribution” is that blood donation programs are highly regulated by the Food and Drug Administration (“FDA”). March of Dimes also requested that volunteers’ time not be considered a “thing of value” under the Rule, noting that their organization often uses the telephone to contact volunteers who then solicit contributions from their friends and neighbors.

The Commission believes that the text of the USA PATRIOT Act provision expanding the definition of telemarketing to include calls to induce “a charitable contribution, donation, or gift of money or any other thing of value” is broad in scope and plain in meaning. The USA PATRIOT Act specifically uses the term “or any other thing of value” in addition to the terms “charitable contribution, donation, or gift of money,” ensuring that it will encompass non-money contributions. The Commission believes that, while blood donors are asked for blood and not money, the blood they donate is clearly a “thing of value.” Similarly, although volunteers are asked to give time rather than money, the Commission believes that a donation of time is a “thing of value.” Therefore, the Commission cannot exempt from the definition of “charitable contribution” either blood or time volunteered. The Commission believes, however, that legitimate concern about inclusion of blood in the definition should be alleviated by the exemption of charitable solicitation telemarketing from the “do-not-call” registry provisions. The remaining provisions that will apply to telemarketing to solicit blood donations are neither burdensome nor likely to impede the mission of the non-profit organizations that seek such donations.

NAAG and NASCO suggested that the Commission “state that the word ‘charitable’ does not limit the character of the recipient of the contribution.” According to these commenters, it is important to ensure that donations solicited by or on behalf of public safety organizations are considered “charitable contributions” for regulatory purposes, and that those contributions solicited by sham charities are still “charitable contributions” under the amended Rule. The Commission believes that the current definition, which closely tracks the USA PATRIOT Act definition, is clear as to what is covered. Its focus is on the donation, rather than the solicitor, and it is sufficiently broad in scope to encompass donations solicited on behalf of any organization. NAAG and NASCO also requested that the Commission explicitly address the situation where a call involves “percent of purchase” situations, where contributions are sought in the form of the purchase of goods or services, and where a portion of the price will, according to the solicitor, be dedicated to a charitable cause.

§ 310.2(m) — Donor

The proposed Rule contained a definition of “donor” in order to effectuate the goals of the USA PATRIOT Act amendments. Under that definition, a “donor” is “any person solicited to make a charitable contribution.” Throughout the proposed Rule, wherever the word “customer” was used, the Commission added the word “or donor” where appropriate, to indicate that the provision was also applicable to the solicitation of charitable contributions. The Commission received very few comments on this definition. The March of Dimes expressed the concern that “[t]he definition of a ‘donor’ does not accurately reflect the nomenclature used by the industry.” Rather, the March of Dimes suggested, the term “donor,” as used in philanthropic circles, “connotes an established relationship with the non-profit charitable organization.” The March of Dimes recommended replacing the terms “customer” and “donor” in the Rule with the term “consumer.”

The Commission believes that the term “consumer” is too broad and non-specific to substitute for the terms

---

107 Red Cross-NPRM at 3.
108 Blood Centers-NPRM at 2.
109 Id.
110 Id. at 2-3.
111 March of Dimes-NPRM at 2. See also AFP-NPRM at 5.
112 See Maryland Health Care, Fall 2000 at 4, http://www.mdhospitals.org/MarylandPubs/MOHltCrGr. 1100.pdf (noting the blood shortages had driven up the price of blood from $145.24 per unit to $174.10 per unit in a single year).
113 Presumably, organizations that rely on volunteers would, absent their donations of time, be forced to pay labor costs associated with the work done by volunteers. Therefore, the time donated is a “thing of value,” equivalent to the labor cost saved.
114 NAAG-NPRM at 52; NASCO-NPRM at 5-6.
115 Id.
117 NAAG-NPRM at 52. See also NASCO-NPRM at 5-6.
118 Id.
119 Proposed Rule § 310.2(m), 67 FR at 4540.
120 March of Dimes-NPRM at 3.
121 Id. (noting that the term “prospect” is used to mean a potential donor).
add to the Rule a definition of "business relationship.

The Commission has determined to add to the Rule a definition of "established business relationship." This new definition comes into play in § 310.4(b)(1)(ii) (which now exempts from the national "do-not-call" registry calls from sellers with whom the consumer has an "established business relationship" (unless that consumer has asked to be placed on that seller's company-specific "do-not-call" list). This definition limits the exemption to relationships formed by the consumer's purchase, rental, or lease of goods or services from, or financial transaction with, the seller within eighteen months of the telephone call (or, in the case of inquiries or applications, within three months of the call). Industry comments were nearly unanimous in expressing that it is essential that sellers be able to call their existing customers. \(^{123}\) Although the initial comments from consumer groups opposed an exemption for "established business relationships," \(^{124}\) their statements during the June 2002 Forum and in their supplemental comments expressed the view that such an exemption would be acceptable, as long as it was narrowly-tailored and limited to current, ongoing relationships. \(^ {125}\) Moreover, state law enforcement representatives' comments on their experience with state "do-not-call" laws that have an exemption for "established business relationships" suggest that this type of exemption is consistent with consumer expectations. \(^ {126}\) While the Commission is persuaded that an "established business relationship" exemption is necessary and appropriate, it believes that the exemption must be narrowly crafted and clearly defined to avoid a potential loophole that could defeat the purpose of the national "do-not-call" registry.

In adopting the "do-not-call" provisions of the original Rule, the Commission considered, among other things, the approach taken by Congress and the FCC in the TCPA and its implementing regulations. \(^ {127}\) In crafting an "established business relationship" definition, it is useful again to consider the TCPA, which specifically exempts calls "to any person with whom the caller has an established business relationship." \(^ {128}\) The House Report on the TCPA's "established business relationship" exemption confirms that Congress intended for the reasonable expectation of the consumer to be the touchstone of the exemption:

In the Committee's view, an "established business relationship" also could be based upon any prior transaction, negotiation, or inquiry between the called party and the business entity that has occurred during a reasonable period of time. In crafting this type of relationship, the Committee expects that otherwise objecting consumers would be less annoyed and surprised by this type of unsolicited call since the consumer would have a recently established interest in the specific products or services. ... In sum, the Committee believes the test to be applied must be grounded in the consumer's expectation of receiving the call. \(^ {129}\)

When it promulgated its rules pursuant to the TCPA, the FCC included the following definition of "established business relationship" with regard to its company-specific "do-not-call" requirements:

The term established business relationship means a prior or existing relationship formed by a voluntary two-way communication between a person or entity and a residential subscriber with or without an exchange of consideration, on the basis of an inquiry, application, purchase or transaction by the residential subscriber regarding products or services offered by such person or entity, which relationship has not been previously terminated by either party. \(^ {130}\)

\(^{122}\) See, e.g., AFSA-NPRM at 13-14; AmEx-NPRM at 3; ARA-NPRM at 5; ARDA-NPRM at 17; AT&T-NPRM at 29; BofA-NPRM at 4; Best Buy-NPRM at 1; DialAmerica-NPRM at 12; DMA-NPRM at 33-34; DSA-NPRM at 7-8; ERA-NPRM at 36-37; Gottschalks-NPRM at 1; NCTA-NPRM at 6; NRF-NPRM at 13; PMA-NPRM at 28; Roundtable-NPRM at 5; SIA-NPRM at 2-3; Time-NPRM at 6-7; VISA-NPRM at 3. See also, e.g., ARDA-Supp. at 1; ICTA-Supp. at 2.

\(^{123}\) The term "consumer" is defined generally as "one that utilizes economic goods." Merriam-Webster's Collegiate Dictionary, at: http://www.merriamwebster.com/cgi-bin/dictionary?

\(^{124}\) "customer" and "donor." The Rule uses these more targeted terms to capture the varied nature of transactions between sellers or telemarketers and individuals who are, or may be, required to pay for something as the result of a telemarketing solicitation. Thus, it is the intent of the Commission that the term "donor" as used in the Rule encompass not only those who have agreed to make a charitable contribution, but also any person who is solicited to do so, to be consistent with its use of the term "customer.

Therefore, the Commission has determined that the term "donor" is necessary and appropriate, and has retained the definition of "donor" in the amended Rule without modification.

\(^{125}\) 47 U.S.C. 227(a)(3)(B). The legislative history of the TCPA shows that Congress exempted "established business relationships" calls as no more than "business-to-business" calls that are not calls to current, ongoing relationships. Id. at 13-15. (emphasis added).

\(^{126}\) 47 U.S.C. 227(a)(3)(B). The legislative history of the TCPA shows that Congress exempted "established business relationships" calls as no more than "business-to-business" calls that are not calls to current, ongoing relationships. Id. at 13-15. (emphasis added).

\(^{127}\) 60 FR at 43865.

\(^{128}\) 47 U.S.C. 227(a)(3)(B). The legislative history of the TCPA shows that Congress exempted "established business relationships" calls as no more than "business-to-business" calls that are not calls to current, ongoing relationships. Id. at 13-15. (emphasis added).

\(^{129}\) Id. at 14, 15.

\(^{130}\) 47 CFR 64.1200(f)(4).
exemption is also instructive. Most state “do-not-call” laws have some form of exemption for “established business relationships,” and several of these are modeled on the language of the FCC’s exemption. 131 However, there is an important difference between the FCC approach and that of many of the states, in that many state law exemptions circumscribe the scope of an “established business relationship” by specifying the amount of time after a particular event (like a purchase) during which such a relationship may be deemed to exist. 132 The Commission believes that this approach is more in keeping with consumer expectations than an open-ended exemption. As discussed in more detail below, many consumers favor an exemption for companies with whom they have an established relationship. Consumers also might reasonably expect sellers with whom they have recently dealt to call them, and they may be willing to accept these calls. A purchase from a seller ten years ago, however, would not likely be a basis for the consumer to expect or welcome solicitation calls from that seller.

In addition, specific time limits for an “established business relationship” are particularly appropriate for a general “do-not-call” registry such as the one to be maintained by the Commission, as opposed to the company-specific “do-not-call” lists for which the FCC definition was crafted. The Commission believes that an “established business relationship” exemption in a national list applied to many sellers and telemarketers should be carefully and narrowly crafted to ensure that appropriate companies are covered while excluding those from whom consumers would not expect to receive calls. A specific time limit balances the privacy needs of consumers and the need of businesses to contact their current customers.

Comments received in response to the NPRM stress the importance of extending such an exemption to current, existing relationships and prior relationships that occurred within a reasonable period of time. 133 Throughout the comments from industry stressing the need for an “established business relationship” exemption, a consistent theme is that such an exemption is necessary for “existing customers” or someone with whom sellers “currently do business,” and there seems to be a common understanding regarding what constitutes an “existing” relationship. 134 There is less consensus when it comes to the issue of how long a business relationship lasts following a transaction between a seller and consumer. Many states have attempted to provide some clarity regarding how long after dealings between a consumer and seller have ceased that a residual “established business relationship” could be deemed still to exist.

Twelve of the states that have an “established business relationship” exemption limit it to a specific time period after a transaction has occurred, ranging from six months to 36 months. 135 Industry commenters suggested various needs to limit the exemption. Several suggested 24 to 36 months, while others stated that a shorter period (12 months) would be more appropriate. 136 The Commission believes, based on the record evidence and statements from Congress regarding the TCPA’s “established business relationship,” that a company should be able to claim the exemption only if there has been a relatively recent transaction between the customer and the seller sufficient to support the existence of an “established business relationship.” Based on the comments, the Commission finds little support for a 36-month time period. Most of the commenters who suggested that time period did so as part of a joint comment filed by industry associations. 137 In the comments the individual associations filed separately, however, they suggested a time period of 24 months. 138 NAA initially suggested 24 months, but expanded that to 36 months in its supplemental comment. Industry commenters who advocate 24 months provide little support for their assertion that it is the appropriate length of time by which to measure “reasonableness,” nor did they submit data that would show that a shorter time period would not serve their purposes. Other industry members (such as Bank of America, Consumer Mortgage Coalition, and Federated Department Stores) suggested shorter time periods. The Commission does not believe that a relationship which terminated or lapsed two years ago would constitute a relationship that had recently terminated or lapsed. The Commission believes that if consumers received a call from a company with whom the most recent purchase, rental, lease or financial transaction occurred or lapsed two years ago or longer, consumers would likely be surprised by that call and find it to be unexpected.

The Commission believes that 18 months is an appropriate time frame because it strikes a balance between industry’s needs and consumers’ privacy rights and reasonable expectations about who may call them and when. By extending beyond a single annual sales cycle, the 18-month period allows sufficient time for businesses to renew contact with prospects who may only purchase once a year. Moreover, would tend to show that a shorter time period would not serve their purposes. The breakdown of suggested time periods is as follows: “recently terminated or lapsed” (New Orleans-NPRM at 14-15); 12 months (BoFA-NPRM at 4; CMC-NPRM at 6-7); 24 months (ATA-Supp. at 8; ERA-NPRM at 38; ERA-Supp. at 16; MIA-Supp. at 11; NAA-NPRM at 13; June 2002 Tr. at 109; 36 months (ARDA-NPRM at 20; Associations-Supp. at 3-4). In a supplement to their comment, FDS supported limiting telemarketing sales calls to customers who have already made a purchase in the past 12 months, while allowing strictly informational calls to persons who have had a transaction within the past 36 months. Federated-Supp. at 1-2.

131 The comments received on “established business relationship” came primarily from the business community. On the other hand, there is little comment from consumer advocates and state regulators on how such an exemption would be formulated because the proposed Rule did not include an “established business relationship” exemption. However, the NPRM did ask about the effect on companies and charitable organizations with whom consumers had a pre-existing business or philanthropic relationship. The proposal to allow companies to call consumers on the “do-not-call” registry if they had given their express verifiable authorization to call (FR at 4539, question 9). As discussed in more detail above in note 124, those few consumer advocates who did mention such an exemption were opposed to it.

132 See, e.g., ABA-NPRM at 10; Community Bankers-NPRM at 2; AmEx-NPRM at 3; ANA-NPRM at 5; Associations-NPRM at 2; ARDA-NPRM at 17; Bank One-NPRM at 4; BoFA-NPRM at 4; Best Buy-NPRM at 1; Cendant-NPRM at 3-4; Citigroup-NPRM at 4; Comcast-NPRM at 3; CMC-NPRM at 6; Cox-NPRM at 2; DMA-NPRM at 33; 34; Eagle Bank-NPRM at 1; Roundtable-NPRM at 5; Gottschalks-NPRM at 1; NCTA-NPRM at 4; NRF-NPRM at 13; SIIA-NPRM at 2-3; Time-NPRM at 6; VISA-NPRM at 3.

133 Six months (Louisiana, Missouri); 12 months (Pennsylvania, Tennessee); 18 months (Colorado, Illinois); 24 months (Alaska, Massachusetts, Oklahoma); 36 months (Arkansas, Kansas). In addition, New York apparently has adopted an 18-month time period: the New York statute does not contain a time limit; however, at the June 2002 Forum, NYSCCPB stated that New York applies an 18-month time limit (New York Times, June 11, 2002) (“We have two separate exemptions. . . . The second thing is a prior business relationship, which we define as an exchange of goods and services for consideration within the preceding 18 months.”). Indiana’s statute does not have an exemption for “established business relationships.”

134 Industry commenters generally supported a 24-month time period, but did not submit data that
limiting the “established business relationship” to 18 months from the date of the last purchase or transaction would be at least as restrictive as the majority of states that have such an exemption, thus achieving greater consistency for both industry and consumers. The experience of states that have an “established business relationship” exemption in their “do-not-call” laws indicates that a relatively limited “established business relationship” exemption does not conflict with consumers’ expectations. At the June 2002 Forum, the representatives from New York and Missouri spoke about consumer expectations in connection with their states’ “do-not-call” lists. Both noted that consumers appeared to be comfortable with such an exemption because they had received few complaints from consumers regarding companies with whom they had an established relationship. The states’ experience is not contradicted by the comments of individual consumers in response to a specific question included on the Commission’s website inviting email comments from the public. Although 60 percent of consumers who responded to this question stated that they opposed an exemption for “established business relationship,” 40 percent favored such an exemption.

Furthermore, a study conducted in 2002 by the Information Policy Institute found that consumers preferred a “nuanced approach” to the “do-not-call” issue, wanting to limit some calls to their household, but not all calls. According to the study, 50 percent of consumers surveyed supported regulations that would allow local or community-based organizations to call during specific hours of the day. Furthermore, slightly less than half of the respondents supported legislation that would allow calls, but only from local or community-based organizations with whom they have an existing relationship. The survey showed that consumers were less likely to welcome calls from national companies, although 40 percent indicated that they would allow calls from national organizations with whom they had an existing relationship.

In sum, consumers are split over whether they favor an “established business relationship” exemption. Given the difference of opinion among consumers, and industry’s convincing arguments regarding the detrimental effects the lack of an exemption would cause, the Commission is persuaded to provide an exemption for “established business relationships.”

The definition of “established business relationship” in the amended Rule would limit the exemption in the case of inquiries and applications to three months after the date of the application or inquiry (except with the consumer’s express consent or permission to continue the relationship). The Commission believes that a consumer’s reasonable expectations are different in the case of inquiries and applications as compared to purchase, rental, and lease transactions. A simple inquiry or application would reasonably lead to an expectation of a prompt follow-up telephone contact close in time to the initial inquiry or application, not one after an extended period of time. Comments from NYSCP at the June 2002 Forum also warned of possible abuse in the creation of an “established business relationship” based on inquiries from consumers. The Commission believes three months should be a sufficient time frame in which to respond to a consumer’s inquiry or application.

The amended Rule allows for an 18-month time limit where there has been a purchase, rental or lease, or other financial transaction between the customer and seller. The 18-month time limit for an “established business relationship” based on a purchase, lease, rental, or financial transaction runs from the date of the last payment or transaction, not from the first payment. In instances where consumers pay in advance for future services (e.g., purchase a two-year magazine subscription or health club membership), the seller may claim the exemption for 18 months from the last payment or shipment of the product. For such ongoing relationships, it makes little difference to likely consumer expectations whether the purchase was financed over time or paid for up front. Sellers who provide products or services where the consumer is required to pay in advance can also get the consumer’s express agreement to call, as provided in § 310.4(b)(1)(iii)(B)(1).

Several financial services industry commenters urged that any “established business relationship” exemption should encompass all affiliates of a seller. These commenters noted that regulatory requirements often dictate the corporate structure of financial institutions, which must market products and services across holding company affiliates and subsidiaries. For that reason, they suggested that any exemption for an “established business relationship” should extend to all members of a corporate family, including affiliates and subsidiaries, so long as the individual has an “established business relationship” with any member of that corporate family. They also suggested that agents of the seller be included within the exemption if the consumer reasonably would expect the agent to be included under the exception.

The Commission believes that a broad definition of “established business relationship” is inappropriate in the context of a “do-not-call” registry which is intended to protect consumers’ privacy. As stated earlier, the Commission believes that such an exemption must be narrowly crafted to avoid defeating the purpose of the “do-not-call” registry. In determining whether affiliates or subsidiaries should...
be encompassed within an “established business relationship,” the Commission looks to consumer expectations: If consumers received a call from a company that is an affiliate or subsidiary of a company with whom they have a relationship, would consumers likely be surprised by that call and find it inconsistent with having placed their telephone number on the national “do-not-call” registry? The Commission used similar reasoning in resolving this issue in connection with the definition of “seller” in the original Rule. In the discussion on the definition of “seller,” the Commission stated that there were several factors that it would consider in determining how it would view the Rule’s application to diversified companies or divisions within one parent organization. Among those factors was “whether the nature and type of goods or services offered by the division are substantially different from those offered by other divisions of the corporation or the corporate organization as a whole.” This distinction looks to consumer expectations and whether a consumer would perceive the division to be the same as or different from other divisions or from the corporate organization as a whole. For example, a consumer who had purchased aluminum siding from Company A’s aluminum and vinyl siding subsidiary would likely not be surprised to receive a call from kitchen remodeling service also owned by, and operating under the name of, Company A.

Thus, under the amended Rule, some but not all affiliates will be able to take advantage of the “established business relationship” exemption to the national “do-not-call” registry. The Commission intends that the affiliates that fall within the exemption will only be those that the consumer would reasonably expect to be included given the nature and type of goods or services offered and the identity of the affiliate. The consumer’s expectations of receiving the call are the measure against which the breadth of the exemption must be judged.

§ 310.2(o) — Free-to-pay conversion

Section 310.2(o) of the amended Rule sets out a new definition: “free-to-pay conversion.” In connection with an offer or agreement to sell or provide goods or services, a “free-to-pay conversion” is “a provision under which a customer receives a product or service for free for an initial period and will incur an obligation to pay for the product or service if he or she does not take affirmative action to cancel before the end of that period.” The term “free-to-pay conversion” is the terminology commonly used in the telemarketing industry to describe what was referred to throughout the Rule Review proceeding as a “free trial offer.”

A “free-to-pay conversion” is a form of “negative option feature”—a term that is also newly defined in the amended Rule and is discussed below. The term “free-to-pay conversion” comes into play in the amended Rule in three provisions. First, as a form of negative option feature, any “free-to-pay conversion” is subject to the newly-added disclosure requirements in § 310.3(a)(1)(vii). Second, where a telemarketing offer involves a “free-to-pay conversion,” and is accepted by a consumer using a payment method subject to the express verifiable authorization requirements of § 310.3(a)(3), the seller or telemarketer may not use the written confirmation form of authorization generally available under § 310.3(a)(3)(iii). Third, under the new unauthorized billing provision at § 310.4(a)(6), the amended Rule sets forth specific requirements to obtain express informed consent in any transaction involving preacquired account information and a “free-to-pay conversion.” Each of these provisions is discussed in detail below.

§ 310.2(q) — Material

The amended Rule retains unchanged the definition of “material” from the original Rule, except for extending it to charitable contributions pursuant to the mandate of the USA PATRIOT Act. The Commission received no comments on this definition in response to the NPRM. The amended Rule has deleted the designations for subsections (a) and (b) that had been proposed in the NPRM. This is merely a formatting change and does not alter the substantive content of the definition. The amended Rule’s definition of “material,” therefore, reads: “likely to affect a person’s choice of, or conduct regarding, goods or services or a charitable contribution.”

§ 310.2(l) — Negative option feature

The amended Rule includes new requirements in § 310.3(a)(1)(vii) for specific material disclosures necessary to avoid misleading consumers with respect to offers that entail incurring an obligation to pay a seller due to the consumers’ non-action. To describe the circumstances when these disclosures must be made, the amended Rule employs the term “negative option feature” and, accordingly, provides a definition of that term in § 310.2(l). A “negative option feature” is any provision under which the consumer’s silence or failure to take an affirmative action to reject goods or services or to cancel the agreement is interpreted by the seller as acceptance of the offer. This provision includes, but is not limited to, “free-to-pay conversions,” (which are discussed above), as well as negative option plans and continuity plans.

§ 310.2(u)—Outbound telephone call

Based on a review of the record, the Commission has decided to retain the definition of “outbound telephone call” that was in the original Rule, and not to expand the definition to include “upsell” transactions, as proposed in the NPRM. Many commenters noted that, by including upselling in the proposed Rule’s definition of “outbound telephone call,” the proposal brought upselling transactions within all of the provisions relating to outbound calls, chain.
which led to unintended and undesirable consequences, such as \textit{subjecting} upsells to the calling time restrictions and national “do-not-call” registry provisions.\footnote{See, e.g., ABA-NPRM at 4; AmEx-NPRM at 6; AFS-NPRM at 16; Associations-NPRM at 3; Cendant-NPRM at 2; CCC-NPRM at 13; Cox-NPRM at 6; KeyCorp-NPRM at 6; Metris-NPRM at 9; MBA-NPRM at 4; NBCEC-NPRM at 2; NCTA-NPRM at 13-14; PCIC-NPRM at 1; PMA-NPRM at 10-11; Time-NPRM at 10; VISA-NPRM at 1; Wells Fargo-NPRM at 5-6.} The amended Rule addresses 
\textit{upselling} transactions separately, rather than attempting to sweep them within the definition of “outbound telephone call.”\footnote{See § 310.2(dd), defining the term “upselling” in the amended Rule.} The amended Rule reinstates the original definition of “outbound telephone call,” with only a modification to reflect the expanded reach of the Rule to charitable contributions pursuant to the USA PATRIOT Act. In the amended Rule, then, an “[o]utbound telephone call” means a telephone call initiated by a telemarketer to induce the purchase of goods or services or to solicit a charitable contribution.”

\section{§ 310.2(w) — Preacquired account information}

The amended Rule adds a definition of “preacquired account information” to address the problems that have been associated with telemarketing transactions where the telemarketer already has access to the customer’s billing information at the time the outbound call is placed.\footnote{See discussion of amended Rule §§ 310.4(a)(5) and (6) below.} The NPRM discussed these problems at length. The Commission used the term “preacquired account information” in the NPRM during its discussion of the proposed ban on disclosing or receiving billing information for use in telemarketing, but did not use the term itself in the proposed Rule, and so did not define it.\footnote{See § 310.2(dd), June 2002 Tr. II at 136-37.} In response, several industry commenters asked for more specificity as to what the Commission intends the term to mean.\footnote{Although few commenters directly addressed this definition, many who commented on the USA PATRIOT Act and comments discussed the expansion of the Rule to cover the solicitation of charitable contributions, these comments are addressed above, in the discussion of amended Rule § 310.1 relating to the scope of the Rule.} Thus, the definition of “preacquired account information” also serves to address these commenters’ concerns about clarifying the concept of preacquired account telemarketing.

As explained in detail in the discussion of § 310.4(a)(6) below, the amended Rule sets forth specific requirements for obtaining express informed consent in any telemarketing transaction that involves “preacquired account information.” To clarify the situations where these requirements come into play, the amended Rule defines “preacquired account information” as:

any information that enables a seller or telemarketer to cause a charge to be placed against a customer’s or donor’s account without obtaining the account number directly from the customer or donor during the telemarketing transaction pursuant to which the account will be charged.

The Commission intends this definition to be construed broadly. The definition includes any type of billing information, encrypted or unencrypted,\footnote{By “unencrypted,” the Commission means both unencrypted readable account information, and encrypted information in combination with a decryption key. See discussion of amended Rule § 310.4(a)(5) below.} that enables a seller or telemarketer to cause a charge to be placed on any customer’s or donor’s account without obtaining the account number directly from the customer or donor. It obviously covers instances where the seller or telemarketer is in actual possession of account information, whether by virtue of some prior relationship with the consumer or otherwise. It also is intended specifically to address affinity marketing campaigns where, for example, through a joint marketing arrangement, Seller A provides access to its customer base and those customers’ accounts or account numbers to Seller B in exchange for a percentage of the proceeds from each sale.\footnote{See 67 FR at 4541.}

Some industry members expressed their belief that this second class of transactions does not involve preacquired account information at all, because, in such affinity marketing campaigns, Seller B may possess only encrypted account numbers, or no account numbers at all prior to initiating the call to the consumer.\footnote{See 67 FR at 4512-14.} The Commission intends to clarify that such an arrangement does involve

preacquired account information,\footnote{DO-NPRM at 1 (noting its experience with fraudulent telemarketers operating using only one or two telephones); Patrick-NPRM at 2 (urging that the practice of subcontracting telemarketing to individual sales agents who work from their homes using their home phones continue to be captured by the Rule).} since the seller or telemarketer does not have to obtain the account number from the customer or donor in order to cause a charge to be placed on the customer’s or donor’s account.

Finally, this definition would apply to upsell transactions, because the seller or telemarketer in the upsell transaction may either already possess the account information from the initial transaction, or would, by virtue of a joint marketing or other arrangement, have access to that information, so as to be able to charge the customer without getting the account number directly from the customer in the upsell transaction.

\section{§ 310.2(cc) — Telemarketing}

The Commission received very few comments on its proposed definition of “telemarketing.”\footnote{DO-NPRM at 1 (noting its experience with fraudulent telemarketers operating using only one or two telephones); Patrick-NPRM at 2 (urging that the practice of subcontracting telemarketing to individual sales agents who work from their homes using their home phones continue to be captured by the Rule).} but those it did receive expressed agreement that the definition should continue to include the phrase “by use of one or more telephones,” to ensure that large and small telemarketing operations are covered by the Rule.\footnote{See discussion of amended Rule §§ 310.1(e) and (f) below.} Based on the Commission’s review of the record in this proceeding, the amended Rule retains unchanged the definition of “telemarketing” that was proposed in the NPRM. This definition is virtually the same as that in the original Rule, except that it now includes the phrase “or a charitable contribution” following “goods or services,” pursuant to the mandate of the USA PATRIOT Act.

\section{§ 310.2(dd) — Upselling}

As described above in § 310.2(u), the Commission proposed in the NPRM to modify the Rule’s definition of “outbound telephone call” to include most upsell transactions.\footnote{Specifically, the Commission proposed amending the definition to mean “any telephone call to induce the purchase of goods or services or to solicit a charitable contribution, when such telephone call: (1) is initiated by a telemarketer; (2) is transferred to a telemarketer other than the original telemarketer; or (3) involves a single telemarketer soliciting on behalf of more than one seller or charitable organization.” Proposed Rule § 310.2(f), 67 FR at 4541.} The majority of commenters who addressed this issue, including both industry members and consumer groups,
supported the proposition that upsells should be expressly included in the Rule.166 Most of these commenters, however, suggested that the Commission’s proposal to address the problem by expanding the definition of “outbound telephone call” to include upselling was not the most effective way to achieve this goal.167 Instead, many commenters recommended treating upsells as a distinct type of transaction by adding a definition of “upselling” to the Rule and specifying a unique set of disclosures required in upsell transactions.168 Others suggested retaining the expanded definition of “outbound telephone call” but amending it to avoid application of certain provisions unnecessary or inapplicable to upselling in the context.169 Such as application of the “do-not-call” and calling time provisions of the Rule, to upsells.170 The Commission does not intend for upselling to be subject to the “do-not-call” requirements or the calling time restrictions in the Rule.171 The goal of the initial proposal,172 and the focus of the current amendments, is to ensure that consumers in upselling transactions receive the same information and protections as consumers in other telemarketing transactions subject to the Rule.

Based upon the comments received during the rulemaking period and the Commission’s law enforcement experience, the Commission has taken a two-fold approach to upselling in the amended Rule. The Commission has added a definition of “upselling,” which, in conjunction with certain amendments to §§ 310.4(d) and 310.6 of the Rule,173 provides important protections to consumers who, after completing one transaction, are offered goods or services in an additional telemarketing transaction during the same telephone call.174 By including the definition, the Commission intends to clarify that upsells are subject to all of the Rule’s requirements except the “do-not-call” and calling time restrictions in §§ 310.4(b)(1)(iii) and 310.4(c).175 With this definitional shift, the “do-not-call” regime no longer applies to upsells, since the “do-not-call” provisions specifically prohibit “initiating outbound telephone calls” to anyone who has placed their telephone numbers on a company-specific “do-not-call” list or on the FTC’s “do-not-call” registry.176 Second, the amended Rule expressly excludes upsell transactions from the exemptions in §§ 310.6(b)(4), (5) and (6)—i.e., where the initial transaction is exempted from the Rule because the call was initiated by the consumer unilaterally or because it was initiated in response to a direct mail solicitation or general media advertisement.177 The definition of “upselling” encompasses any solicitation for goods or services that follows an initial transaction of any sort in a single telephone call. Thus, both solicitations made by or on behalf of the same seller involved in the initial transaction, and those made by or on behalf of a different seller are considered upsells, and both types of transactions are covered by the Rule.178 The term “initial transaction” is intended to describe any sort of exchange between a consumer and a seller or telemarketer, including but not limited to sales offers, customer service calls initiated by either the seller or telemarketer or the consumer, consumer inquiries, or responses to general media advertisements or direct mail solicitations. The upsell is defined as a “separate telemarketing transaction, not a continuation of the initial transaction” to emphasize that an upsell is to be treated as a new telemarketing call, independently requiring adherence to all relevant provisions of the Rule.179 Upselling occurs in a wide variety of contexts, from a customer service call, or after an initial

166 See, e.g., AmEx-NPRM at 6 (“We agree with the Commission that the disclosure requirements of the TSR should apply whenever a new offer is made to the consumer, whether by the original telemarketer or a telemarketer to whom a call is transferred. Consumers should always be informed of material terms and conditions before they purchase a product.”); ERA-NPRM at 8, 11 (“... The ERA is cognizant of the fact that the practice of upselling has increased dramatically since the Rule was originally promulgated in 1995...”); the ERA acknowledges the Commission’s desire to include upsells within the ambit of the Rule and supports the position that, in instances where solicitations are made during a single telephone call on behalf of multiple unaffiliated entities, there should be a clear disclosure, see, e.g., ERA-Supp. at 6; LSAP-NPRM at 6; NAAG-NPRM at 36; NCL-NPRM at 3; PMA-NPRM at 2; CCC-NPRM at 13; DMA-NPRM at 13; the ECT-NPRM acknowledges that the practice of marketing products and services via upsell offers has increased in recent years and that the existing TSR does not provide express guidance regarding responsible marketing practices via the upsell channel.”); June 2002 Tr. II at 213-15, 249-50. But see CCC-NPRM at 15-16; CMC-NPRM at 7; Household Auto-NPRM at 3; Keycorp-NPRM at 5-6; Noble-NPRM at 3; NATN-NPRM at 3-4; NSDP-NPRM at 4; PCIC-NPRM at 1-2; Technion-NPRM at 5.

167 AmEx-NPRM at 6; ARDA-NPRM at 4; DMA-NPRM at 10; ERA-NPRM at 8, 12; Household Auto-NPRM at 3; ICT-NPRM at 2; E-Commerce Coalition-NPRM at 2; NCTA-NPRM at 14; PMA-NPRM at 8-10; SIIA-NPRM at 3; Time-NPRM at 9; June 2002 Tr. II at 213-14.

168 See, e.g., ERA-NPRM at 14-15; ERA-Supp. at 6; PMA-NPRM at 8-10.

169 ARDA-NPRM at 4; Cox-NPRM at 36; Discover-NPRM at 5; Eagle Bank-NPRM at 4; NCL-NPRM at 5.

170ABA-NPRM at 4-5; AFSA-NPRM at 15; ARDA-NPRM at 4; CCC-NPRM at 13; DMA-NPRM at 38; Eagle Bank-NPRM at 4; NCTA-NPRM at 14; PMA-NPRM at 10; SIIA-NPRM at 3; Time-NPRM at 9. The “do-not-call” provision is found at proposed and amended Rules § 310.4(b)(1)(iii), while the calling time restrictions are at proposed and amended Rules § 310.4(c).

171 June 2002 Tr. II at 213-15.
business voluntarily puts herself in a business environment and knows that she is doing so. It should come as no surprise to the consumer if, once in that environment, she is solicited for products and services provided by affiliates or partners of the business.

According to NCL, however, “[c]omplaints to the NPCIC [National Fraud Information Center] indicate that abuses can occur when consumers who respond to an advertisement for one thing are then solicited for something else, especially if the new offer is significantly different than the original one or is from another vendor. In these situations, the only information that consumers have on which to decide whether to make a purchase or donation is that which is provided during the call.” In other words, in any upsell, the seller or telemarketer initiates the offer; it is not the consumer who solicits or requests the transaction. This means that the consumer is hearing the terms of that upsell offer for the first time on the telephone. Thus, in most cases the consumer has not had an opportunity to review and consider the terms of the offer in a direct mail piece, or to view an advertisement and gather information on pricing or quality of the particular good or service before determining to make the purchase. This makes an upsell very much akin to an outbound telephone call from the consumer’s perspective, even when the seller is someone with whom the consumer is familiar. Thus, as NCL noted, every consumer needs “the same basic disclosures about who they’re dealing with, what they’re buying and the terms and conditions [of the offer]” regardless of the nature of the telephone sale.

The disclosure provisions of §§ 310.3(a) and 310.4(d) were designed to ensure that consumers know they are being offered goods or services for sale, and receive all information material to their decision to accept an offer before they pay for the purchase.

Moreover, it should be noted that the introductory paragraphs of §§ 310.3(a), 310.4(a) and 310.4(c) are intended to distinguish between types of telemarketing transactions. The Rule is clear that its requirements and prohibitions apply to all sellers and telemarketers that are subject to the Commission’s jurisdiction. Thus, a seller or telemarketer subject to the Rule must abide by the requirements of these sections, regardless of whether they are engaged in an initial telemarketing transaction or in an upsell transaction. Indeed, the Commission assumes that, where the initial transaction is subject to the Rule, most sellers and telemarketers treat the upsell as subject to the Rule as well, and comply with the Rule’s requirements in both segments of the telephone call.

The Commission also finds that consumers should have the Rule’s billing protections in each of these transactions. CCC suggested that, at least in inbound calls that include upsells, consumers have “the highest level of consumer protection because the consumer is specifically asked and consents to the additional goods or services being charged to the same billing source the consumer provided and was specifically accessed just before.” However, the Commission’s and states’ law enforcement experience does not support CCC’s assertion that, by giving consent to the use of an account number in an initial transaction, the consumer in an upsell is afforded protection from deception or unauthorized billing.

180 See, e.g., NAAG-NPRM at 33 (“The upsell can follow either a sales call or a call related to customer service, such as a call about an account payment or product repair. . . . Some examples are the upsell of membership programs, magazines and the like or a television solicitation to buy an entertainment event.”) (citations omitted). Industry commenters emphasized the prevalence of upselling in the inbound call context generally. See, e.g., CCC-NPRM at 12; ERA-NPRM at 11-12; PMA-NPRM at 9-10.

181 The NPRM described these forms of upselling as “internal” and “external.” 67 FR at 4496. Some commenters, such as ERA, noted that the industry refers to multiple offers by a single seller—what the Commission calls an “internal upsell”—as a “cross sell,” and to multiple offers by separate sellers—what the Commission calls an “external upsell”—as an “upsell.” ERA-NPRM at 9, n.3. The Commission’s approach, however, does not appear to have caused any confusion in the industry, or on the consumer side. So, for the sake of consistency both within the rulemaking process and with existing law enforcement cases, the Commission has decided to retain these terms as originally proposed.

182 See, e.g., PMA-NPRM at 9.

183 CCC determined that 14 billion inbound calls are made per year, of which 40 percent have an upsell associated with them. June 2002 Tr. II at 218. ERA estimated that 12 percent conversion rate, that approximately $1.5 billion in sales are generated through inbound upsells alone each year. ERA-NPRM at 11. Aegis estimated the conversion rate for consumers accepting upsell offers at between 25 and 30 percent. Aegis-NPRM at 4.

184 CMC-NPRM at 12; ERA-NPRM at 10; SIIA-NPRM at 3.

185 ERA-NPRM at 12; PMA-NPRM at 10; SIIA-NPRM at 3.

186 See, e.g., NAAG-NPRM at 9. See also Citigroup-NPRM at 6-7; Fleet-NPRM at 5; Household Auto-NPRM at 4.

187 NCL-NPRM at 3. Accord ERA-NPRM at 11 (“The ER estimates a 12 percent conversion rate, that approximately $1.5 billion in sales are generated through inbound upsells alone each year.”). The Commission notes that there have been some marketers who have engaged in unsuspicious marketing practices in soliciting purchases via upsells, particularly when such upsells involve a free trial offer and/or other advance consent marketing technique.

188 June 2002 Tr. II at 221-22.

189 Section 310.3(a) states “it is a deceptive telemarketing act or practice and a violation of this Rule for any seller or telemarketer to engage in the following conduct.” (emphasis added). Similarly, § 310.4(a) states “it is an abusive telemarketing act or practice and a violation of this Rule for any seller or telemarketer to engage in the following conduct.” (emphasis added). Section 310.5(a) states “any seller or telemarketer shall keep, for a period of 24 months from the date the record is produced, the following records relating to its telemarketing activities.” (emphasis added). The record suggests, however, that the opposite is true when upsells are appended to calls that are otherwise exempt from the Rule. In these instances, the upsells have been treated as part of the exempt telemarketing transaction and, thus, consumers are not receiving the protections the Rule requires when a consumer receives an outbound telephone call, despite the fact that upsells are similar to outbound calls from the consumer’s perspective. See, e.g., PCIC-NPRM at 1-2. The Commission believes that the protections provided a consumer in an upsell should be the same as the protections provided a consumer receiving an outbound telephone call, regardless of whether the upsell is appended to an exempt telemarketing transaction or to a transaction subject to the Rule. As noted above, consumer advocates and the FTC’s law enforcement experience confirm that upselling can be equally or more problematic, and thus sellers and telemarketers engaged in upselling should be required to provide the basic disclosures mandated by the Rule. In addition, there is no evidence to suggest that upsells should not be subject to any other part of the Rule (other than the “do-not-call” and calling time restrictions).

190 See also, Consumer advocates and the FTC’s law enforcement experience confirm that upselling can be equally or more problematic, and thus sellers and telemarketers engaged in upselling should be required to provide the basic disclosures mandated by the Rule. In addition, there is no evidence to suggest that upsells should not be subject to any other part of the Rule (other than the “do-not-call” and calling time restrictions).

191 CCC-NPRM at 12.

192 Indeed, law enforcement experience indicates that the fact that the consumer has already provided or authorized use of his or her billing information...
Other recommendations

Limitations to the definition of “upselling.” Some commenters suggested that the definition of “upselling” be limited to “external upsellings” (i.e., where there are two different sellers in the two transactions).\textsuperscript{193} They argued that any requirements that the Commission might apply to “upselling” should not include upsells made by or on behalf of the same seller.\textsuperscript{194} However, the Commission believes that law enforcement experience indicates that “internal upsells” (where both transactions are by or on behalf of the same seller) have as much potential for deception and abuse as other types of telemarketing transactions that are subject to the Rule’s requirements.\textsuperscript{195}

Therefore, the Commission has not adopted this suggestion.

Other commenters argued that the definition of “upselling” should not include upsells by “affiliates.”\textsuperscript{196} Still others made more specific requests to exempt banks, their affiliates and non-affiliated third parties who provide services on the banks’ behalf or with whom the banks have joint marketing relationships\textsuperscript{197} to exempt agents or affiliates of common carriers,\textsuperscript{198} and to exempt affiliates of insurance companies.\textsuperscript{199} However, once again, there is scant support justifying such an approach. On the contrary, the record as a whole and law enforcement experience indicate that upsells by affiliates and non-affiliated third parties with whom there is a joint marketing relationship have as much potential for deception and abuse as other types of telemarketing transactions that are subject to the Rule’s requirements.\textsuperscript{200}

The Commission has made it very clear that the Rule does not apply to entities or activities that fall outside the Commission’s authority under the FTC Act, such as banks, savings associations and federal credit unions; regulated common carriers, and the business of insurance. However, the Commission has also made it very clear that the exemption enjoyed by those entities does not extend to any third-party telemarketers who may make or receive calls on behalf of those exempt entities. As the Commission stated in the SBF for the original Rule:

The Commission is not aware of any reason why the Final Rule should create a special exemption for common carriers acting on behalf of exempt organizations; where such a company would be subject to the FTC Act, it would be subject to the Final Rule as well.\textsuperscript{201}

Clarification of “seller” in an upsell transaction. ERA and PMA recommended that the Commission clarify what is meant by “seller” in the context of upselling.\textsuperscript{202} First, ERA and PMA suggested that “seller” be construed as the marketer who will submit the charge for payment against the consumer’s account.\textsuperscript{203} As ERA stated:

[A] marketer might offer (and bill) a consumer for a product that it obtains on a wholesale basis from a manufacturer (in many instances, the marketer may not even take possession of the product, but rather have the manufacturer ship directly to the customer). Both the marketer and the manufacturer receive consideration in exchange for providing, or arranging for the other to provide, the product to the consumer. Thus, both entities are arguably ‘sell[ers].’ However, only the marketer will bill the consumer for the sale. As such, there should be no need to identify both entities to the consumer. In fact it would likely be confusing to the consumer to do so.\textsuperscript{204}

The Commission has retained in the amended Rule the definition of “seller,” which states that a “seller” is “any person who, in connection with a telemarketing transaction, provides, offers to provide, or arranges for others to provide goods or services to the consumer in exchange for consideration.”\textsuperscript{205} The Commission believes that this definition makes clear that, for purposes of the Rule, a “seller” is not necessarily the manufacturer of a product, nor the sole financial beneficiary from its sale. Rather, the definition of “seller” is predicated upon a person’s provision of goods or services—whether consummated, merely offered, or even simply “arranged for”—to the customer. Therefore, in the case of an upselling transaction, or, indeed, any telemarketing transaction, the marketer or other entity who provides, offers to provide, or arranges for the provision of the goods or services that are the subject of the offer would be the “seller” for purposes of the Rule.

Second, both ERA and PMA, as well as a number of other commenters, suggested that the Commission “clarify that affiliated entities do not constitute separate sellers.”\textsuperscript{206} To this end, ERA recommended looking to the Commission’s Privacy of Consumer Financial Information Rule,\textsuperscript{207} while PMA and NRF suggested using the standard laid out by the FCC for “do-not-call” purposes.\textsuperscript{208} NCL and AARP disagreed. NCL stated:

We believe affiliates have to be treated as separate sellers. They may be selling totally different products with different terms and conditions. Consumers don’t have any way of knowing what is an affiliate of that company and what isn’t, and ultimately it doesn’t really matter to them because they need the same basic disclosures about who they’re dealing with, what they’re buying and the terms and conditions, whether it’s entirely a different seller or an affiliate of the original one.\textsuperscript{209}
The Commission shares this viewpoint. As discussed above, the record in this matter, as well as law enforcement experience, indicate that upsells by affiliates and non-affiliated third parties with whom there is a joint marketing relationship have as much potential for deception and abuse as other types of telemarketing transactions that are subject to the Rule’s requirements. For that reason, the Commission believes that affiliates should be treated as separate sellers for purposes of upsell transactions.

C. Section 310.3 — Deceptive Telemarketing Acts or Practices.

Section 310.3 of the original Rule sets forth required disclosures that must be made in every telemarketing call; prohibits misrepresentations of material information; requires that a telemarketer obtain a customer’s express verifiable authorization before obtaining or submitting for payment a demand draft; prohibits false and misleading statements to induce the purchase of goods or services; holds liable anyone who provides substantial assistance to another in violating the Rule; and prohibits credit card laundering in telemarketing transactions.

In the NPRM, the Commission proposed amendments to require that disclosures made pursuant to this section be made “truthfully:** require additional disclosures regarding prize promotions and in the sale of credit card loss protection plans; prohibit misrepresentations in the sale of credit card loss protection plans; expand the reach of the express verifiable authorization provision to include all methods of payment lacking certain key consumer protections; and make certain changes pursuant to the USA Patriot Act, which extends the coverage of the Rule to include the inducement of a charitable solicitation.

Based on the record in this proceeding, the Commission has determined to make additional modifications in the amended Rule. These changes, and the reasoning supporting the Commission’s decisions, are set forth below.

§ 310.3(a)(1) — Required disclosures

Section 310.3(a)(1) of the original Rule requires the seller or telemarketer to disclose, in a clear and conspicuous manner, certain material information before a customer pays for goods or services offered. The NPRM proposed to make a minor modification to the wording, by adding the word “truthfully:* to clarify that it is not enough that the disclosures be made; the disclosures must also be true. The Commission received no comment on this proposed change, and therefore has determined to retain this additional wording in amended § 310.3(a)(1).

The few comments that the Commission received on § 310.3(a)(1) in response to the NPRM focused primarily on the timing of the required disclosures. AARP argued that, to be meaningful, the disclosures required by this section must be given before payment is requested, not merely before it is “collected.” According to AARP, “[s]uch information is key to making truly informed buying decisions,” and so all the necessary disclosures should be given before a consumer is requested to pay for goods and services.

DOJ commented that the use of money-

transmission services, rather than couriers, is increasingly popular in fraudulent telemarketing schemes, and recommended that the Commission amend the current footnote addressing the meaning of “before the customer pays” to state: “Similarly, when a seller or telemarketer directs a customer to use a money-transmission service to wire payment, the seller or telemarketer must make the disclosures required by § 310.3(a)(1) before directing the customer to take money to an office or agent of a money-transmission service to wire payment.”

In the NPRM, the Commission noted that for a telemarketer to make the required disclosures “before a customer pays,” the disclosures must be made “before the consumer sends funds to a seller or telemarketer or divulges to a telemarketer or seller credit card or bank account information.” In the original Rule’s TSR Compliance Guide, the Commission further clarified that the disclosures required by § 310.3(a)(1) must be made “[b]efore a seller or telemarketer obtains a consumer’s consent to purchase, or persuades a consumer to send any full or partial payment. . .” The Guide goes on to say that “[a] seller or telemarketer also must provide the required information before requesting any credit card, bank account, or other information that a seller or telemarketer will or could use to obtain payment.” The Commission believes that its statements to date on the meaning of the term “before the customer pays” are sufficiently clear and declines to modify this provision.

§ 310.3(a)(1)(i) — Disclosure of total costs

Section 310.3(a)(1)(i) of the original Rule requires a seller or telemarketer to disclose the total costs to purchase, receive, or use the goods or services. As noted in the TSR Compliance Guide, “[i]t is sufficient to disclose the total number of installment payments, and the amount of each payment, to satisfy this requirement.” Some commenters in the Rule Review urged the Commission to require, in sales involving monthly installment payments, the disclosure of the total cost of the entire contract, not just the amount of the periodic installment. In the NPRM, the Commission declined to modify the provision, but clarified that “the disclosure of the number of installment payments and the amount of each must correlate to the billing schedule that will actually be implemented. Therefore, to comply with the Rule’s total cost disclosure provision, it would be inadequate to state the cost per week if the installments are to be paid monthly or quarterly.” The NPRM further noted that the best practice to ensure compliance with the clear and conspicuous standard governing all the § 310.3(a)(1) disclosures is to “do the math for the consumer, stating the total cost of the contract whenever possible.” The Commission acknowledged that such a statement might not be possible in an open-ended installment contract, and stated that in such contracts, “a seller must be taken to ensure that the cost disclosure is easy for the consumer to understand.”

In response to the NPRM, the Commission again received some comments urging that the Commission affirmatively mandate that, in installment sales contracts, the total cost of the contract be disclosed, rather than the number and amount of payments. For example, LSAP opined that “it is illogical to maintain a provision that demands a subjective determination of whether or not a disclosure meets a ‘clear and conspicuous’ standard when an objective and unambiguous standard
can be adopted.”223 NACAA suggested that the Commission require disclosure of the total cost of the contract, noting that consumers do not always have the time or ability to “do the math” during a telemarketing call.224 NCL concurred with LSAP and NACAA, and noted that since the seller or telemarketer would know the total contract price in an installment offer, it would impose no undue burden on industry members to mandate disclosure of the total contract price.225

The Commission declines to adopt the recommendations to modify the total cost disclosure provision. The Commission believes that its interpretation, set forth in the NPRM, allows sellers and telemarketers the flexibility necessary to make a truthful and meaningful disclosure when goods or services are offered in conjunction with an open-ended installment agreement. The Commission’s interpretation makes clear, however, that, at a minimum, the total number of payments and the amount of each must be clearly and conspicuously disclosed in order to satisfy the requirements of § 310.3(a)(1)(i). Although the Commission continues to believe that the best practice is for the telemarketer or seller to disclose the full amount of payments under of the contract whenever possible, it declines to impose such a requirement, which would be unworkable in the context of open-ended contracts, such as negative option plans.226

The Commission also declines to adopt the recommendation that the Commission explicitly state that for electricity sales, it is permissible to disclose the price per kilowatt hour.227 The Commission recognizes that a vast number of goods and services can be sold through telemarketing, and believes it unnecessary to specify, for each, the specific terms that must be disclosed. Rather, the Commission believes that the language of § 310.3(a)(1)(i), which requires that the disclosure of total costs (among others) be made “truthfully, and in a clear and conspicuous manner,” provides sufficient guidance for sellers who must make these disclosures, without necessitating explicit approval from the Commission for each of the myriad variations of “total cost” disclosures for the many kinds of goods and services sold through telemarketing. Therefore, § 310.3(a)(1)(i) is retained unchanged in the amended Rule.

§ 310.3(a)(1)(i) — Disclosure of material restrictions

Section 310.3(a)(1)(i) requires the disclosure of “[a]ll material restrictions, limitations, or conditions to purchase, receive, or use the goods or services that are the subject of the sales offer.” In response to the Rule Review, NACAC recommended that this provision explicitly state that the illegality of the goods or services offered is a material term. NAAC’s concern arose out of the numerous cross-border foreign lottery scams in which U.S. citizens are offered the sale of foreign lottery chances.228 The Commission declined to modify the Rule, stating its position that the term “material” is “sufficiently clear and broad enough to encompass the illegality of goods or services offered.”229

In response to the NPRM, DOJ supported NAAC’s reasoning, and recommended that the Commission add to § 310.3(a)(1)(i) “a specific and unambiguous reference to the illegality of goods and services that the seller or telemarketer is offering,” noting that such an amendment would enhance law enforcement and consumer education efforts regarding foreign lottery scams.230 The Commission remains confident that the breadth of the term “material,” as used in the Rule, would necessarily encompass the underlying illegality of goods or services offered in telemarketing.231 Therefore, the Commission declines to modify the language in this provision and the amended Rule retains unchanged the original text of § 310.3(a)(1)(i).

§ 310.3(a)(1)(iv) — Disclosures regarding prize promotions

Section 310.3(a)(1)(iv) requires that, in any prize promotion, a telemarketer must disclose, before a customer pays, the odds of being able to receive the prize, that no purchase or payment is required to win a prize or participate in a prize promotion, and the no-purchase/no-payment method of participating in the prize promotion. In the NPRM, the Commission proposed adding a disclosure that making a purchase will not improve a customer’s chances of winning232 which would make the TSR’s disclosure provision consistent with the requirements for direct mail solicitations under the Deceptive Mail Prevention and Enforcement Act of 1999 (“DMPEA”).233 After reviewing the record in this matter, the Commission has determined to amend the Rule by adding this disclosure requirement to two provisions: in § 310.3(a)(1) (governing all telemarketing calls), and in § 310.4(d) (governing outbound telemarketing). As noted in the NPRM, the Commission believes that this disclosure will prevent consumer deception. The legislative history of the DMPEA suggests that without such a disclosure, many consumers reasonably interpret the overall presentation of many prize promotions to convey the message that making a purchase will enhance their chances of winning the touted prize.234 Such a message is likely

223 67 FR at 4501. Although NCL originally made this suggestion with respect to § 310.4(d), which governs oral disclosures required in outbound telemarketing calls, the rationale and purpose of the proposed disclosure applies with equal force to all telemarketing, as covered by § 310.3(a). See NCL-RR at 9. See also the discussion below in the section on sweepstakes disclosures within the analysis of § 310.4(d).

224 67 FR at 4501. The DMPEA is codified at 39 U.S.C. 3001(k)(3)(A)(II). See also “The DMA Guidelines for Ethical Business Practices,” revised Aug. 1999, at http://www.the-dma.org/library/guidelines/dotherightthing.shtml#23 (Article #23, Chances of Winning). In this regard, it is noteworthy that the DMA’s Code of Ethics advises that “[n]o sweepstakes promotion, or any of its parts, should represent . . . that any entry stands a greater chance of winning a prize than any other entry when this is not the case.”

225 See discussion below regarding the disclosure in § 310.4(d).

226 See SEN. REP. NO. 106-102 (1999); and H. REP. NO. 106-431 (1999). Law enforcement agencies and states and the District of Columbia alleging, among other things, that the PCH sweeps mailings deceived consumers into believing that their chances of winning the sweepstakes would be improved by buying magazines from PCH. As part of the settlement, PCH agreed to include disclaimers in its mailings stating that buying does not increase the consumer’s chances of winning, and pay $18.4 million in redress. In 2001, PCH agreed to pay $34 million to settle with the remaining 26 states. See, e.g., Missouri ex rel. Nixon v. Publishers Clearing House, Boone County Circuit Ct., No. 99 CC 084409 (2002); Ohio ex rel. Montgomery v. Publishers Clearing House, Franklin County Ct. of Common Pleas, No. 00CVH-01-635 (2001) (in a settlement with the remaining 26 states). Similarly, in 1999, American Family Publishers (“AFP”) settled several multi-state class actions that alleged the AFP sweepstakes mailings induced consumers to buy magazines to better their chances of winning a sweepstakes. The original suit, filed by 27 states, was settled in March 1998 for $1.5 million, but was reopened and expanded to 48 states and the District of Columbia after claims that AFP had violated its agreement. The state action was finally settled in August 2000 with AFP agreeing to pay an additional $8.1 million in

227 See Green Mountain-NPRM at 7.

228 See 60 FR at 43846 (noting that the total cost of a contract cannot be ascertained in negative option or continuity plans).

229 67 FR at 4502-03.

230 Id. at 4503.

231 DOJ-NPRM at 3.

232 As the Commission noted in the NPRM, the definition of “material” under the Rule comports with the Commission’s Deception Statement and established Commission precedent. See 67 FR at 4503.

233 See 67 FR at 4502. Although NCL originally made this suggestion with respect to § 310.4(d), which governs oral disclosures required in outbound telemarketing calls, the rationale and purpose of the proposed disclosure applies with equal force to all telemarketing, as covered by § 310.3(a). See NCL-RR at 9. See also the discussion below in the section on sweepstakes disclosures within the analysis of § 310.4(d).

234 See discussion below regarding the disclosure in § 310.4(d).
to influence these consumers’ purchasing decisions, inducing them to purchase a product or service they otherwise would not purchase just so they can increase their chances of winning. For this reason, the Commission believes that entities using these promotions must disclose that a purchase will not enhance the chance of winning, to ensure that consumers are not deceived.

Commenters who addressed this proposal generally were supportive of adding the disclosure. NACAA supported the additional disclosure, but asked the Commission to go further. First, NACAA suggested that any telemarketer using a prize promotion should be required to disclose the actual or estimated odds—not simply how the odds might be calculated. Second, NACAA recommended that the original Rule’s definition of “prize” be made consistent with state laws and regulations, and the several multi-state settlements with large promotional sweepstakes companies. Third, they recommended that the Commission track provisions in the recent settlements between the states and PCH, which would ensure that the means by which a consumer might enter a sweepstakes without making a purchase is not more difficult than if a purchase were made. Each of these suggestions is discussed below.

As noted in the SBP for the original Rule, the Commission continues to believe that, in many instances, actual odds cannot be calculated in advance. In such circumstances, the Commission believes that requiring prize promoters to disclose exact odds has greater potential for abuse than a disclosure of the method used to calculate those odds. Furthermore, in many instances, such a requirement to disclose odds would reveal that virtually every entrant gets a “prize.” The Commission believes that the better course is to require prize promoters to disclose the method by which odds are calculated. With regard to the suggestions to revise the definition of “prize” and the ease of entry for non-purchasers, the record provides no evidence on why the difference between a “prize” and a “free gift” would be material to consumers. The Commission believes that its authority to reach deceptive or unfair acts or practices under the FTC Act has been sufficient to address any deceptive prize promotions that have not been reachable under the Rule. The Commission’s requirements regarding prize promotion disclosures are not inconsistent and do not conflict with the more restrictive state laws. Therefore, the Commission declines to adopt NAAG’s recommendations.

PMA maintained that the disclosure that making a purchase would not improve a customer’s chances of winning was unnecessary and that there was no evidence on the record to support its addition to the Rule. They suggested that the disclosure makes sense in the context of direct mail, but not in the types of representations more often found in telemarketing. Nonetheless, the PMA stated that, as a gesture of good faith, they would not oppose the change.

Therefore, the Commission has determined that it is a deceptive telemarketing act or practice to fail to disclose before the customer pays, in any prize promotion, the odds of being able to receive the prize, that no purchase or payment is required to win a prize or participate in a prize promotion, that any purchase or payment will not increase the person’s chances of winning, and the no-purchase/no-payment method of participating in the prize promotion.

§ 310.3(a)(1)(v) — Required disclosure of material costs in prize promotions

NACAA expressed concern that original and proposed Rule § 310.3(a)(1)(v) requires that a prize promoter disclose to consumers all “material costs or conditions to receive or redeem a prize that is the subject of the prize promotion” when there should be no costs to receive a prize. NACAA suggests removing the “material costs” portion of subsection (v). The Commission agrees that there should be no costs to receive or redeem a prize. In fact, § 310.3(a)(1)(iv) requires a disclosure that “no purchase or payment is required to win a prize or to participate in a prize promotion.”

Moreover, § 310.3(a)(2)(v) prohibits misrepresentations “that a purchase or payment is required to win a prize or participate in a prize promotion.” Thus the Rule is unequivocal in forbidding conditioning a “prize” on a payment or purchase. Section 310.3(a)(1)(v) is intended to further clarify that any incidental cost that a consumer must incur—namely a purchase or payment—must be disclosed in advance to avoid deception and to comply with the Rule. Despite NACAA’s comment, the Commission does not believe there is any confusion regarding the role of this provision. Therefore, the Commission has determined to retain the original wording of this provision.

§ 310.3(a)(1)(vi) — Required disclosures in the sale of credit card loss protection

The telemarketing of credit card loss protection plans has been a persistent source of a significant number of complaints about fraud. Telemarketers of credit card loss protection plans represent to consumers that these plans will limit the consumer’s liability if his credit card is lost or stolen. These telemarketers frequently misrepresent themselves as being affiliated with the consumer’s credit card issuer, or misrepresent either affirmatively or by omission that the consumer is not currently protected against credit card fraud, or that the consumer has greater potential legal liability for unauthorized use of his or her credit cards than he or she actually

235 Original Rule § 310.2(v).

236 NACAA-NPRM at 54. NAAG recommended that “prize” be defined to be an item of value and that it not be an item that substantially all entrants in the promotion will receive.

237 Id. at 54-55.

238 Id. 54-55.

239 NAAG-NPRM at 54. NAAG recommended that “prize” be defined to be an item of value and that it not be an item that substantially all entrants in the promotion will receive.

240 Id. at 54-55.

241 Ironically, requiring accurate disclosure of the odds of winning also is likely to subject some sellers and telemarketers to liability under the Rule for activity that does not cause consumer injury, since it is hard to imagine what harm is caused to consumers by underestimating the odds of winning.


243 PMA-NPRM at 4-8.

244 Id. See also June 2002 Tr. II at 104-05.

245 PMA-NPRM at 5. See also June 2002 Tr. II at 106, 108 (PMA and ARDA, each stating that they do not oppose the disclosure). ARDA stated in its comment that, while it is inconvenient to include additional verbiage in a telephone call, it did not find the additional disclosure unduly burdensome. ARDA-NPRM at 5.

246 NACAA-NPRM at 6-7 (pointing out that, if there are costs, then the “prize offer” becomes a sales pitch for add-ons, not a prize).

247 See, e.g., NCL-NPRM at 6.

248 Credit card loss protection plans are distinguished from credit card registration plans, in which consumers pay a fee to register their credit cards with a central party, who agrees to contact the consumers’ credit card companies if the consumers’ cards are lost or stolen.
does under the law.249 In fact, federal law limits this liability to no more than $50.250

In the NPRM, the Commission proposed two new provisions to address this practice. The first provision—§ 310.3(a)(1)(vi)—requires the seller or telemarketer of credit card loss protection plans to disclose, before the customer pays the limit, pursuant to 15 U.S.C. § 1643, on a cardholder’s liability for unauthorized use of a credit card. Since many consumers appear to be unaware of the protection they have, the Commission reasoned that a disclosure of the limits of their liability would deter many consumers from paying for protection that duplicates the free protection they already have under federal law. The second provision—§ 310.3(a)(2)(viii)—prohibits sellers or telemarketers from misrepresenting that any customer needs offered goods or services to provide protections a customer already has pursuant to 15 U.S.C. § 1643.251

The Commission received little comment on these proposed provisions. Those commenters who addressed the fraudulent sale of credit card loss protection plans have continued unabated since the original Rule became effective.252 In its NPRM comment, NCL reported that fraudulent solicitations for credit card loss protection plans ranked eighth among the most numerous complaints to the NFIC in 2001.253 The Commission’s complaint-handling experience is consistent with that of NCL, with credit card loss protection plans continuing to be a source of consumer complaints. In its comment, NCL pointed out that fraud in the sale of credit card protection plans is particularly pernicious because it usually involves blatant misrepresentations and scare tactics about consumers’ liability for lost or stolen credit cards.254 Furthermore, the fraud is especially egregious because these schemes appear disproportionately to affect older consumers: in 2001, NCL reported, 55 percent of the victims of credit card loss protection plans were age 60 or older, while that age group accounted for only 26 percent of telemarketing fraud victims overall.255 As noted in the NPRM, large numbers of complaints have prompted both the Commission and the state Attorneys General to devote substantial resources to bringing cases that challenge the deceptive marketing of credit card loss protection plans.256

NCL supported the Commission’s decision to require disclosures and prohibit misrepresentations in the sale of credit card loss protection plans. However, NCL also recommended that the Commission go further and mandate requirements similar to those under the Credit Repair Organizations Act257—i.e., written disclosures regarding the consumer’s rights, coupled with a written agreement or an agreement signed by the buyer who has three days to cancel.258 The Commission believes that disclosures coupled with the prohibition against misrepresentation are appropriate and sufficient remedies to cure the problems associated with deceptive sales of credit card loss protection plans. The likely outcome of enforcement of these remedies is that consumers will decline to purchase such plans once they know that they duplicate free protection the law already provides them. The Commission will continue to monitor complaints regarding the sale of these plans to ensure that these provisions are adequate to remedy this problem. Therefore, the Commission has determined that it is a deceptive telemarketing act or practice to fail to disclose the limits on a cardholder’s liability for unauthorized use of a credit card pursuant to 15 U.S.C. § 1643, and has adopted § 310.3(a)(1)(vi), to require that this information be disclosed.

§ 310.3(a)(1)(vii) — Disclosures regarding negative option features

The amended Rule adds a new provision, § 310.3(a)(1)(vii), which requires sellers and telemarketers to disclose certain material information any time a seller or telemarketer makes an offer including any “negative option feature” as that term is defined under new § 310.2(t) of the amended Rule. This disclosure, like all of those listed in § 310.3(a)(1), must be made before a customer pays for goods or services. This new provision requires disclosure of all material terms and conditions of the negative option feature.

During the Rule Review, several commenters recommended that the Commission specifically address the problems associated with “free” or “trial” offers that include a negative option feature, particularly when the telemarketer already possesses the consumer’s billing information.259 These offers frequently are presented to consumers as “low involvement marketing decisions”260 in which they are simply “previewing” the product or service. However, the Rule Review record, as well as federal and state law enforcement experience, show that consumers frequently are confused about their obligations in these transactions, mistakenly believing that, because they did not provide any billing information to the telemarketer, they are under no obligation unless they take some additional affirmative step to consent to the purchase.261 As a result,
such scenarios have resulted in significant abuse as consumers discover they have been charged for something they did not realize they had been consented to purchase.\textsuperscript{262}

In the NPRM, the Commission proposed a broad prohibition on the receipt or disclosure of a consumer’s billing information from any source other than the consumer herself. This expansive approach would have obviated the need for a more narrowly-tailored remedy specifically addressing negative options.\textsuperscript{263} The Commission believed that without preacquired account information, telemarketers’ ability to exploit the negative option scenario to bill charges to consumers’ accounts without their knowledge or consent would have been eliminated. The seller or telemarketer would have been required to obtain the account information directly from the consumer, thus putting the consumer on notice that he is agreeing to purchase something.\textsuperscript{264}

Based on the entire record in this proceeding, however, the Commission has determined that a blanket prohibition on preacquired account telemarketing sweeps too broadly, curtailing much activity that has not generated a record of consumer harm. As explained in detail below in § 310.4(a)(6) of this SBP, the Commission has refocused this aspect of the amended Rule on the core problem of preacquired account telemarketing, which is to ensure that a customer’s consent is obtained before charges are billed to the customer’s account, regardless of the source from which the seller or telemarketer obtained the customer’s billing information. Therefore, the amended Rule contains a new provision, § 310.4(a)(6), that prohibits charging a customer’s account without the customer’s express informed consent. As a result of the more narrowly-tailored approach to the problems associated with preacquired account telemarketing, a new solution to the problems associated with negative option features is also required.

The amended Rule now takes a two-pronged approach toremedying the harms associated with offers involving negative option features, either alone or in combination with preacquired account telemarketing. Although the record shows that the greatest consumer injury occurs when these two practices occur together,\textsuperscript{265} each practice can, and often does, occur without the other,\textsuperscript{266} and both, alone or in combination, can be problematic for consumers. Thus, the amended Rule sets forth separate requirements specific to each practice—disclosure requirements for offers with a negative option feature, in § 310.3(a)(1)(vii); and, separately, consent requirements for offers where the telemarketer possesses preacquired account information, in § 310.4(a)(6).

The application of these two separate provisions depends on the details of the transaction, thus addressing with greater precision different potential telemarketing scenarios.

Commenters stressed one issue: the need for consumers to clearly understand and consent to the precise terms of the negative option feature of an offer.\textsuperscript{267} The problematic aspect of an offer with a negative option feature is that the consumer’s inaction—not an affirmative action taken by the consumer—is deemed to signal acceptance (or continuing acceptance) of an offer for goods or services. By accepting the initial offer (e.g., to try a membership in a buying club service for 30 days, or to receive a daily newspaper for six months) and doing nothing further, the consumer actually contracts to pay for something more (e.g., an automatic annual membership fee or long-term newspaper subscription renewal). In these circumstances, it is crucial that consumers clearly understand the precise terms of such a negative option feature before they agree to accept the initial “free offer” or purchase, since this agreement subjects them to continuing charges, often long-term, if they fail to understand that they must take action to decline the offer or terminate the agreement.

Therefore, new § 310.3(a)(1)(vii) requires that the following disclosures be made if an offer includes any negative option feature, as that term is defined under § 310.2(t): (1) the fact that the customer’s account will be charged unless the customer takes an affirmative action to avoid the charge(s); (2) the date(s) the charge(s) will be submitted for payment; and (3) the specific steps the customer must take to avoid the charge(s).\textsuperscript{268} As noted above in the discussion of § 310.2(t) defining “negative option feature,” that term is intended to reach any provision under which a consumer’s failure to take affirmative action to reject the goods or services will be deemed by the seller to constitute acceptance (or continuing acceptance) of goods or services. Thus, the term includes, but is not limited to, “free-to-pay conversions,” automatic renewal offers, and continuity plans.\textsuperscript{269}

The required material disclosures must be made truthfully, and in a clear and conspicuous manner, before a customer pays.\textsuperscript{270} Under the amended Rule’s treatment of preacquired account telemarketing,\textsuperscript{271} “before a customer pays” shall be construed as meaning before a customer provides express informed consent to be charged for the goods or services offered, and to be charged using a specifically identified account.\textsuperscript{272} Thus, § 310.3(a)(1)(vii), and indeed, all of § 310.3(a)(1), must be read in conjunction with new § 310.4(a)(6), which prohibits any seller or telemarketer from causing billing information to be submitted for payment, directly or indirectly, without the express informed consent of the customer.

\textsuperscript{262} These disclosures are similar to those required in the Commission’s Rule concerning “Prenotification Negative Option Plans.” See 16 CFR 425.2(a)(1).\textsuperscript{273}

\textsuperscript{263} Each of these terms describes a form of negative option feature, as discussed in this SBP at § 310.2(t), regarding the definition of “negative option feature,” and § 310.2(o), regarding the definition of “free-to-pay conversion.”\textsuperscript{274}

\textsuperscript{264} These disclosures are similar to those required in the Commission’s Rule concerning “Prenotification Negative Option Plans.” See 16 CFR 425.2(a)(1).\textsuperscript{275}
§ 310.3(a)(2) — Prohibited misrepresentations in the sale of goods or services

Section 310.3(a)(2) in the original Rule prohibits a seller or telemarketer from misrepresenting certain material information in a telemarketing transaction, including: total cost; any material restrictions; any material aspect of the performance, efficacy, nature, or central characteristics of the goods or services offered; any material aspect of the seller’s refund policy; any material aspect of a prize promotion; any material aspect of an investment opportunity; and a seller’s or telemarketer’s affiliation with, or endorsement by, any governmental or third-party organization.

In the NPRM, the Commission proposed three changes to the provision. First, the phrase “in the sale of goods or services” was added to the section to clarify that these prohibited misrepresentations apply only in that context. This change was made because, pursuant to the mandate of the USA PATRIOT Act, the Commission proposed adding to the Rule § 310.3(d), which delineates misrepresentations prohibited in the specific context of charitable solicitations. Second, § 310.3(a)(2)(vii) was modified slightly to conform with proposed § 310.3(d)(7) which is an almost identical provision, but in the charitable solicitation context. Finally, the Commission proposed an additional prohibited misrepresentation regarding credit card loss protection plans.

The Commission received no comments regarding the first two changes, and thus retains these in the amended Rule.

§ 310.3(a)(2)(viii) — Misrepresentations regarding credit card loss protection plans

As discussed in detail above, the telemarketing of credit card loss protection plans has been a persistent source of a significant number of complaints about fraud and, as a result, has been the target of numerous law enforcement actions by both the Commission and the state Attorneys General. In the NPRM, the Commission proposed two new provisions to address this practice. The first provision, in § 310.3(a)(1)(vi), discussed above, requires that sellers or telemarketers of such plans disclose, before the customer pays, the limit, pursuant to 15 U.S.C. § 1643, on a cardholder’s liability for unauthorized use of a credit card. This provision is retained unchanged in the amended Rule.

In addition to advising consumers of their rights, the Commission also believes that additional protection is needed to curb the misrepresentations that are prevalent in the sale of credit card loss protection plans. Telemarketers often misrepresent various aspects of the credit card loss protection plan to consumers, especially the existing legal limits on consumer liability if their cards are lost or stolen. Therefore, the Commission proposed to add a second provision —§ 310.3(a)(2)(viii)— which prohibits sellers or telemarketers from misrepresenting that any customer needs offered goods or services to provide protections a customer already has pursuant to 15 U.S.C. § 1643, which limits a cardholder’s liability for unauthorized charges.

The Commission received little comment on this proposed provision. Those commenters who addressed the Commission’s proposal strongly supported the provision’s method of addressing problems with these plans, noting that complaints about the fraudulent sale of credit card loss protection plans have continued unabated since the original Rule became effective. Therefore, the Commission has determined that it is a deceptive telemarketing act or practice to misrepresent that any customer needs particular goods or services in order to have protections provided pursuant to 15 U.S.C. § 1643, and has adopted § 310.3(a)(2)(viii), which prohibits a seller or telemarketer from misrepresenting that any consumer needs to purchase protections that they already have under 15 U.S.C. § 1643.

§ 310.3(a)(2)(ix) — Misrepresentations regarding negative option feature offers

The original Rule did not specifically require disclosures or prohibit misrepresentations regarding negative option features in telemarketing offers. However, as noted above, in the discussion of § 310.3(a)(1)(vii), as a result of the more narrowly-tailored approach to the problems associated with preacquired account telemarketing, a newly focused approach to the problems related to negative option features is also required. This includes specific disclosure requirements, which are set forth in § 310.3(a)(1)(vii) and explained above. Consistent with the structure of the Rule to date, and to ensure that the disclosures are not only made, but made truthfully, the amended Rule includes a mirroring provision to these disclosure requirements, at § 310.3(a)(2)(ix), which prohibits misrepresentations regarding “[a]ny material aspect of a negative option feature including, but not limited to, the fact that the customer’s account will be charged unless the customer takes an affirmative action to avoid the charge(s), the date(s) the charge(s) will be submitted for payment, and the specific steps the customer must take to avoid the charge(s).”

§ 310.3(a)(3) — Express verifiable authorization

Section 310.3(a)(3) of the original Rule requires that a seller or telemarketer obtain express verifiable authorization in sales involving payment by demand drafts or similar negotiable paper. The Rule also provides that authorization is deemed verifiable if any of three specified means are employed to obtain it: (1) express written authorization by the customer, including signature; (2) express oral authorization that is tape recorded and made available upon request to the customer’s bank; or (3) written confirmation of the transaction, sent to the customer before submission of the draft for payment. If the telemarketer chooses to use the taped oral authorization method, the Rule requires the telemarketer to provide, upon request, tapes evidencing the customer’s oral authorization, including the customer’s receipt of the following information: the number, date(s) and amount(s) of payments to be made; date of authorization; and a telephone number for customer inquiry that is answered during normal business hours.

In the NPRM, the Commission proposed to amend the express verifiable authorization provision to...
require that the seller or telemarketer obtain the customer’s express verifiable authorization in any telemarketing transaction where the method of payment lacks the protections provided by, or comparable to those available under, the Fair Credit Billing Act (“FCBA”) and the Truth in Lending Act (“TILA”). In addition, the proposed amendment would have required that the customer receive two additional pieces of information in order for authorization to be deemed verifiable: the name of the account to be charged and the account number, which would have been required to have been recited by either the customer or donor, or the telemarketer. The Commission also proposed to delete § 310.3(a)(3)(iii), which allowed a seller or telemarketer to obtain express verifiable authorization by confirming a transaction in writing, provided the confirmation was sent to the customer prior to the submission of the customer’s billing information for payment. Finally, the Commission proposed in the NPRM, pursuant to the USA PATRIOT Act, to bring charitable contributions within the coverage of the express verifiable authorization provision.

Based on the record in this proceeding, the Commission has decided to modify the proposed express verifiable authorization provision. The amended Rule prohibits “[c]ausing billing information to be submitted for payment, or collecting or attempting to collect payment for goods or services or a charitable contribution, directly or indirectly, without the customer’s or donor’s express verifiable authorization, except when the method of payment used is a credit card subject to protections of the TILA and Regulation Z, or a debit card subject to the protections of the Electronic Fund Transfer Act (“EFTA”) and Regulation E.” This modified language draws a “bright line” to simplify compliance. The amended Rule retains the express written authorization and oral authorization provisions (§§ 310.3(a)(3)(i) and (ii) of the original and proposed Rules), with slight modifications, and has reinstated the provision of the original Rule allowing written confirmation, with certain additional requirements and limitations.

In addition, certain modifications to this express verifiable authorization provision have been adopted in the amended Rule pursuant to the mandate of the USA PATRIOT Act. First, where the term “customer” appeared in the original Rule, that term has been replaced in the amended Rule with the phrase “customer or donor” (including, where applicable, the plural form). Similarly, where the phrase “goods or services” had been used in the Rule, it has been replaced with the phrase “goods or services or charitable contribution” to reflect the expansion of the Rule to cover charitable solicitations. And, the term “telemarketing transaction” has been substituted for the term “sales offer,” again to reflect the expansion of the provision to cover authorization in the context of a charitable solicitation.

The Commission received numerous comments addressing the proposed amendments to § 310.3(a)(3). In addition, the topic was the subject of extensive discussion at the June 2002 Forum.

Express verifiable authorization for novel payment methods. In the NPRM, the Commission noted two separate rationales in support of the requirement that a customer’s express verifiable authorization be obtained any time the payment method used lacks certain protections against unauthorized charges and fails to provide dispute resolution rights. First, the Commission stated its belief that the use of novel payment methods may lead to unauthorized billing. If consumers fail to understand that a telemarketer has the ability to place a charge using a novel payment method (such as utility or mortgage account billing), based on this misperception, they may be induced to divulge billing information that enables such charges. Second, the Commission noted that many emerging payment methods lack both dispute resolution rights and protection against unlimited liability for unauthorized charges. These two facts—that consumers can be charged unwittingly by means of novel payment methods and that the resulting injury due to unauthorized charges is magnified when dispute resolution procedures and liability limits are absent—persuaded the Commission that it was appropriate to require express verifiable authorization when protections

pursuant or comparable to TILA and FCBA are absent.

Comments on the requirement for express verifiable authorization in novel payment method scenarios were many and varied. Some industry commenters—with the notable exception of DialAmerica—rejected the notion that novel payment methods should be subject to more stringent requirements under the Rule, arguing that, as long as the consumer has a clear understanding that he or she is purchasing a particular product or service and that the purchase will be charged to a particular account, nothing further should be required of the telemarketer.

NACHA advocated scaling back the proposed express verifiable authorization requirement, which it argued was “overly broad” in its coverage of payment methods, such as debit cards, with protections comparable to TILA and FCBA. EFSC noted its concern that emerging payment methods would be disadvantaged because they would be subject to the express verifiable authorization provision. NAAG, on the other hand, supported the Commission’s proposed approach.

Some consumer groups urged the Commission to take an even more stringent approach than it did in the NPRM, and require express verifiable authorization in all telemarketing transactions. For example, NCL argued that since most telemarketers use audio recordings to verify authorizations anyway, it would hardly be burdensome to require express verifiable authorization, which

287 See June 2002 Tr. III at 4-52.

288 See 67 FR at 4507. This concern was also articulated by the Commission in the original rulemaking in connection with the use of demand drafts as a payment method. 60 FR at 43850-51.

289 See 67 FR at 4507.
can be evidenced by such a recording, in every instance.\textsuperscript{292} In support of this position, NCL offered statistics showing that complaints to the NFIC for 2001 show that 60 percent of the payments for fraudulent buyers club offers—a “category in which nearly all of the consumers said they never agreed to purchase the service”—were made by credit card.\textsuperscript{293} According to NCL, even when the payment method used by consumers may be subject to legal protections, “all consumers whose accounts will be billed should have the basic protections that such [express verifiable authorization] provides.”\textsuperscript{294} LSAP concurred, suggesting that the Rule would better serve all consumers if express verifiable authorization were required in every purchase.\textsuperscript{295} Similarly, NCLC urged the Commission to extend the express verifiable authorization requirements to cover all transactions, or at least those not subject to the protection of FCBA and TILA.\textsuperscript{296}

The Commission declines to require in every transaction that a seller or telemarketer obtain the express verifiable authorization of a customer or donor prior to submitting billing information for payment. As it made clear in the original rulemaking, the Commission believes that the burden of requiring express verifiable authorization is justified in limited circumstances; namely, when consumers are unaware that they may be billed via a particular method, when that method lacks legal protection against unlimited unauthorized charges, and when the method fails to provide dispute resolution rights.\textsuperscript{297} However, the Commission agrees that consumers could benefit from a more explicit Rule provision mandating what should be obvious: a transaction is valid only when the telemarketer has obtained the consumer’s express informed consent to be charged, and to be charged using a particular account. Therefore, as is discussed in detail below, new §310.4(a)(6) of the Rule explicitly requires, in every telemarketing transaction, that the seller or telemarketer obtain the express informed consent of the customer or donor to be charged for the goods or services or charitable contribution that is the subject of the transaction. This more explicit treatment will achieve the goals of consumer groups without unduly burdening industry members with the recordkeeping required by the express verifiable authorization provision.

The comments from consumer groups addressing the express verifiable authorization issue opposed the “comparability” standard set out in the proposed amended Rule, i.e., the provision which would have exempted from the requirement to obtain express verifiable authorization any payment method with protections comparable to those available under FCBA and TILA.\textsuperscript{298} NCLC further argued that such an amendment would “invite sham internal review procedures,”\textsuperscript{299} thereby making it deleterious to consumers, by placing the power of determining which transactions required express verifiable authorization in the hands of the merchant.\textsuperscript{300} Industry commenters, on the other hand, urged the Commission to clarify that “comparable protection,” whether in the form of a business rule or private contract, should be sufficient to relieve sellers and telemarketers of requirement to obtain express verifiable authorization.\textsuperscript{301} In this regard, some industry commenters noted the “zero liability” protection for unauthorized charges provided by the two main issuers of debit cards, VISA and MasterCard, as a voluntary initiative.\textsuperscript{302} MasterCard and VISA noted that their respective “zero liability policies” provided greater protection to cardholders than is provided by federal law.\textsuperscript{303} Similarly, Fleet urged the Commission to take note of the unauthorized use liability provisions that VISA and MasterCard offer for debit cards.\textsuperscript{304} Other commenters requested that the Commission explicitly state that certain other protections are “comparable.”\textsuperscript{305} Based on the record evidence, the Commission has decided to eliminate the “comparability” language from the express verifiable authorization provision. The comments made clear that it is far more desirable to

\textsuperscript{292} NCL-NPRM at 5.
\textsuperscript{293} Id.
\textsuperscript{294} Id. (noting that even when legal protections exist to protect consumers from unauthorized charges, consumers still bear the burden to “contest the charges in the required manner and time frame to assert their rights”); see also LSAP at 10.
\textsuperscript{295} LSAP-NPRM at 9-11.
\textsuperscript{296} NCL-NPRM at 8.
\textsuperscript{297} See 4606 Federal Register at 34850-51. The Commission notes that despite its request for detailed evidence regarding the cost of obtaining express verifiable authorization and the prevalence of each of the three methods allowed by the original Rule, see, e.g., 67 FR 4537; June Tr. III at 32, there remains a dearth of specific record evidence regarding such costs. Industry commenters who did address the cost merely stated that creating and maintaining audio recordings of express verifiable authorization was “expensive.” See, e.g., Capital One-NPRM at 7; June Tr. III at 38 (CCC).
implement a “bright line” rule in this instance to avoid the costs to businesses and consumers of requiring a telemarketer to make a real-time determination of whether a payment method provides adequate protection while on the telephone with a consumer. Moreover, the Commission is persuaded that the imperfect nature of voluntary consumer protections makes them ill-suited as a predicate for circumventing the express verifiable authorization provision. Therefore, the amended Rule requires express verifiable authorization in all transactions where payment is made by a method other than a debit card subject to Regulation E, or a credit card subject to Regulation Z. Several industry commenters specifically urged the Commission to ensure that express verifiable authorization not be required when a consumer uses a debit card to pay for goods and services offered, or a charitable contribution solicited, through telemarketing. Commenters raise concerns in support of this position. First, commenters noted that debit cards are not “novel” payment methods. Commenters contended that, on the contrary, debit cards are widely accepted and used by consumers, who understand that by providing their debit card number in a telemarketing transaction, the account with which the card is associated will be debited. Second, commenters argued that debit cards are subject to the protections of the EFTA and its implementing regulation, Regulation E, which provide similar, although not identical, protection to that available under TILA. Third, commenters argued that distant sellers cannot distinguish between a debit and credit card until, in the best case scenario, the consumer reads the entire number. Finally, commenters noted that VISA has an “all cards” policy that would prohibit a merchant from declining to accept VISA-branded debit cards if it accepted VISA-branded credit cards. These commenters contended that the practical result of requiring express verifiable authorization for debit cards would be that express verifiable authorization would have to be obtained in all transactions—whether payment was made by credit or debit card, demand draft, or any other method.

Based on the extensive record on this issue, and on the Commission’s law enforcement experience, the Commission has determined to modify the express verifiable authorization provision in the amended Rule. The Commission is persuaded that debit cards should not be subject to the express verifiable authorization provision, based on their wide consumer acceptance and the fact that they are subject to the protections of the EFTA and Regulation E. The Commission believes that debit cards are so commonly used that it cannot persuasively be argued that consumers do not understand that when they provide their debit card account number to a telemarketer, their account can be debited by using that number.

Moreover, the Commission is persuaded that the practical result of requiring express verifiable authorization when a consumer pays using a debit card would be to require it in all instances when a debit or credit card is used, because it is not currently possible to distinguish these methods in a distance transaction.

Regulation E provides protections that are similar, though not identical, to those provided under TILA. Some commenters argued that express verifiable authorization should be required for debit cards because Regulation E’s three-tiered liability scheme for unauthorized use, with increasing liability when the unauthorized use is reported after two business days, is less advantageous for consumers than the TILA protections, which cap a consumer’s losses, in all instances, at $50. The Commission believes that this disparity will not disadvantage consumers who face unauthorized charges pursuant to a telemarketing transaction. Both Regulation E and Regulation Z provide that, in a situation where the consumer retains control of the card, no liability shall attach; Regulation Z does so unconditionally, while Regulation E provides such protection on condition that the consumer reports the unauthorized charge within 60 days of transmittal of the consumer’s statement. The Commission believes that, despite the reporting requirement imposed by Regulation E, consumers who face unauthorized charges due to telemarketing fraud have important fundamental protections whether they use a debit or credit card. The Commission will continue its campaign to educate consumers about their varying obligations in reporting unauthorized charges involving both debit and credit cards, and will monitor the effectiveness of this provision from

suggest that, while consumers do understand that their debit cards can be used as a method of payment, it is not clear that consumers understand the varying degrees of consumer protection afforded by credit versus debit cards. See June 2002 Tr. III at 24-25. The Commission is concerned that consumer education materials to reinforce the material differences in protection under federal law for debit and credit cards. See, e.g., FTC Facts for Consumers, Credit, ATM and Debit Cards: What to do if They’re Lost or Stolen, http://www.ftc.gov/bcp/conline/pubs/credit/atmcard.htm.

See note 311 above. Compare Regulation E, 12 CFR 205.6(b) to Regulation Z, 12 CFR 226.12(b).

See Regulation Z, 12 CFR 226.12(b)(2)(iii), Official Staff Interpretation, Suppl. I.

See Regulation E, 12 CFR 205.6(b)(3). The 60-day notification period is mandatory, which prohibits making a false or misleading statement to induce any person to pay for goods or services, would come into play in such situations. Moreover, the record and the Commission’s consumer protection experience.
the implementation of the amended Rule through the next Rule Review, making any modifications as necessary.

The record reflects a variety of viewpoints on whether dispute resolution rights are essential to the determination of whether a payment method should be excluded from the requirement of obtaining express verifiable authorization. The Commission believes that, although the substantive dispute resolution protections of Regulation E are somewhat less extensive than those of Regulation Z, the core protections provided by Regulation E—allowing a consumer to report an unauthorized electronic fund transfer and to receive a provisional credit of the disputed amount within ten business days of the financial institution’s receipt of such notice—will afford sufficient basic protection to consumers who choose to use debit cards to pay for goods or services or charitable contributions in telemarketing transactions.

Furthermore, the Commission notes that its decision not to require express verifiable authorization for payments made by debit card is based in part on the practical reality that it is currently impossible for merchants to distinguish credit cards from debit cards, particularly in distance transactions. The Commission believes that the appropriate balance of protecting consumers without unduly burdening industry is best met by excluding debit cards from the requirements of the express verifiable authorization provision, for to do otherwise would result in requiring express verifiable authorization for all credit card payments, an unnecessary and costly burden. The core dispute resolution protection provided by Regulation E, in conjunction with its critical protection against unauthorized charges, will provide a vital safety net for consumers who choose to pay by debit card. Thus, the Commission has determined that express verifiable authorization will be required only in instances when the payment method is not a credit card subject to the protections of Regulation Z or a debit card subject to the protections of Regulation E.

Express written authorization. Section 310.3(a)(3)(i) of the proposed Rule states that authorization will be deemed verifiable if it is by “express written authorization . . . which includes the customer’s or donor’s signature.” The Commission received few comments on this provision overall. AARP reiterated its long-standing position that all express verifiable authorization must be in writing. The Commission maintains its position that to require written authorization in every instance would unduly burden sellers and telemarketers, potentially impede the growth of new payment mechanisms, and not provide meaningful benefits to consumers above and beyond those ensured by the other two means of obtaining authorization under the Rule. Therefore, the Commission declines to require written authorization of a transaction in every instance. Another commenter requested clarification that a signed check would meet the requirements of § 310.3(a)(3)(i) of the amended Rule. The original Rule’s express verifiable authorization only pertained to demand drafts; and, as the Commission noted in the TSR Compliance Guide, “[a]ny form of written authorization from a consumer is acceptable,” including “a ‘voided’ signed check.” While the language of the amended Rule is arguably broad enough to cover payment methods such as check and money order, the customer’s or donor’s signed check or money order would, in every instance, be sufficient to serve as written authorization pursuant to 310.3(a)(3)(i).

A handful of commenters addressed the interplay between the E-SIGN Act and the Rule. One industry commenter urged that the Commission explicitly state that the E-SIGN Act governs transactions under the TSR, and another requested the amended Rule expressly adopt the definitions of “electronic record” and “electronic signature” used in the E-SIGN Act. In particular, commenters expressed concern over the Commission’s use of the term “verifiable” as a modifier in discussing what would constitute a valid signature under the Rule. The Commission declines at this time to expressly incorporate the E-SIGN Act’s definitions into the Rule, it has determined that deleting the term “verifiable” from the amended Rule will alleviate the concerns expressed by industry, without compromising the protections afforded to consumers. NCLC suggested that the Rule incorporate the procedures set forth in § 101(c) of the E-SIGN Act for using electronic records to provide a consumer with written disclosures.

323 AARP-NPRM at 7.

324 Tribune at 7.

325 TSR Compliance Guide at 19.


327 EFSC-NPRM at 9-10.

328 Intuit-NPRM at 22.

329 67 FR 4542. In the NPRM, the Commission noted, in a footnote to § 310.3(a)(3)(i), that “[f]or purposes of this Rule, the term ‘signature’ shall include a verifiable electronic digital form of signature, to the extent that such form of signature is recognized as a valid signature under applicable federal law or state contract law.” (emphasis added).

330 The Commission believes that the remaining language regarding signatures makes plain that sellers and telemarketers who choose to obtain express verifiable authorization using electronic records to provide a consumer with written disclosures would be valid under the E-SIGN Act’s standards would meet its burden under this provision of the Rule.
required by the Rule.331 Under § 101(c), the consumer must, among other things, affirmatively consent to such use of electronic records and acknowledge that he or she has the hardware and software necessary to access the requisite information electronically. The Commission is deferring any determination at this time as to the specific manner in which the Rule should incorporate these statutory procedures until it has clearer evidence or experience from which to develop an appropriate and effective regulatory interpretation, consistent with the E-Sign Act, to ensure that written disclosures required under the Rule are provided clearly and conspicuously to consumers if and when a seller or telemarketer uses electronic means to provide such disclosures.332

Finally, NCLC suggested that the Commission require that the information set forth in § 310.3(a)(2)(ii)A-G, be required when the verifiable method of express verifiable authorization is used.333 The Commission declines to adopt this suggestion because the record does not support the argument that such a requirement is necessary in instances when the consumer controls the method of payment, and provides written authorization, including a signature, to the seller or telemarketer prior to the submission for payment of the consumer’s billing information.

Oral authorization. The proposed Rule modified and expanded the list of information that must be recited in order for oral authorization to be deemed verifiable. In particular, the proposed Rule added the requirement that the specific billing information of the customer or donor, including the name of the account and the account number that will be used to collect payment for the transaction, must be identified as part of the express verifiable authorization process. Finally, certain wording changes were proposed to address the expansion of the express verifiable authorization provision to cover not just demand drafts, but all methods of payment that lacked specific protections under TILA and FCBA. In addition, the information was reorganized.334

In § 310.3(a)(3)(ii) of the amended Rule, the Commission has retained the proposed oral authorization provision, with three minor wording changes. First, the broader term “other billing entity” replaces the term “credit card company,” which was included in the proposed Rule as an example of an entity to whom a seller or telemarketer would need to make available a recording of a customer’s or donor’s express oral authorization. Second, the phrase “authorization of payment for goods or services or charitable contribution” is inserted to reflect the expansion of this provision to reach charitable solicitations. Third, the term “sales offer” has been replaced with “telemarketing transaction.” These last two changes are intended to conform this provision to the mandate of the USA PATRIOT Act.

Few comments were prompted by this section generally, or by any of the specific proposed changes required to satisfy the oral authorization provision. One commenter noted that the audio recording method of obtaining express verifiable authorization may require the consent of the customer or donor in states that require two-party consent to record telephone calls.335 The Commission notes that determining compliance with state law taping requirements has been and will continue to be the responsibility of those sellers and telemarketers who choose to use this method of authorization. Another commenter asked the Commission to state explicitly that “a telemarketer cannot circumvent a writing requirement [such as required by EFTA for recurring drafts] by holding up the express oral authorization in the [TSR].”336 Clearly, compliance with the EFTA and compliance with the TSR are separate obligations, and to the extent that an entity is subject to both regulations, it must determine how best to comply with both. Therefore, the Commission declines to modify the Rule to include such guidance. Another commenter, ARDA, requested that § 310.3(a)(3)(ii)(A), which requires disclosure of the number of debits, charges or payments, be modified. ARDA requested that the parenthetical phrase “if more than one” be reinstated in the Rule to ensure that this disclosure is only made in instances where there will be multiple debits, charges, or payments; to do otherwise, ARDA argued, would be a burden on industry to state what would likely be presumed by consumers—that is, that only a single payment will be required.337 The Commission agrees that the benefit to consumers of disclosing that there will only be a single payment does not outweigh the burden on sellers and telemarketers to have to make such a disclosure. Therefore, the Commission has reinstated the phrase “[if more than one]” at the end of § 310.3(a)(3)(ii)(A). No comments in the record suggest modification of proposed § 310.3(a)(3)(ii)(C) (requiring disclosure of the amount of the debit(s), charge(s), or payment(s)); (D) (disclosure of the customer’s or donor’s name); (F) (the disclosure of a telephone number for customer or donor inquiry); or (G) (the date of the customer’s or donor’s oral authorization). Therefore, these sections are retained in the amended Rule without alteration.

Proposed § 310.3(a)(3)(ii)(B) required that “the date of the debit(s), charge(s), or payment(s)” be recited for oral authorization to be deemed verifiable. This proposal drew criticism from members of industry, including MasterCard and KeyCorp, who noted that, in many instances, telemarketers would not possess this information, and suggested that the frequency of the payment could be recited instead.338 The Commission agrees that in at least some instances the exact date of payment—that is, the date on which the charge will appear on a customer’s or donor’s billing statement or be debited from a customer’s or donor’s account—may be unknown at the time of the transaction. Therefore, the amended Rule provision requires instead that the seller or telemarketer recite the date on which the debit(s), charge(s), or payment(s) will be submitted for payment. The Commission believes that this piece of information is without much burden can be, known to a seller or telemarketer, and that providing this date to the customer or donor will supply a means for determining approximately when such debit(s), charge(s), or payment(s) will be posted to the customer’s or donor’s account.

Several commenters also expressed concern about the requirement, in § 310.3(a)(3)(ii)(E), that, as part of oral authorization, a customer or donor

331 NCLC-NPRM at 3.
332 See generally FTC and Dept. of Commerce, Report to Congress on the Electronic Signatures in Global and National Commerce Act: The Consumer Consent Provision in Section 101(c)(1)(C)(i), June 2001 (noting that nearly all participants in a workshop held to discuss the provision agreed that further study of the provision and its role in the marketplace was necessary). See also E-Sign Act § 104 (preserving agency authority to interpret § 101).
333 NCLC-NPRM at 10-11.
334 See Proposed Rule § 310.3(a)(3)(ii)(A)-(D), (F)-(G). For example, the term “draft,” used in the original provision, was replaced by the phrase “debit(s), charge(s), or payment(s)” in the proposed version, to reflect that methods of payment other than demand draft would now be covered by the Rule. For the same reason, and because of the mandate of the USA PATRIOT Act, the term “payor’s” was replaced by the phrase “customer’s or donor’s.”
335 Worsham-NPRM at 6.
336 NCLC-NPRM at 11.
337 ARDA-NPRM at 5-6.
338 MasterCard-NPRM at 6-7; KeyCorp-NPRM at 5.
receive his or her specific billing information, including the name of the account and the account number to be charged. These commenters stated that there are dangers inherent in having a telemarketing sales representative recite or receive from the customer the consumer’s full account number over the telephone.

On the other hand, comments from consumer groups were generally supportive of the expanded disclosures required as a predicate for oral authorization to be deemed verifiable. NCL noted that billing disputes are prevalent in connection with deceptive or abusive telemarketing, and complaints about such disputes often arise when a consumer has been duped into providing his or her billing information for some bogus purpose, such as “verification,” or to enable the seller purportedly to deposit sweepstakes winnings to the consumer’s account. NCL also noted that consumers may provide their account information in conjunction with a payment for a particular item, but then be billed for additional goods or services that they did not authorize. Based on its experience, NCL “believes that it is important to verify both the account that will be billed and the fact that the consumer is agreeing to purchase specific products or services using that account.”

Based on the record, the Commission has decided to modify the proposed requirement to limit the required amount of information about an account that must be received by a customer or donor to comply with the express verifiable authorization provision. The amended Rule requires that the customer or donor receive “billing information, identified with sufficient specificity that the customer or donor understands what account will be used to collect payment for the goods or services or charitable contribution.” This more flexible standard takes into account concern about identity theft, but still mandates that the customer receive information sufficient to understand what account is being used to process payment for the transaction. It will allow telemarketers the option to state, for example, the name and the last four digits of the account to be charged, rather than the full account number.

Written confirmation. The Commission received several comments regarding its proposal to delete §310.3(a)(3)(iii) from the Rule. This section of the original Rule allows a seller or telemarketer to obtain express verifiable authorization by sending written confirmation of the transaction to the customer prior to submitting the customer’s billing information to be charged. In general, industry commenters opposed the Commission’s proposal to delete this provision from the Rule, arguing that, contrary to the evidence presented during the Rule Review, this method of authorization is commonly used in telemarketing.

Aegis noted that there is nothing “inherently fraudulent, abusive, or problematic” with this method of obtaining express verifiable authorization, and urged the Commission to retain it. Industry commenters urged the Commission to retain this provision, especially because it provides a low-cost alternative to recording a customer’s oral authorization.

Consumer groups and law enforcement officials expressed their support for deleting this provision from the Rule, or modifying it to ensure that consumers are better protected when this method is used. NAAG, for example, noted the potential danger inherent in the written confirmation provision as it was worded in the original Rule. Specifically, NAAG opined that consumers are likely to overlook a confirmation that appears to be yet another opt-in. NAAG noted that there is nothing inherently fraudulent about this method of authorization; PMA-NPRM at 20 (suggesting that the record does not support elimination of this mechanism of authorization); Technicon-NPRM at 5 (arguing that there is nothing “wrong with” this method of authorization).

Aegis-NPRM at 4. Accord Noble-NPRM at 4 (arguing that there is nothing inherently fraudulent about this method of authorization); PMA-NPRM at 20 (suggesting that the record does not support elimination of this mechanism of authorization); NAAG-NPRM at 48-49. (Amended Rule §310.3(a)(3)(iii)(E). The requirement that the account be identified with sufficient specificity that the customer or donor understands what account will be used to collect payment mirrors the provision in amended Rule §310.4(a)(6)(iii)(A).) In Industry commenters noted that billing disputes are prevalent in connection with deceptive or abusive telemarketing, and complaints about such disputes often arise when a consumer has been duped into providing his or her billing information for some bogus purpose, such as “verification,” or to enable the seller purportedly to deposit sweepstakes winnings to the consumer’s account. NCL also noted that consumers may provide their account information in conjunction with a payment for a particular item, but then be billed for additional goods or services that they did not authorize. Based on its experience, NCL “believes that it is important to verify both the account that will be billed and the fact that the consumer is agreeing to purchase specific products or services using that account.”

See, e.g., AFSA-NPRM at 17-18; CCC-NPRM at 12 (recommending §310.3(a)(3)(ii) should be deleted entirely); DialAmerica-NPRM at 27 (noting its support for the changed approach); Fleet-NPRM at 6; KeyCorp-NPRM at 5; MasterCard-NPRM at 5 (noting that if the provision is not deleted, the amended Rule should at least exempt from compliance entities subject to the privacy provisions of the GLBA); Wells Fargo-NPRM at 3. Several commenters noted that consumers are disinclined to provide their account numbers in telemarketing, in part due to the success of consumer protection education campaigns that have stressed that a consumer should only provide his or her account in telemarketing if the consumer knows the seller with whom he or she is dealing. See, e.g., Bank One-NPRM at 4; Cendant-NPRM at 7; Household Auto-NPRM at 2-3; VISA-NPRM at 6. Some commenters noted that marketers will not have such account numbers in some instances, such as in preacquired account telemarketing involving a joint marketing program, and thus will be unable to ensure the customer’s “receipt” of this information. See, e.g., Household Auto-NPRM at 4; NEMA-NPRM at 8-10 (noting that the “receipt” language directly contradicts the NEMA guidance that the customer “disclose” such information before processing a transaction, and will result in duplicative information being exchanged); Green Mountain-NPRM at 26 (requesting an exemption because the energy industry is highly regulated). As discussed below, the Commission decided to delete the requirement that the account number be disclosed, and therefore the Commission anticipates that this will ameliorate the concern about preacquired account telemarketing. In every instance, the seller or telemarketer should be able to tell the customer or donor the name of the billing vehicle and enough other information to ensure that the customer or donor knows what account will be used to collect payment. As to NEMA’s and, to some extent, Green Mountain’s concern about redundancy, it is true that in a non-preacquired account call, some information, such as the customer’s or donor’s billing information, will initially be unknown to the telemarketer. It is equally true that some of the information a customer must receive under §310.3(a)(3)(ii) is known only to the telemarketer, such as the date a charge will be submitted for payment and a customer or donor service number. The Commission believes that, for payment methods that are novel and lacking in certain consumer protections, it is critical for the customer to authorize payment. If a seller or telemarketer chooses the express oral authorization method, then it is incumbent upon them to ensure that a consumer receives this information, even if redundant, as part of the recorded authorization.
another piece of “junk mail,”350 and recommended that the Rule be amended to specifically require that any confirmation document sent pursuant to this method of authorization be clearly and conspicuously labeled as such.351 NAAG also suggested that, if reinstated, the written confirmation method should not be considered a “verifiable” means of obtaining consumers’ authorization in circumstances when the consumer is already vulnerable, such as when the goods or services to be paid for are offered in conjunction with a “free-to-pay conversion” or “negative option feature,” or when the seller or telemarketer has preacquired account information prior to the initiation of the call.352 MPA suggested that perhaps this method could be reinstated if used in the sale of goods or services for which a liberal refund policy exists.353 NAAG raised the concern that there might exist a material inconsistency between the disclosures made in the sales portion of the call and those sent as part of a post-call confirmation.354

In response to this range of comment, the Commission has decided to reinstate the written confirmation method of obtaining express verifiable authorization, with certain modifications. After balancing the concerns enunciated by consumer groups against industry’s strongly-stated desire to reinstate this economical means of obtaining express verifiable authorization, the Commission has determined to modify the provision to enhance the likelihood that consumers will receive these written confirmations in a timely manner and will recognize the confirmations as important documents that should not be thrown away unopened. The amended Rule continues to require that the written confirmation disclose all of the information contained in § 310.3(a)(3)(ii)(A)-(C), as well as a statement of the procedures by which the customer can obtain a refund from the seller or telemarketer or charitable organization in the event the confirmation is inaccurate. However, the amended Rule requires that the written confirmation be “clearly and conspicuously labeled” as such, on the outside of the envelope in which it is sent, and that it be sent to the customer by first class mail355 prior to the submission for payment of the customer’s or donor’s billing information.356 The Commission will continue to monitor the use of the post-sale written confirmation method of express verifiable authorization and may revisit this issue in a subsequent Rule Review should circumstances warrant.

The amended Rule also proscribes the use of the post-sale method of authorization when the goods or services that are the subject of the transaction are offered in conjunction with a “free-to-pay conversion” feature and preacquired account information. The record is replete with evidence, detailed in the section below discussing new § 310.4(a)(6), that “free-to-pay conversion” offers, particularly when coupled with the use of preacquired account information, have often resulted in unauthorized charges to consumers.357 Given this evidence, coupled with NAAG’s observation that “[a] consumer who does not believe they entered into a transaction would be less likely to even open mail from a company whose offer he or she had recently ‘declined,’”358 the Commission will require that authorization in such situations must be obtained pursuant to either § 310.3(a)(3)(i) or (ii).

§ 310.3(a)(4) — Prohibition of false and misleading statements to induce the purchase of goods or services or a charitable contribution

The only proposed modification of this provision in the NPRM was to expand it, pursuant to the mandate of the USA PATRIOT Act, to encompass misrepresentations made to induce a charitable contribution.359 The Commission received few comments on this section, and none opposing this proposed expansion.360 Therefore, the Commission adopts the wording of proposed § 310.3(a)(4) unchanged in the amended Rule.

§ 310.3(b) — Assisting and facilitating

Section 310.3(b) of the original Rule prohibits a person from providing substantial assistance or support to any seller or telemarketer when that person knows or consciously avoids knowing that the seller or telemarketer is violating certain provisions of the Rule. During the Rule Review, the Commission received comments from consumer protection and law enforcement groups who argued that the “conscious avoidance” standard adopted in the original Rule should be modified to a “knew or should have known standard.”361 The Commission noted that it continued to support the “conscious avoidance” standard, believing that such a standard is appropriate “in a situation where a person’s liability to pay redress or civil penalties for a violation of this Rule depends on the wrongdoing of another person.”362 Although the provision was retained in the proposed Rule without amendment, its coverage was expanded to cover assisting and facilitating in the solicitation of charitable contributions pursuant to the USA PATRIOT Act. The Commission invited additional comment on, and proposed alternatives to, the assisting and facilitating standard.363

In response to the NPRM, VISA noted that although this provision was retained unchanged in the proposed Rule, “the expanded scope of the Proposed Rule, including provisions that conflict with the GLBA privacy rules, could require financial institutions to police the activities of third parties, many of whom are themselves regulated entities.”364 The Commission believes that the modifications to the preacquired account telemarketing provisions in the amended Rule obviate the concerns expressed by VISA.365 ARDA expressed its support for retaining the “conscious avoidance” standard, endorsing the rationale

350 Id. (noting that such confirmations “tend to go unnoticed or unrecognized by consumers, thereby failing in their function of ‘authorizing a payment’”).

351 Id.

352 See June 2002 Tr. Ill at 42-43 (NAAG).

353 Id. at 44 (MPA).

354 Id. at 48-49 (NAAG).

355 The requirement that such confirmations be sent via first class mail should cause industry to incur no additional expense. According to the DMA representative at the June 2002 Forum, federal postal regulations require that such confirmations be sent via first class mail. See June 2002 Tr. Ill at 45; see also June 2002 Tr. Ill at 47 (CCC) (noting that company practice is to ensure that written confirmations are clearly and conspicuously labeled). This change to the Rule, then, will merely echo the postal regulations, which require that personalized business correspondence be sent via first class mail. See 39 CFR 3001.68, App. A.

356 The Commission has declined, at this time, to follow the suggestion by Capital One that the written confirmation method should be reinstated, “provided that the confirmation is delivered 30 days prior to submission for payment, and the customer is permitted to repudiate the sale within that time by calling a toll-free number,” because the record provides too little evidence to suggest that these additional protections are necessary to prevent consumer injury. See Capital One-NPRM at 8.

357 See discussion of amended Rule § 310.4(a)(6), below. See also June 2002 Tr. Ill at 42-43 (NAAG).

358 NAAG-NPRM at 49.


360 See, e.g., Make-A-Wish-NPRM, passim (detailing complaints received by Make-A-Wish, which does not solicit donations by telephone, regarding fraudulent telemarketers claiming or implying that they are calling from or affiliated with Make-A-Wish).

361 See 67 FR at 4508-09.

362 Id. at 4509.

363 Id.

364 VISA-NPRM at 12.

365 See discussion of amended Rule §§ 310.4(a)(5) and (6) below.
enunciated by the Commission in the NPRM for the heightened knowledge requirement. But AARP reiterated its concern that the conscious avoidance standard places too high a burden on law enforcement, and urged the Commission to substitute a “knew or should have known” standard for the assisting and facilitating provision. 367 NACAA also urged the Commission to adopt a “knew or should have known” standard in the amended Rule. 368

NAAG made a similar recommendation, noting that the current standard results in “both federal and state authorities [being] unduly hampered in trying to reduce telemarketing fraud.” 369 NAAG also noted that this provision is critical in addressing the participation of those United States-based entities, such as sellers of victim lists, fulfillment house operators, and credit card launderers, who provide necessary assistance to fraudulent telemarketers, many of whom have begun operating from outside the country. 370

The Commission declines, on the record evidence, to lower the standard for assisting and facilitating under the Rule. The Commission continues to believe the “conscious avoidance” standard is the appropriate one in instances when liability to pay redress or civil penalties rests on another person’s violation of the Rule. Further, the Commission believes the “conscious avoidance” standard is one that can be met in situations where third parties provide substantial assistance to fraudulent telemarketers. As stated in the original SBP, this standard “is intended to capture the situation where actual knowledge cannot be proven, but there are facts and evidence that support an inference of deliberate ignorance.” 371 In the hypothetical situations posed in NAAG’s comment, the Commission believes it would be possible to demonstrate such “deliberate ignorance” on the part of, for example, a fulfillment house that ships only inexpensive prizes on behalf of a telemarketer about whom it receives numerous complaints. The Commission itself has brought several cases successfully using the assisting and facilitating provision, and has found the provision to be a useful tool in combating fraudulent telemarketing. 372

§ 310.3(c) — Credit card laundering

In the NPRM, the Commission retained the original Rule provision addressing credit card laundering, but noted that the coverage of the provision in the proposed Rule would expand to cover credit card laundering in the solicitation of charitable contributions, pursuant to the mandate of the USA PATRIOT Act. 373 Although the proposed Rule was issued with this provision unmodified, the Commission expressed concern that the provision’s “usefulness may be unduly restricted by the phrases ‘[e]xcept as expressly permitted by the applicable credit card system,’ in the preamble to § 310.3(c), and ‘when such access is not authorized by the merchant agreement or the applicable credit card system,’ in § 310.3(c)(3).” 374

Having received no comment regarding the credit card laundering provision generally, or regarding the Commission’s specific concerns, the Commission has determined to retain this provision in its original form. The Commission will continue to monitor its effectiveness, however, and may reconsider modifications at the next Rule Review.

§ 310.3(d) — Prohibited deceptive acts or practices in the solicitation of charitable contributions

Pursuant to § 1011(b)(1) of the USA PATRIOT Act, the Commission proposed in the NPRM to include in the Rule new prohibited misrepresentations in the solicitation of charitable contributions. 375 The amended Rule retains § 310.3(d) unchanged, with the following exceptions. First, the phrase “after any administrative or fundraising expenses are deducted” has been deleted from § 310.3(d)(4). The Commission believes that the provision is clearer absent this qualifying phrase, and thus has stricken it in the amended Rule. Second, § 310.3(d)(6), the prohibited misrepresentation regarding advertising sales has been deleted. As discussed below, in the section addressing § 310.6(b)(7), the Commission has determined to exempt from the Rule’s coverage business-to-

366 ARDA-NPRM at 6.
367 AARP-NPRM at 8.
368 NACAA-NPRM at 8.
369 NACAA-NPRM at 56.
370 Id. [suggesting that liability for those who assist and facilitate is particularly important when the fraudulent telemarketer holds no assets in the United States].
371 Id. at 43852.
373 Id. at 4509.
374 Id.
375 See § 4509-10 (discussing the reasoning behind the prohibited misrepresentations included in proposed Rule § 310.3(d)).
376 See 67 FR at 4509.
377 § 310.3(d)(1)(7).
378 See Cliffdale Assoc., Inc., 103 F.T.C. 110, 165, appeal dismissed sub nom., Koven v. FTC, No. 84-2253 (5th Cir. 1985).
prevent fraudulent charitable solicitations while still allowing “legitimate fundraising appeals.”

Similarly, NCL noted that the new provisions in the TSR regarding for-profit fundraisers will be “very helpful in curbing deceptive and abusive practices.”

Very few comments were received specifically on § 310.3(d) of the proposed Rule. One such comment, from NCL, noted that “[t]he proposed list of prohibited practices covers most of the common abuses that are reported by consumers and businesses.” NCL did suggest adding an additional prohibited misrepresentation on “sound-alikes,” or the use of a name similar or identical to that of a legitimate charity in an attempt to benefit from that charity’s good will.

Similarly, Make-A-Wish proposed prohibiting misrepresentations of the “identity” of the entity on whose behalf the charitable solicitation is being sought. NAAG and NASCO suggested that the Commission clarify that § 310.3(d)(7), which prohibits misrepresentations regarding “[a] seller’s or telemarketer’s affiliation with, or endorsement or sponsorship by, any person or government entity,” would prohibit misrepresentations of a seller’s or telemarketer’s affiliation with any charity. The Commission believes that proposed § 310.3(d)(7), renumbered as § 310.3(d)(6) in the amended Rule, is broad enough to prohibit the “sound-alike” misrepresentation NCL raised, as well as to prohibit a misrepresentation regarding one’s affiliation with any charity. Therefore, the Commission declines to add a further misrepresentation to specifically address the “sound-alike” scenario, or add the “identity” of the charity to the prohibited misrepresentations.

NAAG and NASCO also proposed one further modification: the addition of a prohibited misrepresentation of “[t]he address or location of the charitable organization, and where the organization conducts its activities.” NAAG stated that the addition of such a provision would ensure that telemarketers do not misrepresent that the charities on whose behalf they are soliciting are “local” or that their activities are local, since the local character of a charity or its programs often is material to prospective donors.

According to NAAG, because many prospective donors prefer to support organizations that will benefit their own community, fundraisers sometimes take advantage of that sentiment by using a local post office box or other local address as their return address, to make it seem as if the charity is based close to the donors. The Commission believes that any misrepresentation of the charitable organization’s location, or the location where the funds are to be used, would likely violate § 310.3(d)(3), which prohibits misrepresentation of the “purpose for which any charitable contribution will be used.” Therefore, the Commission declines to include a specific prohibited misrepresentation regarding the address or location of a charity.

D. Section 310.4 — Abusive Telemarketing Acts or Practices.

The Telemarketing Act authorizes the Commission to prescribe rules “prohibiting deceptive telemarketing acts or practices and other abusive telemarketing acts or practices.” The Act does not define the term “abusive telemarketing act or practice.” It directs the Commission to include in the TSR provisions prohibiting three specific “abusive” telemarketing practices, namely, for any telemarketer to: 1) “undertake a pattern of unsolicited telephone calls which the reasonable consumer would consider coercive or abusive of such consumer’s right to privacy;” 2) make unsolicited phone calls to consumers during certain hours of the day or night; and 3) fail to “promptly and clearly disclose to the person receiving the call that the purpose of the call is to sell goods or services and make such other disclosures as the Commission deems appropriate, including the nature and price of the goods and services.” The Commission does not limit the Commission’s authority to address abusive practices beyond these three practices legislatively determined to be abusive. Accordingly, the Commission adopted a Rule that addresses the three specific practices mentioned in the statute, and, additionally, five other practices that the Commission determined to be abusive under the Act.

Each of the three abusive practices enumerated in the Act implicates consumers’ privacy. In fact, with respect to the first of these practices, the explicit language of the statute directs the FTC to regulate “calls which the reasonable consumer would consider coercive or abusive of such consumer’s right to privacy.” Similarly, by directing that the Commission regulate the times and early morning when the toll on their privacy from such calls would likely be greatest. The third enumerated practice also relates to privacy, in that it requires the consumer be given information promptly that will enable him to decide whether to allow the infringement on his time and privacy to go beyond the initial invasion. Congress provided authority for the Commission to curtail these practices that impinge on consumers’ right to privacy but are not likely deceptive under FTC jurisdiction. This recognition by Congress, that even non-deceptive telemarketing business practices can seriously impair consumers’ right to be free from harassment and abuse, and its directive to the Commission to rein in these tactics lie at the heart of § 310.4 of the TSR.

The practices not specified as abusive in the Act, but determined by the Commission to be abusive and thus prohibited in the original rulemaking are: (1) threatening or intimidating a consumer, or using profane or obscene language; (2) “causing any telephone to ring, or engaging any person in telephone conversation, repeatedly or continuously with intent to annoy, abuse, or harass any person;” (3) requesting or receiving payment for credit repair services prior to delivery and proof that such services have been rendered; (4) requesting or receiving payment for recovery services prior to delivery and proof that such services...
have been rendered; and (5) “requesting or receiving payment for an advance fee loan when a seller or telemarketer has guaranteed or represented a high likelihood of success in obtaining or arranging a loan or other extension of credit.”

The first two of these are directly consistent with the Act’s emphasis on privacy protection, and with the intent, made explicit in the legislative history, that the TSR address these particular practices. In the SBP for the original Rule, the Commission stated, with respect to the prohibition on threats, intimidation, profane and obscene language, that these tactics “are clearly abusive in telemarketing transactions.” The Commission also noted that the commenters supported this view, and specifically cited the fact that “threats are a means of perpetrating a fraud on vulnerable victims, and [that] many older people can be particularly vulnerable . . . .”

The remaining three abusive practices identified in the Rule—relating to credit repair services, recovery services, and advance fee loan services—were included in the Rule under the Telemarketing Act’s grant of authority for the Commission to prescribe rules prohibiting other unspecified abusive telemarketing acts or practices. The Act gives the Commission broad authority to identify and prohibit additional abusive telemarketing practices beyond the specified practices that implicate privacy concerns, and gives the Commission discretion in exercising this authority.

As noted above, some of the practices prohibited abusive under the Act flow directly from the Telemarketing Act’s emphasis on protecting consumers’ privacy. When the Commission seeks to identify practices as abusive that are less distinctly within that parameter, the Commission now thinks it appropriate and prudent to do so within the purview of its traditional unfairness analysis, as developed in Commission jurisprudence and codified in the FTC Act. This approach constitutes a reasonable exercise of authority under the Telemarketing Act, and provides an appropriate framework for several provisions of the original Rule. Whether privacy-related intrusions or concerns might independently give rise to a Section 5 violation outside of the Telemarketing Act’s purview is not addressed or affected by this analysis. The abusive practices relating to credit repair services, recovery services, and advance fee loan services each meet the criteria for unfairness. An act or practice is unfair under Section 5 of the Telemarketing Act if it causes substantial injury to consumers, if the harm is not outweighed by any countervailing benefits, and if the harm is not reasonably avoidable. An important characteristic common to credit repair services, recovery services, and advance fee loan services is that in each case the offered service is fundamentally bogus. It is the essence of these schemes to take consumers’ money for services that the seller has no intention of providing and in fact does not provide. Each of these schemes had been the subject of large numbers of consumer complaints and enforcement actions, and in each case . . .


During 1995 and 1996, the Commission brought or settled lawsuits against numerous individuals and companies involved in nearly a dozen recovery room operations. See, e.g., FTC v. Meridian Capital Mgmt., No. CV-S-96-63-PM (R) (L.H. (D. Nev. filed Nov. 20, 1996)). The Commission’s efforts against recovery rooms have borne fruit. The volume of consumer complaints concerning recovery rooms logged into the FTC Telemarketing Complaint System in 1996 plummeted to 153—less than one-fifth the record high volume of 869 complaints recorded in 1995. See “1995-1996 Staff Summary of FTC Activities Affecting Older Americans” (Mar. 1998). Complaints about “recovery” schemes have continued to decline, with a number three ranking in 1995 to a number twenty-five ranking in 1999, while complaints about credit repair have remained at a relatively low level since 1995 (steadily ranking about number twenty-three


403 During 1995 and 1996, the Commission brought or settled lawsuits against numerous individuals and companies involved in nearly a dozen recovery room operations. See, e.g., FTC v. Meridian Capital Mgmt., No. CV-S-96-63-PM (R) (L.H. (D. Nev. filed Nov. 20, 1996)). The Commission’s efforts against recovery rooms have borne fruit. The volume of consumer complaints concerning recovery rooms logged into the FTC Telemarketing Complaint System in 1996 plummeted to 153—less than one-fifth the record high volume of 869 complaints recorded in 1995. See “1995-1996 Staff Summary of FTC Activities Affecting Older Americans” (Mar. 1998). Complaints about “recovery” schemes have continued to decline, with a number three ranking in 1995 to a number twenty-five ranking in 1999, while complaints about credit repair have remained at a relatively low level since 1995 (steadily ranking about number twenty-three

caused substantial injury to consumers. Amounting to nothing more than outright theft, these practices conferred no potentially countervailing benefits. Finally, having no way to know these offered services were illusory, consumers had no reasonable means to avoid the harm that resulted from accepting the offer. Thus, these practices meet the statutory criteria for unfairness, and accordingly, the remedy imposed by the Rule to correct them is to prohibit requesting or receiving payment for these services until after performance of the services is completed.

§ 310.4(a) — Abusive conduct generally

Section 310.4(a) of the original Rule sets forth specific conduct that is considered to be an “abusive telemarketing act or practice” under the Rule. None of the comments in the Rule Review recommended that changes be made to the original wording of §§ 310.4(a)(1)-(3); nor had the Commission’s enforcement experience revealed any difficulty with these provisions that would warrant amendment. Although one

or twenty-four in terms of number of complaints received by the NFIC, NCL-RR at 11. The Commission continues to take action against fraudulent credit repair solicitations; for example, in August 2000, the FTC, the Department of Justice and forty-seven other federal, state and local enforcement and consumer protection agencies surfed the Web looking for illegal scams that promise consumers that they can restore their creditworthiness for a fee. Over 180 websites were put on notice that their credit repair claims may violate state and federal laws. See “Surf’s Up for Crack Down on “Credit Repair” Scams,” FTC press release dated Aug. 21, 2000). Unfortunately, complaints about advance fee loan schemes rose from a number fifteen ranking in 1995 to the number two ranking in 1998, with about 80 percent of the advance fee loan companies reported to the NFIC located in Canada, NCL-RR at 12. RR Tr. at 378. The Commission and the state Attorneys General continue to take law enforcement “sweeps” targeting corporations and individuals that promise loans or credit cards for an advance fee, but never deliver them. A sweep was announced June 20, 2000, involving five cases filed by the FTC, 13 actions taken by state officials, and three cases filed by Canadian law enforcement authorities. See “FTC, States and Canadian Provinces Launch Crackdown on Outfits Falsely Promising Credit Cards and Loans for an Advance Fee,” FTC press release dated June 20, 2000. Among the most recent FTC cases targeting advance fee loans, four involved advance fee credit card schemes: FTC v. Fin. Servs. of N. Am., No. 00-792 (GEB) (D.N.J.) filed June 9, 2000; FTC v. Home Life Credit, No. CV-00-06154 CM (Ec) (C.D. Cal. filed June 8, 2000); FTC v. First Credit Alliance, No. 300 CV 1049 (D. Conn. filed June 8, 2000); and FTC v. Credit Approval Servs., No. G-00-324 (S.D. Tex. filed June 7, 2000). In addition, another case against a fraudulent credit card loss protection seller also included elements of illegal advance fee credit card fees. FTC v. First Capital Consumer Membership Servs., Inc., No. 00-CV-0905(C) (W.D.N.Y. filed Oct. 23, 2000).
commenter suggested amendments to § 310.4(a)(4), the Commission determined that no amendment was needed to the language of that provision.405 Therefore, the language in these provisions was unchanged in the proposed Rule.

As noted in the NPRM, however, the Rule amendments mandated by the USA PATRIOT Act expand the reach of § 310.4(a) to encompass the solicitation of charitable contributions. The section begins with the statement “It is an abusive telemarketing act or practice and a violation of this Rule for any seller or telemarketer to engage in [the conduct specified in subsections (1) through (6) of this provision of the Rule].”406 The proposed Rule modified the definitions of “telemarketing,” and, by association, “telemarketer,” to encompass the solicitation of charitable contributions. Consequently § 310.4(a) of the proposed Rule would have applied to all telemarketers, including those engaged in the solicitation of charitable contributions. Each of the prohibitions in § 310.4(a) will therefore now apply to those telemarketers soliciting on behalf of either sellers or charitable organizations. As noted in the NPRM, the Commission believes it unlikely that §§ 310.4(a)(2)-(4) will have any significant impact on telemarketers engaged in the solicitation of charitable contributions, since those sections all deal with practices that are commercial in nature and not associated with charitable solicitations. Sections 310.4(a)(1), (5), (6), (7) and (8) of the proposed Rule, however, addressed practices that are not necessarily confined to telemarketing to induce purchases of goods or services. They therefore may have had an impact upon telemarketers engaged in the solicitation of charitable contributions.

The Commission received many comments discussing the proposed modifications to § 310.4(a), and significant time was devoted to these issues at the June 2002 Forum. A summary of the major points on the record regarding the proposed amendments is provided below.

§ 310.4(a)(1) — Threats and intimidation

Section 310.4(a)(1), unchanged in the proposed Rule, specifies that it is an abusive telemarketing practice to engage in threats, intimidation, or the use of profane or obscene language. None of the comments in response to the NPRM recommended that changes be made to the wording of § 310.4(a)(1), although ICFA did request clarification of the term “intimidation,” arguing that “a person could potentially claim to have been ‘intimidated’ simply because a pre-called caller suggested canceling a planned funeral arrangements.”407 The Commission believes that under the language of the Rule, which focuses on the telemarketer’s behavior, to “engage in . . . intimidation” could not reasonably be extended to cover the situation where a telemarketer merely invites a consumer to discuss funeral arrangements, even if the person called finds the prospect of funeral planning an “intimidating” one. Rather, as the Commission noted in the TSR Compliance Guide, this provision is meant to prohibit “intimidation, including acts which put undue pressure on a consumer, or which call into question a person’s intelligence, honesty, reliability or concern for family.”408 The Commission believes further clarification is unnecessary, and thus declines to include in the amended Rule a definition of “intimidation.” Therefore, the language in this provision remains unchanged in the amended Rule. However, the USA PATRIOT Act expansion of the TSR brings within the ambit of this provision telemarketers soliciting charitable contributions.

§ 310.4(a)(2) — Credit repair

Section 310.4(a)(2) prohibits requesting or receiving a fee or consideration for goods or services represented to improve a person’s creditworthiness until: 1) the time frame within which the seller has represented that the promised services will be provided has expired; and 2) the seller has provided the consumer with evidence that the services were successful—that is, that the consumer’s creditworthiness has improved. No change to this section was incorporated in the proposed Rule, except to note its expanded coverage as a result of the USA PATRIOT Act.409 The only comment received in response to the NPRM was from DBA, which requested that debt collectors be specifically exempted from compliance with this section.410 As DBA itself noted, debt collection activities do not fall within the Rule’s ambit in any event because they are outside the definition of “telemarketing.”411 Therefore, it is unnecessary to exempt debt collectors from compliance with this provision.

§ 310.4(a)(5) — Disclosing or receiving, for consideration, unencrypted consumer account numbers for use in telemarketing

The Commission has added a new provision, § 310.4(a)(5), which specifies that it is an abusive practice to engage in a violation of the Rule to disclose or receive, for consideration, unencrypted consumer account numbers for use in telemarketing.

As mentioned above, since the original Rule was promulgated, consumer concern over encroachments on their privacy has become widespread. One response to privacy concerns was passage of the GLBA412 and its related regulations,413 under which financial institutions, and the third parties with which they do business, may provide consumer account information to other third parties only in encrypted form for marketing purposes. To do otherwise is not only a violation of the GLBA and its related regulations,414 but is construed by consumers as a breach of the financial institution’s promise to consumers to keep the consumer’s account information confidential and secure.415

405 67 FR at 4512 (noting that “[i]t is unlikely that [this section] will have any significant impact on telemarketers engaged in the solicitation of charitable contributions. . .”).
406 DBA-NPRM at 2-4.
407 Id.
408 Gramm-Leach-Bliley Act, see note 64 above.
409 67 FR at 4512 (noting that “[i]t is unlikely that [this section] will have any significant impact on telemarketers engaged in the solicitation of charitable contributions. . .”).
410 See also 12 CFR 313.65 (2000) (FTC’s Privacy Regulation).
412 See, e.g., 12 CFR 313.12.
413 16 CFR 313.65 (2000).
414 See, e.g., 12 CFR 313.12.
415 See also 12 CFR 313.12.
416 See AARP, at 2 (describing the results of a survey AARP conducted in which the majority of consumers reported that they did not believe telemarketers could or should freely share their account information). See also Dave Finlayson (Msg. 491) (“I will cease doing business with any firm which gives out my personal private information.”); BL (Msg. 1175) (“I also agree that Continued
Indeed, trading in unencrypted consumer account numbers has been uniformly condemned by virtually all parties who participated in this rulemaking proceeding. Although there was substantial debate regarding the Commission’s proposal for a blanket prohibition on the transfer or receipt of consumers’ billing information (i.e., “preacquired account information”), there was no disagreement among commenters and forum participants about the notion that trafficking in lists of consumer account numbers was improper, in many cases illegal, and should be a violation of the Rule. As ERA explained during the forum:

"If there is a transfer of consumer information without knowledge of and prior to the consumers’ consent, which would encompass, for example, your scenario where a list is compiled and a marketer [sold] its list with its credit card numbers to another marketer without telling the consumers on that list that they sold the list of account numbers . . . that we believe at this table would agree . . . that this is a violation . . . We’ve said in our comments that we would agree to a ban on that. Legitimate marketers don’t do that. They don’t sell consumer credit card numbers for money."\(^4\)

Given that there is no legitimate reason to purchase unencrypted credit card numbers, the Commission believes there is a strong likelihood that telemarketers who engage in this practice will misuse the information in a manner that results in unauthorized charges to consumers. This conclusion is consistent with the Commission’s law enforcement experience.\(^5\) Consumers cannot avoid the injury because they likely are unaware that their credit card numbers have been purchased and that a telemarketer possesses that information when they receive a telemarketing call. In addition, there is no evidence on the record of any countervailing benefits to consumers or competition by trafficking in lists of account numbers. As a result, the Commission concludes that the practice of selling unencrypted lists of credit card numbers is likely to cause substantial and unavoidable consumer injury in the form of unauthorized charges without any countervailing benefits. Thus, the Commission has determined to add Section 310.4(a)(5). This provision is consistent with the basic prohibition in the GLBA, and in essence, extends the ban on this practice beyond financial institutions and ensures that all sellers and telemarketers subject to the TSR are prohibited from this practice.

The provision in § 310.4(a)(5) is not limited to compilation and disclosure of lists of account numbers. Rather, any disclosure (or receipt) of unencrypted account information violates the Rule, unless the disclosure is for purposes of processing a payment for a transaction to which the consumer has consented after receiving all disclosures and other protections of the Rule. A seller or telemarketer could not, for example, provide or receive account numbers on a time in order to circumvent this provision. Nor could a telemarketer obtain account information from consumers on behalf of one seller, and then retain it for sale or disclosure to another seller in another telemarketing campaign.\(^6\)

addition, given the evidence that preacquired account information involving encrypted account information can result in unauthorized charges (as discussed in more detail below), the Commission believes that there is an even greater likelihood of consumer injury when telemarketers have purchased consumers’ actual credit card numbers before contacting consumers about an offer.\(^7\) See, e.g., FTC v. Capital Club, No. 94-6335 (D.N.J. 1994). According to the FTC complaint in that case, two companies, National Media and Media Arts, which marketed products through infomercials, allegedly sold or rented their customer lists to third-party service companies that sold products and services such as memberships in shopping and travel clubs. The lists contained customers’ names, addresses, and telephone numbers, as well as their credit-card types, account numbers and expiration dates. The lists were provided to the service companies without the customers’ knowledge or authorization. Some of the Capital Club defendants’ roles included maintaining the lists, marketing them to the service companies, and conducting telemarketing calls on behalf of the service companies. According to the complaint, industry representatives at the June 2002 forum registered agreement that the Capital Club scenario would run afool of a ban on trafficking in consumer account information. See June 2002 Tr.

By “unencrypted,” the Commission means the actual account number, or lists of actual account numbers, or encrypted information with a key to unencrypt the data.\(^8\) “Consideration” is not limited to cash payment for a list of account numbers. “Consideration” can take a variety of forms, including receiving a percentage of every “sale” using the unencrypted account information.

This provision allows processing a properly obtained payment for goods or services pursuant to a transaction. In addition, pursuant to the USA PATRIOT Act’s expansion of the TSR to cover charitable solicitations, the provision also allows for the disclosure or receipt of a donor’s account number to process a payment for a charitable contribution pursuant to a transaction. By “transaction,” the Commission means a telemarketing transaction that complies with all applicable sections of the Rule, including new § 310.4(a)(6), discussed below, which prohibits any seller or telemarketer from causing a charge to be placed against a customer’s or donor’s account without that customer’s or donor’s express informed consent to the charge.\(^9\)

§ 310.4(a)(6) — Causing a charge to be submitted for payment without the consumer’s express informed consent

In the NPRM, the Commission proposed a prohibition on “receiving from any person other than the consumer or donor for use in telemarketing any consumer’s or donor’s billing information, or disclosing any consumer’s or donor’s billing information to any person for use in telemarketing.”\(^10\) This proposed provision was prompted by extensive comments during the Rule Review concerning the severity and the scope of harm to consumers related to...
preacquired account telemarketing. The proposal also arose from the Commission’s law enforcement experience in this area, as well as that of the states, which demonstrates the consumer harm that can result from this practice. The comments received in response to the NPRM, however, demonstrate that much preacquired account telemarketing does not necessarily give rise to consumer injury—specifically, unauthorized charges—and in fact may benefit consumers. With this in mind, the Commission has focused more narrowly on the tangible harm, and has crafted precise solutions to the specific abuses evident in instances involving preacquired account information.

Section 310.4(a)(6) of the amended Rule is one of a number of provisions that collectively address the harm caused by certain forms of preacquired account telemarketing. The scope of this section, however, extends beyond the context of preacquired account telemarketing to any instance where the seller or telemarketer causes a charge to be submitted for payment without first obtaining the express informed consent of the customer or donor to be charged, and to be charged using a particular account or payment mechanism. This provision, along with several new definitions (amended Rule § 310.2(o) “free-to-pay conversion,” § 310.2(t) “negative option feature,” and § 310.2(w) “preacquired account information”), a new provision requiring specific disclosures of material information in any telemarketing transaction involving a negative option feature (amended Rule § 310.3(a)(1)(vii)), and a new provision prohibiting misrepresentations regarding any material aspect of a negative option feature (amended Rule § 310.3(a)(2)(ix)), together are designed to address in a more narrowly-tailored manner the problem originally targeted by the blanket prohibition against receiving account information from any person other than the consumer or disclosing that information for use in telemarketing. The blanket prohibition proposed in the NPRM, and the issue of preacquired account telemarketing generally, received substantial comment. Consumer groups and law enforcement agencies strongly supported the proposal, citing continued evidence of substantial consumer injury resulting from abusive preacquired account telemarketing practices. Their comments strongly criticized a distinctive feature of preacquired account telemarketing—that is, that it fundamentally changes the customary bargaining relationship between seller and consumer by giving the seller the means to bill charges to the consumer’s account without the consumer divulging his or her account number to evidence consent to the transaction.

Industry commenters opposed the proposed provision, making a number of legal and factual arguments. Several industry members suggested that without specific legislative authority, the Commission would have no basis to prohibit the transfer of account information under the TSR. A few commenters argued that the Commission lacked record evidence sufficient to support the proposed prohibition. It bears noting that, although business and industry representatives acknowledged during the Rule Review that the practice of preacquired account telemarketing was quite common, maintaining that it was “very important” to them, they provided scant information that would help to quantify the benefits conferred by this practice or better explain how these benefits might outweigh the substantial consumer harm it can cause. By contrast, the record of consumer injury arising from preacquired account telemarketing scenarios was extensive at the time of the Rule Review.

Three arguments echoed throughout virtually all industry comment received in response to the NPRM. First, financial institutions, as well as other industry members, argued that the proposal was unnecessary or improper in light of the enactment of the GLBA and the various regulations thereunder. Specifically, these commenters argued that the issue of releasing account information for marketing purposes already has been dispositionsally addressed in the GLBA and its implementing regulations, with a different result from that proposed by the Commission in the TSR.

---

424 See 67 FR at 4512-14.
426 AARP-NPRM at 6-7; AARP-Supp. at 4; EPIC-NPRM at 9; Horick-NPRM at 1 (endorsement of EPIC’s NPRM comment); NAAG-NPRM at 30-41; NCLC-NPRM at 12-13. See also Covington-Supp. at 2-5; and NCL-NPRM at 6 (“Checks and money orders are no longer the most common methods of payment in telemarketing complaints made to the FTC. As NCL noted earlier, demand drafts, credit cards, debit cards, utility bills, and other types of accounts are increasingly used for payments. Sometimes consumers contend that they never provided their account numbers to the telemarketers; many of these complaints say they never even heard of the companies before they received their bills or bank statements.”).
427 NAAG-NPRM at 30; NCL-NPRM at 7. See also Covington-Supp. at 2-5.
428 ATA-NPRM at 18 (arguing that, because the Telemarketing Act made no reference to preacquired account telemarketing, the Commission cannot regulate it); Cendant-NPRM at 6 (similar argument to ATA); CCC-NPRM at 8; DMA-NPRM at 41-42 (arguing that the Commission lacks authority under Telemarketing Act to establish a law violation based on unfairness standard); ERA-NPRM at 20 (same argument as DMA); Green Mountain-NPRM at 29-31; Household Auto-NPRM at 5; PMA-NPRM at 16 (same argument as DMA and ERA). Contrary to these assertions, the Commission has the authority to determine that deceptive and abusive telemarketing acts or practices, pursuant to the Telemarketing Act. Moreover, the Commission has analyzed proposed Rule provisions addressing abusive practices under the FTC Act’s unfairness standard to narrow, not expand, the scope of activities brought under the purview of the statute. 67 FR at 4512-14. The unfairness standard requires that several specific elements be met before an act or practice may be deemed “unfair” under the FTC Act. See 15 U.S.C. 45(n) and discussion of § 310.4(a) above. If anything, the Commission is taking a more conservative approach in analyzing what constitutes an “abusive practice” than is required under the Telemarketing Act.
429 DMA-NPRM at 39, 41; Household Auto-NPRM at 5; MPA-NPRM at 21-22.
Commenters noted that the various privacy regulations under the GLBA prohibit sharing account numbers with telemarketers, but provide exceptions for encrypted information, sale of an entity’s own product through an agent, and co-branding and affinity programs. Thus, they argued, “since the proposed Rule fails to include these exceptions, it is inconsistent with the GLBA regulations, rendering the regulations irrelevant.”434 NAAG challenged these arguments, pointing out that the goals of the GLBA and the TSR are very different. NAAG expressed the view that the GLBA did not address the economic injury to consumers caused by preacquired account telemarketing, as it was focused on the privacy of account information; thus there is no conflict between the regulations, as they are aimed at different consumer harms.435

According to NAAG: The essential characteristic of [preacquired account telemarketing] is the ability of the telemarketer to charge the consumer’s account without traditional forms of consent. . . . The key is how the agreement between a company controlling access to a consumer’s account and the telemarketer who preacquired the ability to charge a consumer’s account affects the bargaining power between the telemarketer and the consumer. GLBA and implementing regulations do not address this relationship.

[Indeed as] a result of the [GLBA and implementing regulations] . . . vendors . . . can still send through charges to consumers’ accounts without consumers giving their credit card numbers. . . . This allows the same [preacquired account telemarketing] process to continue.436

Another common theme in industry comments on this issue was that the use of preacquired account information in telemarketing provides protection for consumers from identity theft perpetrated by individual telemarketing agents, and assures consumers’ concerns about divulging their account information.437 According to one such commenter, having consumers provide billing information over the telephone: will actually operate to introduce account numbers into the distribution chain. As customers provide account numbers, employees of telemarketers, processors and others in the distribution chain may have access to them. This practice will actually increase the chances for unauthorized use. . . . Sophisticated encryption processes keep account numbers out of circulation, and out of the hands of potential unauthorized users.438

A number of commenters pointed out that the GLBA implementing regulations assume the confidentiality benefits of transferring encrypted account information so that consumers would not have to provide such information during the marketing transaction.439 Other commenters noted some contradiction in industry’s identity theft argument, suggesting it is illogical to assert that a telemarketer cannot be trusted with a consumer’s account information, but that same telemarketer can be trusted to tell the seller truthfully that the consumer has provided express informed consent to the purchase, absent obtaining any part of the account number from the consumer.440 One such commenter further suggested that the best protection against individual telemarketers perpetrating identity theft is proper screening, training, monitoring and supervision of salespeople.441 In addition, the vast majority of non-cash transactions in both telemarketing and face-to-face retail situations entail the consumer’s disclosure of his or her account number to the seller’s representative.442 The record does not reveal any reason to support the notion that the risk of identity theft is any different in these transactions than in transactions where the seller has opted to make use of preacquired account information.

The third recurring theme in industry comments on this issue was the existence of a variety of efficiencies for both sellers and consumers. Among the most common examples cited was avoiding error in the transmission of account numbers from consumer to telemarketer, as either the consumer mistakes or the telemarketer miskeys the account number.443 Another benefit cited by numerous industry commenters was the reduction of time on the telephone to complete the transaction in the initial call,444 particularly during the telemarking call. NAAG-RR at 11 and Exs. 2 - 4 attached thereto; NAAG-RR at 32, and Ex. B attached thereto. See also Synergy Global-NPRM at 1-2 (comments from a former teleservices agent stating that he was encouraged by his superiors to “falsify sales in an attempt to artificially inflate the statistics compiled nightly”).

443 NCL-NPRM at 7.

444 NAAG-RR at 10. Indeed, NEMA described its own current procedures, with the United States Telemarketing Business Practices guidelines created for the retail energy market, whereby it obtains complete billing information directly from each customer as proof of the consumer’s intent to switch utility providers.

NEMA-NPRM at 8-9.

445 ABA-NPRM at 8; Assurant-NPRM at 3-4; BofA-NPRM at 7; Cendant-NPRM at 7; Cox-NPRM at 33; Metris-NPRM at 7; MPA-NPRM at 24 (“The Commission must also not underestimate the economic efficiencies such practices afford to businesses. . . . It is estimated that requiring consumers to retrieve and repeat their entire account number and verifying this information will increase the length of the call substantially, with one provider estimating an increase of 35 seconds and additional evidence suggesting that increase could be 60 seconds or more.”) See also Cox-NPRM at 33; Metris-NPRM at 6-7; NCTA-NPRM at 12; Tribune-NPRM at 8. MPA’s argument on this point is somewhat contradicted by its recommended alternative to the prohibition, express verifiable authorization, which involves additional expense, regardless of the method of express verifiable authorization selected. See MPA-NPRM at 26-29.

NCL challenged this proposition, suggesting that, on the contrary, “[t]elesmarketers to ask for [the consumer’s account number] would benefit both parties by helping to confirm a customer’s intention to make the purchase and the correct account that will be used for that purchase, reducing the potential for billing disputes later.”

NCL-NPRM at 7.
upsells. As DMA noted, “it is a significant benefit to consumers for second businesses in an upsell to obtain and use information such as address and credit card information. This eliminates the need for a consumer to have to restate the information just provided. Transfer of information in such scenarios with informed consent is inherently efficient for both the merchant and the consumer.”

The final benefit cited in several comments was that preacquired account telemarketing helped consumers by enabling them to avoid the inconvenience of having to pull out their wallets in order to make a purchase. This alleged benefit was sharply questioned by consumer advocates, who argued that whatever time savings or convenience may accrue from the use of preacquired account information does not offset the potential harm from its use. The record makes clear, in fact, that it is the very act of pulling out a wallet and providing an account number that consumers generally equate with consenting to make a purchase, and that this is the most reliable means of ensuring that a consumer has indeed consented to a transaction.

As it stated in the NPRM, the Commission still believes that whenever preacquired account information enables a seller or telemarketer to cause charges to be billed to a consumer’s account without the necessity of persuading the consumer to demonstrate his or her consent by divulging his or her account number, the customary dynamic of offer and acceptance is inverted. In such a case, what is customarily under the sole control of the consumer—whether to divulge one’s account number, thereby determining whether to accept the offer and how to pay for it—is now in the hands of the seller or telemarketer.

This reversal in the traditional paradigm is not one that is generally expected or favored by consumers, who consistently state that, as a general proposition, they do not believe it is or should be possible for them to be charged if they do not provide their account number in a transaction. The Commission understands this to mean that, generally speaking, consumers believe they ordinarily signal their consent to an offer by providing their account information to the seller or telemarketer. Although some commenters argue that this shift in the normal paradigm of offer and acceptance is, in and of itself, inherently unfair, the record overall suggests that, in general, it is not preacquired account telemarketing per se that is harmful, but rather the abuse of preacquired account information that causes the harm. Commenters persuasively note that there are many transactions involving preacquired account information that are beneficial to, indeed sometimes expected by, consumers. For example, as noted in the NPRM, “a customer who places

447 See 67 FR at 4513; AARP-Supp. at 4 (see note 449 above, describing survey showing that the majority of consumers do not believe their accounts can, or should, be charged by telemarketers without obtaining the account number directly from the consumer); June 2002 Tr. II at 131-32 (AARP); EPIC-NPRM at 9; NAAG-RR at 10-11; NAAG-NPRM 30-31; Vermont-Supp. at 2, 3. As Minnesota explained during the June 2002 Tr. II at 140: “In a preacquired situation, the consumer doesn’t have that control because we have shorthanded ways of signaling consent in our society. We aren’t many lawyers out there. Josh, who . . . has a trade school degree and comes home from a job and Esther is sitting on the couch at 85 years old doesn’t understand all this . . . They just get a call from somebody. What they know is I’ve got to sign my name . . . we’ve got to give somebody my credit card or in the context of a telemarketing transaction, I have to read my account number. I don’t have . . . I don’t have to pay cash, and what this does is by circumventing those forms of consent, it makes it impossible for consumers to control the transactions.”

448 See, e.g., June 2002 Tr. II at 131 (AARP) (“To imply that . . . it’s more inconvenient for the consumer to get their credit card than to have an unknown source debit their account without their knowledge, I don’t think any consumer would ever agree with that statement.”)

449 See, e.g., June 2002 Tr. II at 131 (AARP) (“By implying that . . . it’s more inconvenient for the consumer to get their credit card than to have an unknown source debit their account without their knowledge, I don’t think any consumer would ever agree with that statement.”)

450 See, e.g., June 2002 Tr. II at 131 (AARP) (“To imply that . . . it’s more inconvenient for the consumer to get their credit card than to have an unknown source debit their account without their knowledge, I don’t think any consumer would ever agree with that statement.”)

451 See 67 FR at 4513; AARP-Supp. at 4 (see note 449 above, describing survey showing that the majority of consumers do not believe their accounts can, or should, be charged by telemarketers without obtaining the account number directly from the consumer); June 2002 Tr. II at 131-32 (AARP); EPIC-NPRM at 9; NAAG-RR at 10-11; NAAG-NPRM 30-31; Vermont-Supp. at 2, 3. As Minnesota explained during the June 2002 Tr. II at 140: “In a preacquired situation, the consumer doesn’t have that control because we have shorthanded ways of signaling consent in our society. We aren’t many lawyers out there. Josh, who . . . has a trade school degree and comes home from a job and Esther is sitting on the couch at 85 years old doesn’t understand all this . . . They just get a call from somebody. What they know is I’ve got to sign my name . . . we’ve got to give somebody my credit card or in the context of a telemarketing transaction, I have to read my account number. I don’t have . . . I don’t have to pay cash, and what this does is by circumventing those forms of consent, it makes it impossible for consumers to control the transactions.”

452 See, e.g., EPIC-NPRM at 9; NAAG-NPRM at 30; NCL-NPRM at 6-7.

453 See, e.g., EPIC-NPRM at 9; NAAG-NPRM at 30; NCL-NPRM at 6-7.

454 See, e.g., EPIC-NPRM at 9; NAAG-NPRM at 30; NCL-NPRM at 6-7.

455 See, e.g., EPIC-NPRM at 9; NAAG-NPRM at 30; NCL-NPRM at 6-7.
quarterly orders for contact lenses by calling a particular lens retailer may provide her billing information in an initial call, with the understanding and intention that the telemarketer will retain it so that, in any subsequent call, the retailer has access to this billing information."454 Similarly, a customer who provides his account number to make a purchase in an initial telemarketing transaction may be frustrated to have to repeat that account information to consummate certain upsell transactions, particularly when the upsell is offered by the same telemarketer. In that case, there may be an expectation that the telemarketer will have retained, and be able to reuse, the account information the customer provided only moments ago.455 As another commenter pointed out during the Rule Review, the key to such transactions is the fact that the consumer makes the decision to supply the billing information to the seller, and understands and expects that the information will be retained and reused for an additional purchase, should the consumer consent to that purchase.456 The record shows that the specific harm resulting from the use of preacquired account telemarketing is manifested in unauthorized charges.457 These may appear not only on consumers' credit card or checking accounts, but also on mortgage statements and other account sources.

---

454 FR at 4513.
455 See, e.g., June 2002 Tr. II at 196 (Time) ("[T]he catalog clients that we deal with that are . . . selling our magazines on our behalf . . . tell us that the cost would be less of sales of the catalog products because the customers would just be so annoyed about having to give the credit card number again that they just gave.").
456 46 FR at 4513, n.196.
457 In its supplement comment, Minnesota argued that evidence gathered in its law enforcement actions showed that consumers consistently stated that they had unauthorized charges arising out of preacquired account telemarketing, particularly when the offers involved "free-to-pay conversion" features:

"The data we have reviewed in our investigations uniformly supports our impression that underlying the high cancellation rates with preacquired account telemarketing is consumer sentiment that the charges were unauthorized. In addition to the survey of Fleet Mortgage Corporation customer service representatives presented in the prior NAAG Comments [see NAAG-NPRM at 31-32], an investigation of a subsidiary of another of the nation's largest banks revealed a similar pattern. During a thirteen month period, this bank processed 173,543 cancellations of membership clubs and insurance policies sold by preacquired account sellers that the banks canceled, 95,573, or 55 percent, of the consumers stated unauthorized billing as the reason for their request to remove the charge. The other primary reason given for canceling (by 56,794 customers, or 32% of the total) was a general "request to cancel" code that may have also included many consumers claiming unauthorized charges." Minnesota-Supp. at 4.

458 NAAG-NPRM at 31 ("[Fleet Mortgage Corporation, for instance, entered into contracts in which it agreed to charge its customers-homeowners for membership programs and insurance policies sold using preacquired account information. If the telemarketer told Fleet that the homeowner had consented to the deal, Fleet added the payment to the homeowner’s mortgage account.")


464 See discussion and note 400 above of § 310.4 generally, and 67 FR at 4511, regarding the Commission’s determination that, in specifying practices as abusive when they do not directly implicate the privacy concerns embodied in the Telemarketing Act, it will demand that the practice meet the criteria for unfairness codified in §5(j) of the FTC Act, 15 U.S.C. 45(2).

Section 310.3(a)(4) specifies that it is a deceptive practice to make "a false or misleading statement to induce any person to pay for goods or services."
the telemarketer for payment purposes (not for purposes of “identification,” or to prove “eligibility” for a prize or offer, for example). But in most instances, the Commission leaves it up to sellers to determine what procedures to employ in order to meet the requirement for obtaining express informed consent. As explained below, however, in certain particularly problematic scenarios, the Commission does impose specific procedures.

Having treated the overall problem of unauthorized billing in new § 310.4(a)(6), the Commission has included additional subsections to address problems particularly associated with preacquired account telemarketing. As noted in the NPRM, evidence shows that, at least to date, unquestionably the greatest risk of harm (i.e., unauthorized charges) to consumers is associated with telemarketing involving the combination of preacquired account information with an offer involving a “free-to-pay conversion.”467 NAAG describes a “free-to-pay conversion” offer (which it refers to as an “opt-out free trial” offer) as the “constant companion” of the preacquired account telemarketer in state law enforcement efforts to date.468 Indeed, as of the date

467 The Commission has inserted a definition of “free-to-pay conversion” at § 310.20 of the amended Rule, which states that “free-to-pay conversion” means: “in an offer or agreement to sell or provide any goods or services, a provision under which a customer receives a product or service for free for an initial period and will incur an obligation to pay for the product or service if he or she does not take affirmative action to cancel before the end of that period.” See discussion of § 310.20 of above.

468 NAAG-NPRM at 32. Accord AARP-NPRM at 6. CCC attempted to counter this finding by presenting the results of a survey, conducted on behalf of MemberWorks, in April of 2001 by the Luntz Research Companies (the “Luntz Survey”). CCC-NPRM at 10; June 2002 Tr. II at 127; MemberWorks-Supp. passim. In the survey, the caller told the consumer that the caller would read an offer, and would ask for the consumer’s reaction. So, it was clear to the consumer that he or she was not buying anything, and instead that the consumer should listen carefully to the terms of the offer so that he or she could answer the caller’s questions. Then, the caller read a script involving a “free-to-pay conversion” feature (the script was not submitted with the survey results). The caller then asked several questions about what the consumer just heard. CCC argued that the results of this survey showed that 85 percent of the respondents said the billing methods were understandable, and that the seller was acting fairly. CCC-NPRM at 10. Examination of the Luntz survey in greater detail suggests that the survey does little to support CCC’s assertions. First, in fact, none of the respondents said that the billing methods were understandable. According to the survey, 52 percent of the respondents said the billing methods were “mostly” understandable, while 33 percent said they were “somewhat” understandable, and 13 percent said they were not understandable. This means that at least 46 percent of the respondents did not even “mostly” understand the way in which they would be billed after listening carefully to a sales offer involving preacquired account information and a “free-to-pay conversion” feature. See MemberWorks-Supp. at 1. In addition, after asking whether the billing methods were understandable, the callers asked two questions structured in ways that strongly suggested the desired result; first they asked, “And if you agree to join, and receive a welcome kit with all of the rules in writing, who is responsible if you forget to cancel and are billed,” then “If the company tells you three times on the telephone call and then tells you twice in writing that you can cancel your program membership anytime, but if you don’t cancel, you will be charged, is company acting fairly or not?” Id. (emphasis added). Moreover, regardless of the merits of the survey results, they do little to offset the extensive evidence of consumer injury from this practice, the continuing flow of complaints into the offices of consumer groups and law enforcement officials at both the state and federal levels, and the AARP survey evidence of consumer perceptions and opinions about preacquired account telemarketing. See notes 424-25 and 449 above.


471 Thus, the assertion of some commenters that “the potential for abuse of preacquired information to where the [account] information was obtained does not exist in upsells,” see, e.g., ANA-NPRM at 6, is not supported by the record, at least in the context of offers with a “free-to-pay conversion” feature, as was the case in Smolev.

472 Unfortunately, the argument made by several commenters that the abusive use of preacquired account information is limited to a discrete number of bad actors (see ATA-NPRM at 19; ERA-NPRM at 16; MPA-NPRM at 23-24) is not supported by the record. Law enforcement actions alleging injuries caused by abuses of preacquired account telemarketing have been brought against well-known, national companies and financial institutions, including but not limited to: U.S. Bancorp, Fleet Mortgage Corp., MemberWorks, Ticketmaster, and Time. See NAAG-NPRM at 30, n.73.

473 NAAG recommended prohibiting the use of preacquired account information, even if that information was previously obtained by the same seller or telemarketer from the consumer, in solicitations involving a “free-to-pay conversion” feature. NAAG-NPRM at 39. The Commission declines to adopt this recommendation at this time, and is confident that the solution adopted will provide consumers the information and command over these transactions they need to protect themselves from unauthorized charges.

474 See note 449 above. Moreover, industry’s argument that there is no evidence of problems where there is a transfer of account information...
must be clear that the customer is providing that account number to authorize a purchase. This means that, at a minimum, the disclosures required in § 310.3(a)(1) in general, and also § 310.3(a)(1)(vii) in particular, must be provided to the customer before the customer provides express informed consent—which, in the case of preacquired account telemarketing and a “free-to-pay conversion” feature, means before the customer provides account information and express agreement to be charged for the goods or services on the Commission’s account provided. It must also be clear that the customer agrees that the charge be placed on the account whose digits the customer provided. The Commission expects that, to comply with this requirement, the seller or telemarketer shall expressly identify the account to be charged, and inform the customer that it possesses the customer’s account number already, or has the ability to charge that account without obtaining the full account number from the customer.

Finally, the Commission is requiring that the entire sales transaction be recorded. The record evidence shows that it is not adequate in offers involving both preacquired account information and “free-to-pay conversions” to record a portion of the call that allegedly includes some or all of the required disclosures regarding cost and payment. Often, what law enforcement efforts have gleaned is that the necessary disclosures are grouped together during the “verification” process. At the end of a lengthy telemarketing pitch during which consumers are led to reasonably believe that they are not committing to a purchase. As one commenter explained:

[C]onsumers are led to believe that they are agreeing to accept materials in the mail, preview a program along with a free gift, or the like. As one telemarketer explicitly stated in its scripts: ‘we’re sending you the information through the mail, so you don’t have to make a decision over the phone.’ Only at the tail end of a lengthy call does the telemarketer obliquely disclose that the consumer’s preacquired account will be charged. By this time, many consumers have already concluded that they understood the deal to require their consent only after they review the mailed materials. . . . Preacquired account telemarketing verification taping typically is preceded by steps suggesting that the taping is ‘to prevent clerical error’ and critical information is revealed in ways that many consumers will not grasp at the end of a conversation.476

Thus, not only the material terms provided the consumer, but also the context and manner in which the offer is presented are vital to determining that the consumer’s consent is both express and informed. Moreover, consumers’ confusion about the nature of “free-to-pay conversion” offers—particularly in the context of preacquired account telemarketing—is evidenced by the steady stream of complaints, as well as evidence uncovered in law enforcement actions by the states.477 Further, the record contains compelling evidence of cancellation patterns for membership programs offered on a “free-to-pay conversion” basis in preacquired account telemarketing transactions. As explained by the Minnesota Attorney General,

[c]onsumers canceling within the 30-day free trial period likely indicate that [they] understood (either during the phone call or with the follow-up material or both) the terms of the deal. If all consumers understood the free trial offer, one would expect to see a significant cancellation rate within the 30 day free trial offer period followed by a scattered pattern of later cancellations. The data we have reviewed [from two financial institutions] of cancellation dates relative to date of enrollment for Minnesota consumers charged by the institutions as a result of preacquired account telemarketing transactions involving a “free-to-pay conversion” suggest this is not the typical pattern. . . . The overall pattern of [the data from each institution] is strikingly similar. The largest concentration of cancellations occurs immediately after the free trial period but coincident with the first account charge for the service. The cancellation rate in the free trial period is less than half the cancellation rate in the 31-90 day period, when consumers have been billed for the service. This result is consistent with the pattern of consumer complaints alleging unauthorized charges received by Attorneys General and with the data suggesting that most consumers cancel these charges because they believe they are unauthorized.478

Consequently, to ensure that the consent provided by the consumer is not only “express” but is also “informed” in this limited, but problematic, context of “free-to-pay conversion” features in preacquired account telemarketing offers, the amended Rule requires that an audio recording of the entire transaction, from start to finish, be created and maintained. A handful of commenters argued that such audio recording would be prohibitively expensive, particularly in the inbound context, where some sellers and telemarketers have not traditionally recorded the telemarketing calls.479

Given the narrow category of calls to which this requirement applies, and the rapidly growing use of inexpensive and efficient digital audio recording technology,480 the Commission believes that this requirement will not pose a significant burden to sellers and telemarketers who freely choose to market their goods or services using a “free-to-pay conversion” feature and preacquired account information. Moreover, the record is compelling that any incremental costs to industry of these requirements are likely outweighed by the benefit to consumers of curtailing the practice as it is currently employed in the marketplace.

In addition to the requirements noted above, in any telemarketing transaction involving preacquired account information (but not a “free-to-pay conversion” feature), § 310.4(a)(6)(ii) specifically requires that the seller or telemarketer (1) at a minimum, identify the account to be charged with participating in these telemarketing campaigns, however, belies the purported conclusions of this survey. See note 457 above.

[C]:onsumers canceling within the 30-day free trial period likely indicate that [they] understood (either during the phone call or with the follow-up material or both) the terms of the deal. If all consumers understood the free trial offer, one would expect to see a significant cancellation rate within the 30 day free trial offer period followed by a scattered pattern of later cancellations. The data we have reviewed [from two financial institutions] of cancellation dates relative to date of enrollment for Minnesota consumers charged by the institutions as a result of preacquired account telemarketing transactions involving a “free-to-pay conversion” suggest this is not the typical pattern. . . . The overall pattern of [the data from each institution] is strikingly similar. The largest concentration of cancellations occurs immediately after the free trial period but coincident with the first account charge for the service. The cancellation rate in the free trial period is less than half the cancellation rate in the 31-90 day period, when consumers have been billed for the service. This result is consistent with the pattern of consumer complaints alleging unauthorized charges received by Attorneys General and with the data suggesting that most consumers cancel these charges because they believe they are unauthorized.478

—

Note 457: See Illinois-NPRM at 2 (In Illinois’ lawsuit against Blitz Media, Inc., the attorney general initially received 146 consumer complaints. After initiating the litigation, the Illinois attorney general found that approximately 45,000 Illinois consumers had been enrolled in Blitz Media’s buyers club, but only about 8,000 of them remain “active” members of the buyers club, since the rest had discovered these charges and cancelled the membership, or initiated a chargeback, claiming the charge was unauthorized.). 478 Minnesota-Supp. at 4-5. One industry commenter submitted the details of a telephone survey, which it asserted showed that consumers do, in fact, understand the terms of these “free-to-pay conversion” features. See note 469 above. The data received in litigation from the institutions participating in these telemarketing campaigns, however, belies the purported conclusions of this survey. See note 457 above.

476 Id.

477 See Illinois-NPRM at 2 (In Illinois’ lawsuit against Blitz Media, Inc., the attorney general initially received 146 consumer complaints. After initiating the litigation, the Illinois attorney general found that approximately 45,000 Illinois consumers had been enrolled in Blitz Media’s buyers club, but only about 8,000 of them remain “active” members of the buyers club, since the rest had discovered these charges and cancelled the membership, or initiated a chargeback, claiming the charge was unauthorized.)

478 Minnesota-Supp. at 4-5. One industry commenter submitted the details of a telephone survey, which it asserted showed that consumers do, in fact, understand the terms of these “free-to-pay conversion” features. See note 469 above. The data received in litigation from the institutions participating in these telemarketing campaigns, however, belies the purported conclusions of this survey. See note 457 above.
sufficient specificity for the customer or donor to understand what account will be charged, and (2) obtain from the customer or donor his or her express agreement to be charged for the goods or services and to be charged using the account number identified during the transaction. Again, the Commission intends this to mean that the telemarketer expressly inform the customer that the seller or telemarketer already has the number of the customer’s specifically identified account or has the ability to charge that account without getting the account number from the customer.

The Commission has taken a targeted approach in the amended Rule, focusing on the tangible harm caused by the practices identified as problematic in the rulemaking proceeding. It bears noting, however, that the Commission recognizes preacquired account telemarketing as an emerging practice, one that will receive close attention on the tangible harm caused by the miserly of preacquired account information. It is unclear what these commenters mean by “miserly” in this context, as they all acknowledged that sellers and telemarketers be permitted to use any of the three existing avenues for achieving express verifiable authorization, including providing consumers a written confirmation after terminating the telephone call. In the context of “free-to-pay conversions,” the record shows, in no uncertain terms, that disclosures are not sufficient to prevent widespread consumer injury. Most sellers and telemarketers have been telling consumers at some point in the conversation, in greater or lesser detail, that they will be charged at some point for the goods or services being offered on a “free-to-pay conversion” basis; but, as noted above, these disclosures come late in the conversation, and do not resonate with consumers who understand “free” to mean “free” and that to obliterate oneself to purchase something, the buyer must provide a payment mechanism to the seller. Often, these disclosures come in writing in a “membership package” sent to the consumer some time after the call. Law enforcement experience has shown that these disclosures are meaningless to consumers—either never receive the packets, or assume they are junk mail and discard them. Moreover, in any telemarketing transaction, but most especially in preacquired account telemarketing, it is imperative that the seller or telemarketer ensure that the consumer actively, and unequivocally, provides his or her consent to be charged, and to be charged using a particular payment mechanism. The Commission has determined, therefore, that prohibiting unauthorized charges, and laying out what is required to obtain express informed consent in certain circumstances, is the most appropriate solution not only to the harm caused by preacquired account telemarketing abuses, but also by other exploitative billing methods in telemarketing.

§ 310.4(a)(7) — Failing to transmit caller identification information

Section 310.4(a)(7) of the amended Rule addresses transmission of caller identification (“Caller ID”) information. This section prohibits any seller or telemarketer from “failing to transmit or cause to be transmitted the telephone number, and, when made available by the telemarketer’s carrier, the name of the telemarketer, to any caller identification service in use by a recipient of a telemarketing call.” A proviso to this section states that it is not a violation to substitute the actual name of the seller or charitable organization on whose behalf the call is placed for the telemarketer’s name, or to substitute the seller’s customer service number or the charitable organization’s donor service number that is answered during regular business hours for the number the telemarketer is calling from or the number billed for making the call. Full compliance with the Caller ID provision will be required by January 29, 2004.

The record includes several key principles supporting the Commission’s decision to adopt this approach to Caller ID information. First, transmission of Caller ID information is not a technical impossibility, as some commenters had argued or implied. Second, telemarketers are able to transmit this information at no extra cost, or minimal cost. Third, consumers will receive substantial privacy protection as a result of this provision. Fourth, consumers and telemarketers will both benefit from the increased accountability in telemarketing that will result from this

Other Recommendations

Other than those commenters who suggested deleting the prohibition entirely, industry commenters’ primary recommendation was to substitute the express verifiable authorization provision of § 310.3(a)(3), or some variation on a disclosure and “consent” requirement, for the proposed blanket prohibition on the transfer of billing information. The general theme was that disclosures and “consent” were sufficient to remedy the harm being caused consumers by the misuse of preacquired account information. It is unclear what these commenters mean by “consent” in this context, as they all acknowledged that sellers and telemarketers be permitted to use any of the three existing avenues for achieving express verifiable authorization, including providing consumers a written confirmation after terminating the telephone call. In the context of “free-to-pay conversions,” the record shows, in no uncertain terms, that disclosures are not sufficient to prevent widespread consumer injury. Most sellers and telemarketers have been telling consumers at some point in the conversation, in greater or lesser detail, that they will be charged at some point for the goods or services being offered on a “free-to-pay conversion” basis; but, as noted above, these disclosures come late in the conversation, and do not resonate with consumers who understand “free” to mean “free” and that to obliterate oneself to purchase something, the buyer must provide a payment mechanism to the seller. Often, these disclosures come in writing in a “membership package” sent to the consumer some time after the call. Law enforcement experience has shown that these disclosures are meaningless to consumers—either never receive the packets, or assume they are junk mail and discard them. Moreover, in any telemarketing transaction, but most especially in preacquired account telemarketing, it is imperative that the seller or telemarketer ensure that the consumer actively, and unequivocally, provides his or her consent to be charged, and to be charged using a particular payment mechanism. The Commission has determined, therefore, that prohibiting unauthorized charges, and laying out what is required to obtain express informed consent in certain circumstances, is the most appropriate solution not only to the harm caused by preacquired account telemarketing abuses, but also by other exploitative billing methods in telemarketing.

§ 310.4(a)(7) — Failing to transmit caller identification information

Section 310.4(a)(7) of the amended Rule addresses transmission of caller identification (“Caller ID”) information. This section prohibits any seller or telemarketer from “failing to transmit or cause to be transmitted the telephone number, and, when made available by the telemarketer’s carrier, the name of the telemarketer, to any caller identification service in use by a recipient of a telemarketing call.” A proviso to this section states that it is not a violation to substitute the actual name of the seller or charitable organization on whose behalf the call is placed for the telemarketer’s name, or to substitute the seller’s customer service number or the charitable organization’s donor service number that is answered during regular business hours for the number the telemarketer is calling from or the number billed for making the call. Full compliance with the Caller ID provision will be required by January 29, 2004.

The record includes several key principles supporting the Commission’s decision to adopt this approach to Caller ID information. First, transmission of Caller ID information is not a technical impossibility, as some commenters had argued or implied. Second, telemarketers are able to transmit this information at no extra cost, or minimal cost. Third, consumers will receive substantial privacy protection as a result of this provision. Fourth, consumers and telemarketers will both benefit from the increased accountability in telemarketing that will result from this

482 ABA-NPRM at 8-9; ABIA-NPRM at 4; CMG-NPRM at 9-10; MBNA-NPRM at 6.
483 See, e.g., DMA-NPRM at 39-40 (specific to upselling) (the Commission “should instead require that notice of transfer of billing information be disclosed to the consumer and that consent be given by the consumer prior to the transfer”).
484 See ATA-NPRM at 20; ATA-Supp. at 5-6; CCC-NPRM at 11-12; ERA-NPRM at 24-25; ERA/PMA-Supp. at 11-15; ITC-NPRM at 5; MPA-NPRM at 26-29; MPA-Supp. at 5-6; NATN-NPRM at 3 (Supporting ERA Guidelines and recommendation); Noble-NPRM at 3 (same); NSDI-NPRM at 3 (same); PMA-NPRM at 19 (same). See also Associations-Supp. at 6.
485 Review of taped verifications obtained as evidence in the Commission’s law enforcement actions and in similar state actions convincingly demonstrates the inadequacy of disclosures in this context.
486 See NCL-NPRM at 7 (“Merely requiring telemarketers to disclose that they have already obtained the billing account information from another source or that they may share that information with other marketers would not provide consumers with adequate protection from abuse. Express verifiable authorization to use the billing account information is not enough in these instances because it comes into play after the fact: it does not give consumers prior knowledge of or control over who has their account information.”).
provision. Fifth, law enforcement groups will benefit from a vital new resource from the required transmission of Caller ID information in telemarketing. Background. The original Rule did not address the issue of Caller ID, or the feasibility or desirability of requiring telemarketers to transmit Caller ID information. During the Rule Review, however, the Commission received numerous comments from consumers and others expressing frustration about telemarketers’ routine failure to transmit Caller ID information. Commenters complained that when telemarketers called, consumers’ Caller ID devices would show a phrase like “unknown,” “out of area,” or “unavailable,” instead of displaying the name and telephone number of the telemarketer or seller on whose behalf the call was made. Based on the Rule Review record, the Commission proposed in the NPRM to prohibit blocking, circumventing, or altering the transmission of Caller ID information.

In support of this proposal, the Commission discussed in the NPRM the benefits that accrue to consumers from transmission of Caller ID information and the technical considerations implicated by transmission of this information. Consumers benefit because Caller ID information allows them to screen out unwanted callers and identify companies that have contacted them so that they can place “do not call” requests to those companies. These features of Caller ID enable consumers to protect their privacy and are clearly within the ambit of the Telemarketing Act’s mandate, set forth in 15 U.S.C. § 6302(a)(3)(A), to prohibit telemarketers from undertaking a pattern of unsolicited telephone calls which a reasonable consumer would consider coercive or abusive of their right to privacy. The fact that consumers greatly value the privacy protection provided by receipt of Caller ID information is evidenced by the fact that, as of the year 2000, nearly half of all Americans subscribed to a Caller ID service. The Commission noted in the NPRM the conflict in opinion during the Rule Review regarding the feasibility of requiring Caller ID transmission by telemarketers. Based on its assessment of the information on the record at the close of the Rule Review, the Commission expressed its uncertainty that telemarketers using “T-1” trunk lines could transmit Caller ID information, and the Commission therefore did not at that time propose to mandate such transmission. The NPRM also acknowledged telemarketers’ argument that, even if they could transmit Caller ID information, they would still face the challenge of transmitting a number that would be useful to consumers.

The Commission received numerous comments in response to the NPRM’s discussion of Caller ID. Some industry representatives simply posited that transmission of Caller ID information was not possible or argued that it was possible to transmit a telephone number, but that it was impossible or prohibitively expensive to transmit a telephone number that consumers could use to call the telemarketer that had called them. Consumer groups and law enforcement representatives urged the Commission not to accept telemarketers’ claims that mandatory Caller ID transmission is impossible or prohibitively expensive without carefully examining the technical considerations involved. A number of consumers expressed frustration with transmission. DMA-NPRM at 48-49. However, the NPRM clearly explains that the harm to consumers that arises from failure to transmit Caller ID information falls within the areas of abuse that the Telemarketing Act explicitly aimed to address. DMA-NPRM at 16. The Commission therefore rejects DMA’s “lack of authority” argument.

Some telemarketers asserted that the telephone number that would likely be displayed on consumers’ Caller ID services would be the telemarketer’s central switchboard or trunk exchange, rather than a customer service number or a number where consumers could submit a “do not call” request. The Commission also asked whether telemarketers might one day permit the transmission of full Caller ID information when the caller uses a trunk line or PBX system. Id. at 4538.

67 FR at 4514. DMA argued that the Commission lacks authority to require Caller ID information. See, e.g., Robert Hawrylak (Msg. 3382); Carl Wallander (Msg. 861); George Kapnas (Msg. 2243); Tom Kaufmann (Msg. 2433); Bob Schmitt (Msg. 3494); Bradley Davis (Msg. 3890); Torey Face (Msg. 1744). In all, more than 200 consumers stated that the Commission’s proposed approach in the NPRM was not adequate to protect consumers’ right to privacy.

Technical feasibility of mandatory transmission of Caller ID information. The rulemaking record as a whole shows that telemarketers’ failure to transmit Caller ID information need not be the result of their blocking its transmission or some other affirmative measure on their part. Rather, the record indicates that non-transmission

489 Make-A-Wish-NPRM at 6; Associations-Supp. at 2; DialAmerica-Supp. at 2.
490 Make-A-Wish-NPRM at 6; McLaren-NPRM at 2; NACAN-PNRM at 9; FEDS-PNRM at 4; FST-PNRM at 2-3; TRA-NPRM at 11.
491 See, e.g., Barassi-RR at 1; Bell Atlantic-RR at 6; Blake-RR at 1; Collision-RR at 1; Lee-RR at 1; LeQuang-RR at 1; Mack-RR at 1; Sanford-RR at 1.
492 See, e.g., Barassi-RR at 1; Blake-RR at 1; Collision-RR at 1; Lee-RR at 1; LeQuang-RR at 1; Mack-RR at 1; Sanford-RR at 1.
493 The Caller ID provision is found at § 310.4(d)(7) of the proposed Rule; discussion of the proposed Rule provision is found at 67 FR at 4514-16.
49467 FR at 4514-16. The Commission also asked whether telemarketers might one day permit the transmission of full Caller ID information when the caller uses a trunk line or PBX system. Id. at 4538.
495 67 FR at 4514. DMA argued that the Commission lacks authority to require Caller ID information. See, e.g., Robert Hawrylak (Msg. 3382); Carl Wallander (Msg. 861); George Kapnas (Msg. 2243); Tom Kaufmann (Msg. 2433); Bob Schmitt (Msg. 3494); Bradley Davis (Msg. 3890); Torey Face (Msg. 1744). In all, more than 200 consumers stated that the Commission’s proposed approach in the NPRM was not adequate to protect consumers’ right to privacy.

500 Make-A-Wish-NPRM at 6; Associations-NPRM at 3; BofA-NPRM at 7; CBA-NPRM at 10; Comcast-NPRM at 4; DMA-NPRM at 48; ERAS-PNRM at 48-49; Green Mountain-NPRM at 27; ITC-NPRM at 3; Lennox-NPRM at 6; MPA-NPRM at 49; NAA-NPRM at 17; Nextel-NPRM at 24-25; Synergy Solutions-NPRM at 3-4; Tribune-NPRM at 10; VISA-NPRM at 13. In the NPRM, the Commission specifically asked, among other things, whether it would “be desirable to propose a date in the future by which all telemarketers would be required to transmit Caller ID information.” 67 FR at 4538.
501 DialAmerica-NPRM at 24; DialAmerica-Supp. at 10; June 2002 Tr. II at 83 (DialAmerica).
502 Synergy Solutions-NPRM at 3. See also Nextel-NPRM at 25; Nohl-NPRM at 4; NATN-NPRM at 4; NSDI-NPRM at 4; ITC-NPRM at 3.
503 AFSA-NPRM at 19; Comcast-NPRM at 4; CBA-NPRM at 10; Cox-NPRM at 37; Household Bank-NPRM at 16; Nextel-NPRM at 25; Thayer-NPRM at 5; Wells Fargo-NPRM at 3. But see EPIC-NPRM at 11, 13-14; McLaren-NPRM at 1; Patrick-NPRM at 2-3; Thayer-NPRM at 5 (Commenter raises issue of whether Internet telephone users could transmit Caller ID information. There is nothing in the record indicating that telemarketers use Internet telephony. If they do use such technology, they are required to comply with the Commission’s mandate, set forth in 15 U.S.C. § 6302(a)(3)(A), to prohibit telemarketers from undertaking a pattern of unsolicited telephone calls which a reasonable consumer would consider coercive or abusive of their right to privacy.

505 See, e.g., Robert Hawrylak (Msg. 3382); Carl Wallander (Msg. 861); George Kapnas (Msg. 2243); Tom Kaufmann (Msg. 2433); Bob Schmitt (Msg. 3494); Bradley Davis (Msg. 3890); Torey Face (Msg. 1744). In all, more than 200 consumers stated that the Commission’s proposed approach in the NPRM was not adequate to protect consumers’ right to privacy.
506 506
may transmit any number associated with the telemarketer that allows the called customer to identify the caller. This includes a number assigned to the telemarketer by its carrier, the specific number from which a sales representative placed a call, or a number used by the telemarketer’s carrier to bill the telemarketer for a given call. In the alternative, a telemarketer may transmit the seller’s customer service number or the charitable organization’s donor service number, provided that this number is answered during regular business hours.

Not every telemarketer will need to follow DialAmerica’s approach for transmission of Caller ID information.

The Commission believes that doing so is not cost-prohibitive. Because they are not compelled to do this, the Commission believes they currently transmit Caller ID information.509 DialAmerica’s carrier assigns a telephone number to each of DialAmerica’s call centers. When a sales representative from a particular call center calls a consumer, that call center’s assigned telephone number is transmitted to the consumer’s Caller ID service. SBC, a large provider of common carriage services, provided support for the availability of DialAmerica’s model.510 DialAmerica stated at the June 2002 Forum that it does not pay its carrier any extra amount to transmit this assigned telephone number to consumers.511 The Commission believes the argument by telemarketers that required transmission of Caller ID information would be impossible or prohibitively expensive is based substantially on an erroneous supposition that telemarketers would be required to transmit the specific telephone number from which a sales representative placed a given call. The Commission’s citation to DialAmerica’s approach should make it clear that the Commission is not requiring this level of specificity. Under the amended Rule’s Caller ID provision, telemarketers company through a “trunk.”515 The more modern type of trunk used in telemarketing is an “Integrated Services Digital Network-PRI” trunk.516 It is clear from the record that a telemarketer using such an “ISDN-PRI” trunk has no difficulty in transmitting Caller ID information to a consumer.517

The other kind of trunk used in telemarketing is a “T-1” trunk.518 Telemarketers using a “T-1” trunk are perhaps most likely to follow DialAmerica’s model by having their carriers assign a telephone number to the trunk for transmission to consumers’ Caller ID services. This is true because, in contrast to “ISDN-PRI” trunks, “T-1” trunks do not routinely transmit the caller’s telephone number to Caller ID devices.520 Some telemarketers stated that it may be technically feasible (but costly) for them to upgrade, reconfigure, or replace their PBX switches or their “T-1” trunks in order to transmit a specific sales representative’s telephone number.521 However, the Commission’s approach does not require this level of precision. Consequently, telemarketers will not have to absorb the expense associated with achievement of this level of precision.

Regardless of telemarketers’ calling systems and carriers’ ability to assign a telephone number to a telemarketer’s call center, there are occasions in which Caller ID information does not reach the called consumer even when telemarketers arrange for the transmission of that information.522 Two situations would seem to be outside the control of the telemarketer. First, the route traveled by a call could pass through a switch that lacks Caller ID functionality, essentially dropping

509 EPIC-NPRM at 11; TRA-NPRM at 11. As is discussed below, non-transmission may also result from errors in telephone companies’ equipment.
509 DialAmerica-Supp., Att. A at 1-2. See also June 2002 Tr. II at 81-83. According to one of DialAmerica’s written comments: “Caller ID information can be delivered over T-1’s today. We have been doing it for over two years. If the Commission does not mandate the delivery of Caller ID information, those who want to support the Commission to believe that it cannot be done will have been successful.” DialAmerica-Supp. at 10. See also DialAmerica-NPRM at 25 (“The conclusion stated in the NPRM . . . that trunk or T-1 lines will only display a term like “unavailable” is not correct.”) and NAAG-NPRM at 45 (“We have been advised that all trunk lines . . . should be capable of supporting Caller ID.”).
509 See SBC-Supp. at 8-10; June 2002 Tr. II at 80-83. See also Cox-NPRM at 37; DMA-NPRM at 49; Green Mountain-NPRM at 28; Associations-Supp. at 7.
509 June 2002 Tr. II at 83 (DialAmerica). Moreover, other moderate-sized telemarketers reported that they currently transmit Caller ID information. Because they are not compelled to do this, the Commission believes that doing so is not cost-prohibitive. See Angis-NPRM at 5; Lenox-NPRM at 6. See also ANA-NPRM at 6; ARDA-NPRM at 6. But see ATA-Supp. at 18.
510 See, e.g., Nextel-NPRM at 25 (proprietary dialers); DialAmerica-Supp., Att. A at 1 (regular trunk groups provided by carrier); Fiber Clean-NPRM at 1 (telemarketers working from home).
511 See, e.g., Sytel-NPRM at 8 (arguing that trunks, or “DS1” trunks, this kind of trunk is essentially a collection of “T-1” trunks; as such, it operates in a manner similar to a T-1 for purposes of Caller ID functionality. See http://www.granitestatetelephone.com/sfb_centrex.html.
512 SBC-Supp. at 8-9. An alternative to PBX available to telemarketers (but not widely used) is called “Centrex.” Telemarketers using Centrex connect to their telephone company using a telephone line; telemarketers using a PBX connect to their telephone company using a trunk. Because Centrex users use a line rather than a trunk, telemarketers using Centrex (like telemarketers using a “T-1” trunk) have no difficulties transmitting Caller ID information. See http://www.granitestatetelephone.com/sfb_centrex.html.
513 June 2002 Tr. II at 76-77 (SBC).
514 See EPIC-NPRM at 12; SBC-Supp. at 8-9; June 2002 Tr. II at 80-81 (SBC).
516 The SBC-Supp. at 8-9. Some telemarketers may use a “T3” or “DS3” trunk. This kind of trunk is essentially a collection of “T-1” trunks; as such, it operates in a manner similar to a T-1 for purposes of Caller ID functionality. See http://www.hal-pc.org/~ascend/MaxTNT/hwinst/inttt.htm.
517 SBC-Supp. at 8-9.
518 Synergy Solutions-NPRM at 4; TeleDirect-NPRM at 3. But see EPIC-NPRM at 11-12.
519 See, e.g., ABA-NPRM at 9; Chicago ADM-NPRM at 1; IMC-NPRM at 9; Lenox-NPRM at 6; TeleDirect-NPRM at 3; Associations-Supp. at 7; ATA-Supp. at 17.
the Caller ID data but forwarding the rest of the call transmission.\textsuperscript{523} Second, a malfunction within a carrier’s system could result in the failure to transmit Caller ID information in a given call.\textsuperscript{524} Because these phenomena are outside the control of the telemarketer, the telemarketer would not be held liable for violating this provision of the Rule when the failure to transmit Caller ID information results from such an occurrence. However, to avoid liability in such a case, a telemarketer must be able to establish that it has taken all available Caller ID information to transmit or cause the transmission of identifying information. This includes employing technical means within the telemarketer’s operation, ensuring that the telemarketer’s telephone company is equipped to transmit Caller ID information, and not using any means to block Caller ID transmission.

A very small number of telemarketers may be located in areas of the country that are served only by telephone companies that are not capable of transmitting Caller ID information or assigning a telephone number to the telemarketer that can be transmitted to a called consumer.\textsuperscript{525} The Commission does not intend to require such telemarketers to relocate to areas of the country that are served by telephone companies that do provide Caller ID capability. Nonetheless, in enforcing this provision, the Commission would take into account any telemarketer’s relocation from an area where it can transmit Caller ID information to a location where it cannot. However, the Commission believes it is unlikely that a telemarketer would go to such lengths in order to avoid compliance with this new requirement.

The Commission recognizes that transmission of Caller ID information does not depend on technical capability alone. Telemarketers who currently possess Caller ID capability may deliberately decline to transmit this information to the consumers they solicit. There is record evidence to support legitimate explanations for deliberate blocking of Caller ID transmission.\textsuperscript{526} Fiber Clean, for example, uses telemarketers working from home; it advocates Caller ID blocking to protect its employees’ privacy.\textsuperscript{527} Other telemarketers may block Caller ID transmission because they are unable to transmit a telephone number which would be useful to consumers.\textsuperscript{528} The Commission has concluded that some flexibility regarding what telephone number and name the telemarketer may transmit best accommodates the current state of telemarketing. A telemarketing service bureau calling on behalf of more than one seller, for example, may benefit from the option of transmitting the seller’s name and telephone number rather than its own.\textsuperscript{529} Under §310.4(a)(7), telemarketers have the option of transmitting a telephone number associated with them that enables the consumer to identify who called, or, in the alternative, the seller’s customer service number or the charitable organization’s donor service number. Indeed, according to Private Citizen, consumers spend an aggregate of $1.4 billion annually on Caller ID services to limit unwanted telemarketing calls.\textsuperscript{530} Many of these consumers subscribe to Caller ID specifically to identify incoming calls from telemarketers and screen out unwanted telemarketing calls.\textsuperscript{531} In this regard, according to Private Citizen, consumers have, over time, come to the conclusion that an incoming call that fails to provide Caller ID information is commonly a telemarketing call.\textsuperscript{532} As a result, some consumers decline to answer these calls.\textsuperscript{533} In an attempt to protect their privacy from incoming calls with no Caller ID information provided, other consumers have gone beyond call screening with services such as Caller Intercept and Privacy Manager, both of which are offered by telephone companies for a fee, that intercept incoming calls with no Caller ID information and require such callers to identify themselves before their call will be connected.\textsuperscript{534} At present, Caller ID services are an ineffective solution from consumers’ perspective: many substantial benefit from receiving Caller ID information. Moreover, as the Commission explained in the NPRM, the transmission of Caller ID information is necessary to protect consumers’ privacy under the Telemarketing Act.\textsuperscript{535} Consumers in large numbers subscribe to, and pay for, Caller ID services offered by their telephone companies.\textsuperscript{536} These consumers have, over time, come to the conclusion that an incoming call that fails to provide Caller ID information is commonly a telemarketing call.\textsuperscript{537} As a result, some consumers decline to answer these calls.\textsuperscript{538} In an attempt to protect their privacy from incoming calls with no Caller ID information provided, other consumers have gone beyond call screening with services such as Caller Intercept and Privacy Manager, both of which are offered by telephone companies for a fee, that intercept incoming calls with no Caller ID information and require such callers to identify themselves before their call will be connected.\textsuperscript{539} At present, Caller ID services are an ineffective solution from consumers’ perspective: many

\textsuperscript{523} ASA-Supp. at 16; SBC-Supp. at 13.

\textsuperscript{524} SBC-Supp. at 13.

\textsuperscript{525} The record reflects that with the exception of some small interexchange carriers ("IXCs"), competitive local exchange carriers ("CLECs"), and some incumbent local exchange carriers ("ILECs") serving rural pockets of the country, all telephone companies can pass along Caller ID information. See June 2002 Tr. II at 78-79; FCC First Report and Order in the Matter of Access Charge Reform, CC Docket No. 96-262 (May 7, 1997), para. 137; http://www.s7.net: Carriers connected to the Signaling System 7 ("SS7") network can transmit Caller ID information. SS7 is the predominant signaling system, and its use is increasing. But see Green Mountain-NPRM at 28.

\textsuperscript{526} Fiber Clean-NPRM at 1; Cox-NPRM at 37-38; NFR-NPRM at 19. But see ERA-NPRM at 48; Teledirect-NPRM at 3; ATA-Supp. at 16.

\textsuperscript{527} Fiber Clean-NPRM at 1.

\textsuperscript{528} Cox-NPRM at 37-38; NRF-NPRM at 19.

\textsuperscript{529} ARDA-NPRM at 6; Assurant-NPRM at 6; ATA-Supp. at 16; DMA-NPRM at 30; ERA-NPRM at 49; IMC-NPRM at 8; 49-50. See also Assurant-NPRM at 6 (Commenter asked that the Rule do more to prevent transmission of misleading Caller ID information. The Commission believes that the amended Rule addresses this concern.). But see AARP-NPRM at 6; NCL-NPRM at 8; Patrick-NPRM at 10 (telemarketer should be required to transmit the seller’s name whenever possible). See also EPIC-NPRM at 11; MPA-NPRM at 9-10; Worsham-NPRM at 4 (telemarketer should identify itself rather than the seller). See also BellSouth-NPRM at 4-5 (no flexibility in transmitted number should be permitted).

\textsuperscript{530} MPA-NPRM at 9; DMA-NPRM at 50. See also Green Mountain at 28; ATA-Supp. at 16.

\textsuperscript{531} DialAmerica provides a model for the use of call forwarding in this context. See DialAmerica-Supp., Alt. A at 2.

\textsuperscript{532} 67 FR at 4514.

\textsuperscript{533} Dins Elboghdady, Ears Wide Shut: Researchers Get Punished for Telemarketers’ Crimes, WASH. POST, Sept. 8, 2002, at H2 (Noting that, according to a survey conducted in 2000, nearly half of all Americans subscribe to caller ID); ACUTA-NPRM at 2.

\textsuperscript{534} McClure-NPRM at 3; Private Citizen-NPRM at 2, Susannah Fox (Msg. 3624), CN Rhodine (Msg. 480), Gautham Achar (Msg. 596), Brenda Hall (Msg. 825), Carl Wallander (Msg. 861). See also 67 FR at 4515, n.223 (citing Bell Atlantic survey finding that three out of four residential customers buy Caller ID to help stop abusive telephone calls).

\textsuperscript{535} Private Citizen-NPRM at 2. See also Associated Press, Phone Companies Act as Double Agents in Telemarketing War, CHI. TRIB., Oct. 27, 2002, at C4.

\textsuperscript{536} See, e.g., Robert Hawrylak (Msg. 3382), Patricia Frank (Msg. 223), Jo Ann Kilmers (Msg. 530), Jim Kelly (Msg. 541), Carl Wallander (Msg. 861), John G. Talalous (Msg. 1236), Louis Savergy (Msg. 1319), George M. Kapnas (Msg. 2243), Bob Greene (Msg. 2716), FarmGirl16F3 (Msg. 14015).

\textsuperscript{537} See, e.g., Karen Peters (Msg. 3814), Chuck Jackson (Msg. 209).

\textsuperscript{538} See, e.g., B. Periza (Msg. 214), Brenda Hall (Msg. 825), Victoria Brigm (Msg. 3890).

\textsuperscript{539} See, e.g., http://www2.verizon.com/ForYourHome/SAS/res_fam_identify.asp; Private Citizen-NPRM at 2; DC-NPRM at 5; EPIC-NPRM at 11; McClure-NPRM at 2.
consumers pay added costs simply to find out who is calling them, yet this investment is useless when the identifying information is not made available.

With the exception of Fiber Clean, which argued in favor of allowing at-home telemarketers to block Caller ID transmission, comments from industry members on the whole did not argue that telemarketers have a reason to block Caller ID transmission which might override the substantial privacy protection afforded to consumers when the calling party’s service shows them who is calling. To the contrary, comments from industry members supported the privacy principle behind the Rule’s Caller ID provision, but took issue with the proposition that they should be required to transmit or cause transmission of Caller ID information.

Therefore, there is strong support for the Commission’s position that requiring Caller ID transmission in telemarketing calls will help promote consumers’ privacy by allowing them to know who is calling them at home.

Transmission of Caller ID information will also promote accountability throughout the industry—a goal championed by consumers and industry members alike. The Commission is persuaded by the argument DialAmerica presented in favor of requiring transmission of Caller ID in telemarketing calls. According to DialAmerica: “[delivery of] Caller ID information, that will be displayed on a consumer’s Caller ID device or that can be accessed through such services as *69, is essential to create accountability in the outbound telemarketing industry.”

Commenters noted that the increase in accountability that would accrue from requiring transmission of Caller ID information in telemarketing would provide particular benefit in addressing abandoned calls. Consumers whose privacy has been abused by dead air and call abandonment find it difficult, if not impossible, to ascribe those practices to a particular telemarketer unless Caller ID information is provided. As explained by DialAmerica, mandatory transmission of Caller ID information will provide “a strong incentive for companies to keep abandonment rates low and eliminate ‘dead air,’” as these companies do not want to engage in practices that might encourage consumers to invoke their company-specific “do-not-call” rights.

The enhanced accountability provided by Caller ID transmission extends beyond complaints about call abandonment and dead air. Caller ID information provides a record of identification that endures beyond the telemarketing call. The prompt disclosures required by 310.4(d) provide consumers with a needed introduction to a solicitation call, but do not provide an enduring record of identifying information, as most consumers do not answer the phone with pen and paper ready to write down the name of the calling party. Moreover, just as industry comments did not dispute the privacy protections provided by Caller ID transmission, neither did they present a rebuttal to the argument that such transmission will promote accountability in telemarketing. Indeed, the large majority of telemarketers—entities built upon good business practices and compliance with the Rule—will benefit from a provision designed to respond to deceptive and abusive practices aided by anonymity in telemarketing.

By eliminating anonymity in telemarketing, the Caller ID provision will serve a third, equally important goal: it will provide law enforcement with a significant new resource. In the years following promulgation of the original Rule, the Commission and the states have created a substantial record of enforcement. However, enforcement efforts concerning some Rule provisions have been frustrated because of difficulty in identifying violators. Sellers and telemarketers that have failed to honor “do-not-call” requests have been particularly hard to identify. A number of comments in the record noted the need for greater ability to identify possible violators, and the advantages of Caller ID information in filling that need. AARP noted that required transmission of Caller ID information will also enable consumers to contact government agencies and the Better Business Bureau to verify the legitimacy of the telemarketer, which will help to prevent fraud before it occurs. Therefore, the transmission of Caller ID information likely will aid law enforcement’s ability to enforce the TSR, and increase the Rule’s effectiveness.

Consistency with FCC regulations. FCC regulations require carriers using SS7 to provide a mechanism by which a line subscriber can block the display of his or her telephone number on a Caller ID device. SBC referenced the FCC’s approach to Caller ID blocking to argue that calling parties’ interest in privacy “outweighs the general usefulness of Caller ID service.” As the NPRM made clear, the FCC’s requirement that common carriers be able to allow Caller ID blocking is meant to address specific calling situations in which protecting the calling party’s privacy takes on particular urgency. Cited examples include undercover law enforcement operations and calls placed from battered women’s shelters. No such privacy justification suggests itself in the case of telemarketers. Moreover, there is no conflict between the amended Rule’s Caller ID provision and FCC regulations. The FTC’s provision requires sellers and telemarketers to transmit Caller ID information; it does not create an obligation or a prohibition for common carriers. FCC regulations require certain carriers to provide a mechanism for blocking display of Caller ID information; they do not grant

---

540 AARP-NPRM at 5; EPIC-NPRM at 11; McClure-NPRM at 3. But see Lynn Gaubatz [Msg. 2769]: “Consumer protection state of affairs where ‘most’ telemarketers block transmission of Caller ID information because her Caller ID is programmed

541 TRA-NPRM at 11; EPIC-NPRM at 11-12. SBC referenced the FCC’s approach to Caller ID blocking to argue that calling parties’ interest in privacy “outweighs the general usefulness of Caller ID service.”

542 See, e.g., Teresa Vargas [Msg. 1292] (“I think telemarketers are not able to block their phone numbers on Caller ID screens or *69. This will make the telemarketers more accountable, particularly if their tactics are in violation of a ‘do-not-call’ request or if, [sic] the telemarketers successfully scam consumers.”); Lisa Bellanca [Msg. 2007].

543 See, e.g., DialAmerica-Supp. at 2; June 2002 Tr. II at 91-92 (ERA).

544 DialAmerica-Supp. at 2.

545 DialAmerica-NPRM at 25; Sytel-NPRM at 8; AARP-NPRM at 9; ARDA-NPRM at 15.

546 http://www.opc-marketing.com/predictive.htm (“[I]t is assumed that abandoned calls to anonymous consumers do not harm the call center’s business.”)

547 47 CFR 64.1601.

548 See, e.g., AARP-NPRM at 6.

549 TRA-NPRM at 11; EPIC-NPRM at 11-12.

550 FTC law enforcement actions alone total over 139 cases, resulting in total judgments of over $200 million since the Rule’s inception.

551 June 2002 Tr. II at 21.

552 Donald Munson [Msg. 25516]; EPIC-NPRM at 11; NYSCPB-NPRM Att. A at 4-5.

553 DialAmerica-NPRM at 25-26; EPIC-NPRM at 11-12; Patrick-NPRM at 2-3; TRA-NPRM at 11; CN Rhodine (Msg. 480); Charles Goodwin (Msg. 2079); Donald Munson [Msg. 25516].

554 AARP-NPRM at 6.

555 See note 52 above for more on SS7 technology.

556 47 CFR 64.1601.

557 SBC-Supp. at 10-11.

558 67 FR at 4451, n.228. See also ATA-Supp. at 16; EPIC-NPRM at 14.

559 Id.
sellers and telemarketers the right to block transmission of that information.

§ 310.4(b) — Pattern of calls
Section 310.4(b)(1) of the original Rule specifies that “[i]t is an abusive telemarketing act or practice and a violation of this Rule for a telemarketer to engage in, or for a seller to cause a telemarketer to engage in,” several practices deemed to be abusive of consumers. The proposed Rule contained some modifications to various subsections of this provision. The responses received in response to the NPRM, and the discussion at the June 2002 Forum, are set forth below.

§ 310.4(b)(1)(i) — Calling repeatedly or continuously
Section 310.4(b)(1)(i) specifies that it is an abusive telemarketing act or practice to cause any telephone to ring, or to engage any person in telephone conversation, repeatedly or continuously, with intent to annoy, abuse, or harass any person at the called number.

The proposed Rule prohibited as an abusive practice sales to coerce consumers to purchase a product, stated that this provision strikes directly at one of the current wording of §310.4(b)(1)(ii).561 Therefore, the language in that provision remains unchanged in the amended Rule.562 However, the expansion in the scope of the Rule effectuated by the USA PATRIOT Act brings within the ambit of this provision telemarketers soliciting charitable contributions.

§ 310.4(b)(1)(iii) — Denying or interfering with “do-not-call” rights
In the NPRM, the Commission proposed to prohibit a telemarketer from denying or interfering in any way with a person’s right to be placed on a “do-not-call” list, including hanging up the telephone when a consumer initiates a request that he or she be placed on the seller’s list of consumers who do not wish to receive calls made by or on behalf of that seller.563 In setting out the proposed prohibition, the Commission noted that during the Rule Review, numerous individual consumers had complained about being hung up on when they asked to be placed on a “do-not-call” list. In other instances, consumers complained that the telemarketer had used other means to hamper or impede these consumers’ attempts to be placed on a “do-not-call” list. Participants in both the “Do-Not-Call” Forum and the Rule Review Forum echoed these complaints.564
A seller or telemarketer has an affirmative duty under the Rule to accept a “do-not-call” request, and to process that request. Failure to do so by impeding, denying, or otherwise interfering with an attempt to make such a request clearly would defeat the purpose of the “do-not-call” provision, and would frustrate the intent of the Telemarketing Act to curtail telemarketers from undertaking unsolicited telephone calls which the reasonable consumer would consider coercive or abusive of the consumer’s right to privacy.565 Those commenters who addressed this provision strongly supported the prohibition. For example, NAAG stated that an express prohibition against denying or interfering with a consumer’s right to be added to a company-specific “do-not-call” list clarifies the seriousness of the telemarketer’s obligation to process the consumer’s request and will raise confidence in the system.566 NAAG noted that the consumer who receives the telemarketing call generally must rely exclusively on the telemarketer’s truthful disclosure of his or her identity and the nature of the call, and that consumers are often confused because many company names are very similar.567 In this respect, the Commission’s determination to require telemarketers to transmit Caller ID information, discussed above, will provide a valuable tool to both consumers and law enforcement agencies in identifying those telemarketers who fail to comply with their obligation to process the consumer’s request.

Therefore, the Commission has determined that it is an abusive telemarketing act or practice to deny or interfere in any way with a person’s right to be placed on a “do-not-call” list, including hanging up on the individual when he or she initiates such a request. Section 310.4(b)(1)(i) of the amended Rule prohibits this practice, and encompasses both telemarketers soliciting the purchase of goods or services and those soliciting charitable contributions in accordance with the USA PATRIOT Act amendments.568 In addition, § 310.4(b)(1)(ii) prohibits anyone from directing another person to deny or interfere with a person’s right to be placed on a “do-not-call” list. This aspect of the provision is intended to ensure that sellers who use third-party telemarketers cannot shield themselves from liability under this provision by suggesting that the violation was a single act by a “rogue” telemarketer where there is evidence that the seller caused the telemarketer to deny or defeat “do-not-call” requests.

§ 310.4(b)(1)(iii) — “Do-not-call”
The original Rule prohibited a seller or telemarketer from calling a person who had previously asked not to be called by or on behalf of the seller whose goods or services were offered.569 The proposed Rule added a second “do-not-call” provision that would prohibit a seller or telemarketer from calling a consumer who had withheld his or her name and/or telephone number on a centralized registry maintained by the Commission, unless the consumer had provided express authorization for the seller to call him or her.570 To effectuate the USA PATRIOT Act amendments, the Commission also proposed that for-profit telemarketers who solicit charitable donations be subject to the proposed national registry.571 The national “do-not-call” registry proposal generated extensive comment.572 Consumer and privacy advocates, as well as individual consumers, overwhelmingly supported the creation of such a registry.573

563 In its comments in the Rule Review, NASAA stated that this provision strikes directly at one of the manipulative techniques used in high-pressure sales to coerce consumers to purchase a product, and noted that the organization advises consumers that one of the “warning signs of trouble” is the “three-call” technique used by fraudulent sellers of securities. NASA-RR at 2.
564 Section 310.4(b)(1)(ii) of the amended Rule prohibits as an abusive practice causing any telephone to ring, or engaging any person in telephone conversation, repeatedly or continuously with intent to annoy, abuse, or harass any person at the called number.
565 567 Id.
567 See, e.g., ARDA-NPRM at 6; Assurant-NPRM at 7; NAAG-NPRM at 44; NCL-NPRM at 8; NYSCPBNPRM at 5; Proctor-NPRM at 4.
568 NAAG-NPRM at 44. See also NCL-NPRM at 8.
569 NAAG-NPRM at 44.
570 16 CFR 310.4(b)(1)(ii). This is termed a “company-specific” approach to eliminating unwanted telephone solicitations.
571 Proposed Rule §§310.4(b)(1)(iii)(B) and 310.4(b)(1)(iii)(B)(1) and (2).
572 67 FR at 4516, 4519.
573 As discussed above, the Commission received about 64,000 written and electronic comments in response to the NPRM, in addition to the 45 supplemental comments from organizations and individuals and almost 15,000 comments from Gottschalks’ customers that were submitted by Gottschalks as its supplemental comments. The vast majority of comments touched, at least in part, on the proposed national “do-not-call” registry.
574 See, e.g., DOJ-NPRM at 4-5; EPIC-NPRM at 2-3; LSAP-NPRM at 12; NAAG-NPRM at 4, 6, 12, 29; NACAA-NPRM at 2; NCL-NPRM at 13; NCL-
Indeed, many recommended that the Commission take a more restrictive "opt-in" approach, and prohibit telemarketing except to those consumers who expressly agree in advance to accept sales calls.\textsuperscript{576} State regulators also supported a national registry, provided it did not preempt the "do-not-call" legislation already passed in many states or preclude the states from enforcing these laws.\textsuperscript{577}

A number of industry commenters supported the general concept of a national "do-not-call" registry that would preempt state "do-not-call" laws, provided an exemption for "existing business relationships" were added to the Rule. The need for an established business relationship exemption was the most emphatic and consistent theme of industry comments, but other points were raised as well. Some questioned whether the Commission had the statutory authority to establish such a registry.\textsuperscript{578} Others argued that a national "do-not-call" registry would impose an unconstitutional restriction on commercial speech.\textsuperscript{579} Still others felt that an FTC registry was not necessary because the current system was sufficient to protect consumer privacy.\textsuperscript{580} These commenters supported increased enforcement of existing federal and state "do-not-call" laws. Charitable organizations and the telemarketers who serve them uniformly opposed the national "do-not-call" registry proposal if applicable to charitable solicitations by for-profit telemarketers. They argued that such a registry would violate the First Amendment and that it would have a devastating impact on the level of contributions that non-profit organizations depend upon to fulfill their missions.\textsuperscript{581}

Based on the entire record in this proceeding, the Commission has determined to retain the provision in the original Rule that prohibits a seller or telemarketer from calling a consumer who has previously asked not to be called by or on behalf of that seller. The Commission has also determined to supplement that provision by amending the Rule to establish a national "do-not-call" registry. For the reasons set forth herein, the Commission has decided to limit coverage of the national registry to telemarketing calls made by or on behalf of sellers of goods or services, thus exempting telemarketing calls on behalf of charitable organizations. Calls on behalf of charitable organizations will be subject to the company-specific "do-not-call" provision. In addition, the Commission has decided to retain the provision that allows consumers who sign up on the national "do-not-call" registry to provide express agreement to specific sellers to call them, but has modified that provision to require that evidence of such agreements be written, not oral. Furthermore, the Commission has decided to supplement that express agreement provision with a narrowly-defined exemption for "established business relationships." The Commission is persuaded that these provisions will work in a complementary fashion to effectuate the appropriate balance between protecting consumer privacy and enabling sellers to have access to their existing customers. Of course, even a seller who is exempt from the prohibition against calling a consumer based on the existence of an "established business relationship" with that consumer must honor that consumer's direct request not to be called under the company-specific "do-not-call" provision.\textbf{Background.} The original Rule's company-specific approach, which prohibited a seller or telemarketer from calling a person who had previously asked not to be called, was intended to prohibit abusive patterns of calls from a seller or telemarketer to a person. During the Rule Review, industry representatives generally supported the Rule's current company-specific approach, stating that it provides consumer choice and satisfies the consumer protection mandate of the Telemarketing Act while not imposing an undue burden on industry.\textsuperscript{582} The vast majority of individual commenters, however, joined by consumer groups and state law enforcement representatives, claimed that the TSR's company-specific "do-not-call" provision is inadequate to prevent the abusive patterns of calls it was intended to prohibit.\textsuperscript{583} They cited several problems with the current "do-not-call" scheme as set out in the FTC and FCC regulations:\textsuperscript{584} the company-specific approach is extremely burdensome to consumers, who must repeat their "do-not-call" request with every telemarketer that calls;\textsuperscript{585} consumers' repeated requests to be placed on a "do-not-call" list are ignored;\textsuperscript{586} consumers have no way to verify that their names have been taken off of a company's calling list;\textsuperscript{587} consumers find that using the TCPA's private right of action\textsuperscript{588} is very complex and time-consuming, and places an evidentiary burden on the consumer who must keep detailed lists of who called and when;\textsuperscript{589} and finally, even if the consumer wins a lawsuit against a company, it is difficult for the consumer to enforce the judgment.\textsuperscript{590}

In addition to the fact that it has proven ineffective, there is another problem that is not even addressed by the company-specific provision. In particular, because a great many telemarketers are now placing huge patterns of unsolicited telemarketing calls,\textsuperscript{591} many consumers find even an...
initial call from a telemarketer or seller to be abusive and invasive of privacy. Several states responded to the growing consumer frustration with unsolicited telemarketing calls and the ineffectiveness of the company-specific approach by passing legislation to establish statewide “do-not-call” lists. To date, 27 states have passed such legislation, and numerous other states have considered similar bills.592 Estimates that the annual number of outbound calls that are answered by consumers is 16,129,411,765 (i.e., 16 billion calls). James C. Miller, III, Jonathan S. Bowater, Richard S. Higgins, and Robert Buell, “An Economic Assessment of Proposed Amendments to the Telemarketing Sales Rule,” June 5, 2002, (hereinafter “Miller Study”) at 28. This figure does not include those calls that are abandoned.

592

The comments received in response to the NPRM show that frustration with unsolicited telemarketing calls continues despite the efforts of the DMA, the states, and the TCPA/TSR company-specific approaches to the problem. Individual commenters overwhelmingly supported the establishment of a national “do-not-call” registry.593 This was true even of those individuals who were already signed up on their state’s “do-not-call” registry or on the DMA’s TPS.594 Although many of these individuals stated that a number of unwanted calls, yet they felt that a national registry was needed because they were still receiving unwanted calls.596

593

Consumer groups supported the creation of a national “do-not-call” registry.597 And some privacy advocates urged the Commission to take an even more restrictive “opt-in” approach by banning telemarketing to any consumer who has not expressly agreed to receive telephone solicitations.598 With certain caveats, state regulators also supported the proposal for a national “do-not-call” registry.599 Some states that already have a state “do-not-call” list in place indicated that a national list would complement the current regime of state legislation and could be an effective addition to the arsenal of tools available to consumers in reducing unwanted calls.600 However, states and consumer advocates cautioned that such a system should be implemented in close coordination with the states and should not supplant more restrictive state laws.601

594

Industry commentators generally believed that the current system is working and that a national “do-not-call” registry is unnecessary.602 They expressed the view that the DMA’s Telephone Preference Service ("TPS") is tantamount to a national “do-not-call” registry. In fact, according to their comments, the TPS has greater coverage than the FTC registry would have because it covers certain entities such as common carriers, banks, and charitable organizations beyond FTC jurisdiction.603 They argued that these

595

596

597

598

599

600

601

602

603

604

605

606

607

608

AARP-NPRM at 1; CCA-NPRM at 1; ConsumerPrivacyGuide.com-NPRM at 1; EPIC-NPRM at 2-3; LAAP-NPRM at 12-15; NAAG-NPRM at 4; NACAA-NPRM at 2; NARUC-NPRM at 1, 3; NASUCA-NPRM at 2; NCLC-NPRM at 8; NCLC-NPRM at 13; FTC-NPRM at 1; Worsham-NPRM at 1; U.S. Department of Justice also supported the creation of a national “do-not-call” list maintained by the FTC. DOJ-NPRM at 4-5.

608

See, e.g., EPIC-NPRM at 3; Worsham-NPRM at 5.

609

610

See, e.g., CCA-NPRM at 1; Connecticut-NPRM at 1-2, 3; DC-NPRM at 4; Kansas-NPRM at 2; NAAG-NPRM at 4-29; NYSPCB-NPRM at 1-2; Tennessee-NPRM at 2; Texas PUC-NPRM at 1, 2; Virginia-NPRM at 1-2.

612

See, e.g., CCA-NPRM at 1; Connecticut-NPRM at 1; Kansas-NPRM at 1; NAAG-NPRM at 6, 12, 29; NYSPCB-NPRM at 1-2; Tennessee-NPRM at 2; Texas PUC-NPRM at 1; Virginia-NPRM at 1-2.

610

611

612

See, e.g., AATA-NPRM at 21-25; Craftmatic-NPRM at 3; DMA-NPRM at 7-8, ERA-NPRM at 5, 28; Fleet-NPRM at 2; Green Marketing-NPRM at 2; Lenox-NPRM at 4-5, MPA-NPRM at 34-35; Noble-NPRM at 2; NATN-NPRM at 2; NSDI-NPRM at 3; Pacesetter-NPRM at 2-3, 7, 17; Synergy Solutions-NPRM at 2; Teleperformance-NPRM at 2; TeleStar-NPRM at 2; TRC-NPRM at 2; Weber-NPRM at 2.

613

614

615

See, e.g., AATA-NPRM at 24-25; DMA-NPRM at 8-11; ERA-NPRM at 27-28; MPA-NPRM at 34-45; Noble-NPRM at 2; NATN-NPRM at 2; NSDI-NPRM at 2; 6-1-901); Illinois (S.B. 1830, signed Aug. 9, 2002); Indiana (H.B. 1222, to be codified at Ind. Code Ann. § 24.4.7); Kansas (S.B. 296, to be codified at Kan. Stat. Ann. 2001 Supp. § 50-670, signed May 29, 2002); Louisiana (H.B. 175, to be codified at La. Rev. Stat. § 45:844.11); Massachusetts (H.B. 5225, signed Aug. 10, 2002); Minnesota (S.B. 325E.311, signed May 15, 2002); Oklahoma (S.B. 950, to be codified at Okla. Stat. tit. 15 § 775B.1, signed Apr. 15, 2002); Pennsylvania (H.B. 1469, to be codified as amendment to Pa. Cons. Stat. § 2241; Texas (H.B. 472, to be codified at Tex. Bus. & Com. Code Ann. § 4.001); Vermont (S. 62, Pub. Act 120, to be codified at Vt. Stat. Ann. tit. 9 § 2464a, signed June 5, 2002); and Wisconsin (Section 2435 of 2001 Wisconsin Act 1, to be codified at Wis. Stat. § 100.52). In addition, numerous states are considering or recently have considered laws that would create state-run “do-not-call” lists, including Arizona, Delaware, District of Columbia, Hawaii, Illinois, Iowa, Maryland, Michigan, Mississippi, Montana, Nebraska, Nevada, New Jersey, North Carolina, Ohio, Rhode Island, South Carolina, South Dakota, Utah, Virginia, Washington, and
gaps in the national registry’s coverage due to the FTC’s limited jurisdiction would make a national “do-not-call” list more confusing than helpful to consumers. Some industry members suggested that the states are the more appropriate forum for creation of “do-not-call” lists. Some of these commenters argued that, unlike a national list, that must be “one size fits all,” states can be more responsive to the needs of their citizens and tailor their lists to those differing needs.

The record in this matter overwhelmingly shows the contrary—as detailed earlier, it shows that the company-specific approach is seriously inadequate to protect consumers’ privacy from an abusive pattern of calls placed by a seller or telemarketer. The comments also show that consumers continue to be angered by and frustrated with the pattern of unsolicited telemarketing calls they receive from the multitude of sellers and telemarketers. A national “do-not-call” registry addresses both types of abuse. It provides a mechanism that a consumer may use to indicate that he or she finds unsolicited telemarketing calls abusive and an invasion of privacy. It will also protect a consumer from repeated abusive calls from a seller or telemarketer. These problems cannot be fully addressed by state lists. While state “do-not-call” lists may be effective in reducing calls for the citizens in those states, about half the states do not have such legislation. A federal list would protect those consumers who are not currently protected. In addition, as EPIC pointed out in its comment, the state “do-not-call” lists vary with regard to exempt entities, with some containing so many exemptions that virtually all sellers are exempt. A federal list would provide uniformity with regard to those entities within the FTC’s jurisdiction. Finally, although industry totes the state lists as

the appropriate approach to “do-not-call,” they also challenge the states’ authority to regulate interstate calls under the state “do-not-call” laws. The Telemarketing Act grants the states the authority to enforce the TSR in federal court. Therefore, a national “do-not-call” registry maintained by the FTC pursuant to the TSR (and enforceable by the states) would quell any challenges to state “do-not-call” enforcement with respect to interstate telemarketing.

Some industry members would have the FTC forget about a national registry and continue to let consumers use the current national self-regulatory system set up through DMA’s TPS. DMA has provided an important public service by administering the TPS, and the Commission applauds the efforts of the industry to regulate itself. However, the self-regulatory model has two serious shortcomings which limit its use as an effective national “do-not-call” registry: a self-regulatory system is voluntary; and to the extent that sanctions exist for non-compliance, DMA may apply those sanctions only against its members, not non-members. On the other hand, lists established pursuant to the FTC Act and the Telemarketing Act, as well as those established pursuant to state law, have the force of law, and violators are subject to civil penalties. This type of sanction makes it more likely that companies will take their “do-not-call” obligations seriously.

The Commission recognizes that its jurisdictional limitations will impact the effectiveness of a national “do-not-call” registry. However, the Commission notes that while certain specific entities are exempt from coverage, the telemarketing companies that solicit on their behalf are nonetheless covered by the TSR. Moreover, many consumers have signed up for state “do-not-call” lists, all of which include various exemptions. Consumers in those states have accepted the limitations of the state “do-not-call” lists and have been satisfied at the prospect of at least reducing the number of unwanted telephone solicitations that they receive. Indeed, an FTC registry may be more inclusive than some state “do-not-call” lists. The Commission believes that consumer education will minimize consumer confusion over what calls will and will not be allowed under a national “do-not-call” registry.

Industry pointed to the economic importance of outbound telemarketing, which accounted for $274.2 billion in 2001, and warned that a national “do-not-call” registry would have dire economic consequences. In its supplemental comments, DMA submitted a study showing “the face of the telemarketing industry.” According to DMA predictions, job losses would impact most seriously on women, minorities, and rural areas—the groups and regions from which most telemarketers are drawn. Individual sellers and telemarketing firms estimated that they might have to lay off up to 50 percent of their employees if such a registry were to go into effect. Numerous individual telemarketers submitted comments in which they talked about the pride they have in their work and their fear of losing their livelihood.

---

602 See, e.g., AT-A-NPRM at 4497.
603 See, e.g., AT-A-NPRM at 23-25; Noble-NPRM at 2;
604 See, e.g., Dutch-NPRM at 2; NFA-NPRM at 2;
605 See, e.g., AT-A-NPRM at 23-25; Noble-NPRM at 2;
606 See, e.g., AT-A-NPRM at 4; Teleperformance-NPRM at 2;
607 See, e.g., AT-A-NPRM at 2; Noble-NPRM at 2;
608 See, e.g., AT-A-NPRM at 23-25; Noble-NPRM at 2;
609 See, e.g., AT-A-NPRM at 4; Teleperformance-NPRM at 2;
610 See, e.g., AT-A-NPRM at 23-25; Noble-NPRM at 2;
The Commission recognizes that telemarketing is a legitimate method of selling goods and services. It is important to remember that the “do-not-call” registry will impact only outbound telemarketing, and will have no effect whatsoever on the greater portion of the industry devoted to inbound calls from consumers.622 The Commission also recognizes the importance of outbound telemarketing to federal, state, and local economies. Telemarketing provides needed jobs to rural areas and small towns that often face high unemployment, and to people who often face difficulties in obtaining other employment, such as individuals moving off of welfare.

Although industry fears the economic impact a national registry might have, ironically, an FTC “do-not-call” registry may actually benefit rather than harm industry. For example, the federal framework, with its exemptions, would provide greater consistency of coverage, at least with regard to interstate calls. In addition, industry would benefit because both cost savings would reduce time spent calling consumers who do not want to receive telemarketing calls and would be able to focus their calls only on those who do not object to such calls.623 Industry emphasized the importance of harmonizing federal and state laws. To the extent that industry members supported creation of a national “do-not-call” list, they conditioned their support on preemption of state laws.624 These commenters argued that the major if not only, benefit to industry from a national “do-not-call” registry would be to eliminate the costs of purchasing multiple lists and complying with a patchwork of potentially 50 different state laws.625


623Industry representatives also have indicated that they do not wish to call consumers who do not want to receive telemarketing calls. See DNC Tr. at 41, 53-56, 61-71.

624See, e.g., AFSA-NPRM at 3-5; Craftmatic-NPRM at 3; Discover-NPRM at 2; HSBC-NPRM at 1; MBA-NPRM at 2; NCTA-NPRM at 15-16; NRF-NPRM at 7-8; Nextel-NPRM at 3-4, 26-27; PMA-NPRM at 28; SI&A-NPRM at 3-4; Time-NPRM at 3-4; Connecticut Landmark Marketing Drives Universal Call Centers at 9 (Jan. 2001).

625Industry representatives have also indicated that they do not wish to call consumers who do not want to receive telemarketing calls. See DNC Tr. at 41, 53-56, 61-71.

626See, e.g., AFSA-NPRM at 3-5; Craftmatic-NPRM at 3; Discover-NPRM at 2; HSBC-NPRM at 1; MBA-NPRM at 2; NCTA-NPRM at 15-16; NRF-NPRM at 7-8; Nextel-NPRM at 3-4, 26-27; PMA-NPRM at 28; SI&A-NPRM at 3; Time-NPRM at 3-4.

627See June 2002 Tr. 1 at 19-40.

628See June 2002 Tr. 1 at 209. Dr. Miller’s testimony drew from the Miller Study (see note 591 above). As the study explains, the $6.6 million figure assumes that 3,000 firms will pay $1,000 each on average to obtain access to the list and that it will take the average firm approximately two hours of effort at a cost of about $20 per hour to determine whether the call is permitted. Therefore, it is necessary to compare the firm’s list to the FTC’s “do-not-call” registry and to check their calling lists against the “do-not-call” list to ensure that they do not call consumers who have asked not to be called.628 If companies could comply with both FTC and state regulations by purchasing access to the FTC’s list and not calling consumers whose numbers appeared on that list, this would represent the total burden on firms to avoid calling consumers who did not wish to be called. However, Dr. Miller testified that the total costs to comply with the state regulations as well as the FTC requirements, should firms still have to purchase separate lists from each state having its own do-not-call provisions, could approximate $100 million.

629See June 2002 Tr. 1 at 138-271.

630See, e.g., IBM-NPRM at 11-12; Pelland-NPRM at 3.

631See FCC Notice of Proposed Rulemaking and Memorandum Opinion and Order in the Matter of Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991, CG Docket No. 02-278, CC Docket No. 92-90 (Sept. 18, 2002) (hereinafter “FCC TCPA 2002”) at 27, para. 42 (citing a USA Today/CNN/Gallup poll showing that one in five mobile telephone users use their wireless phone as their primary phone, Michelle Kessler, 18 % See Cellphones as Their Main Phone, USA TODAY, Feb. 1, 2002). See also Wendy Ruezen, More Cell Phone Users Dispense with Traditional Phone Line, POST CRESCENT, Aug. 6, 2001; Simon Roner, When the Cellphone Is the Home Phone, N.Y. TIMES, Aug. 29, 2002; Jellee Tessler, Small But Growing Number of Cell Phone Users Abandon Land Lines, SAN JOSE MERCURY NEWS, Aug. 15, 2002.

632See FCC TCPA 2002 at 26-27, para. 42, n.160 (noting that, in the ten-year period between 1991 and 2001, the number of wireless subscribers increased from about 2.5 million to approximately 128 million. From 1993 to 2001, the average minutes of use per subscriber per month increased from 140 minutes to 385 minutes.) (citations omitted).
the unwanted telemarketing call to the consumer’s cellular telephone.634

Established business relationship. Industry commenters overwhelmingly opposed as unworkable the Commission’s proposal to allow consumers to give their express authorization to companies from which they wished to receive calls. Industry stated that it would be cost prohibitive for them to contact their customers to obtain authorization (although they provided no detailed support for this argument) and that consumer inertia would keep consumers from independently providing that type of affirmative authorization.635 They also argued that consumers may not know in advance which companies they want to hear from.636

Industry commenters noted that, without an exemption permitting calls to existing customers, companies would be unable to conduct normal servicing of customers’ accounts, since such customer service calls frequently are multiple purpose calls that also include attempts to sell additional goods or services to the customer.637

Additionally, magazines and newspapers would be unable to contact consumers whose subscriptions had expired to offer them a new subscription.638 Commenters from financial institutions pointed out that, if they may run afoul of their fiduciary status of that relationship then the company should be re-established and can, at the line subscribers discretion be re-established.); Don Price (Msg. 483) (“Sometimes pre-existing relationships are those hardest to communicate with regarding the fact that they are returning your phone calls or they have a relationship or you explain to them that some of these calls are exempt, they understand when you explain that to them, and they’re delighted, because our anecodal information shows that 70 to 80 percent of the calls people had been receiving, they’re not receiving now.”); and see generally, June 2002 Tr. I at 118-19 (Missouri: “Most people when you call them back are delighted that 70 to 80 percent of their phone calls have been caused to not come in, so when we explained to them that you had a relationship or you explain to them that some of these calls are exempt, they understand when you explain that to them, and they’re delighted, because our anecodal information shows that 70 to 80 percent of the calls people had been receiving, they’re not receiving now.”); and see generally, June 2002 Tr. I at 110-21.

41 CFR 64.1206(c)(3). The TCPA requires such an exemption, 47 U.S.C. 227(a)(3).

646 See, e.g., GBElois (Msg. 44) (“If a person is a member, subscriber, current customer, etc., of a company and the company is calling regarding the status of that relationship then the company should not be obligated to conform to the do not call registry.”); Jerry Warnke (Msg. 371) (“Have to be a way to exempt businesses or organizations when they are returning your phone calls or they have a need to call you with an ongoing relationship.”). But see, e.g., Karl Engelder (Msg. 331) (“All pre-existing agreements and relationships should be voided and can, at the line subscribers discretion be re-established.”); Don Price (Msg. 483) (“Sometimes pre-existing relationships are those hardest to communicated with regarding the fact that the individual wants to end the relationship with the telemarketer business—once you give or buy something, many telemarketers expect you to continue what you started and make it a monthly habit—even if that was never your intent.”). Finally, industry commenters noted that the Commission’s rationale for not including an exemption for “established business relationships” was faulty.645 In adopting the original Rule, the Commission had expressed the view that such an exemption was inappropriate because it was not workable in the context of fraud.646 These commenters pointed out that the “do-not-call” registry was driven by privacy concerns, not concerns about fraud. Therefore, they argued, the Commission’s stated rationale was inapplicable in the “do-not-call” context.647 However, these commenters misunderstood the Commission’s rationale in not including an exemption for “established business relationship” in the proposed “do-not-call” provision. In fact, the Commission’s rationale for not including such an exemption in its proposal was driven not by concerns about fraud, but by the same privacy concerns that those commentors noted. The Commission believed that the national registry should contain few exemptions in order to provide consumers with the most comprehensive privacy protection possible.

After the proposed Rule did not contain any “established business relationship” exemption, it is not surprising that few commenters raised this issue unless they were advocating that such an exemption be added. In response to industry’s strong advocacy in favor of an “established business relationship” exemption, however, the June 2002 Forum elicited comment on whether such an exemption would be appropriate. Privacy advocates opposed any exemptions to the registry, stating that the exemptions would add an ineffective layer of a “do-not-call” registry.648 These commenters feared that, because of the difficulty in crafting such an exemption narrowly, an “established business relationship” exemption would provide too great a loophole, and would severely hamper the effectiveness of a national “do-not-call” registry.649 One consumer spoke at the June 2002 Forum about the dangers inherent in such an exemption.650 AARP noted in its supplemental comments that an exemption appeared to be necessary, but...
urged that the Commission keep the exemption very narrow and limit it to existing relationships only, as opposed to prior relationships.651

Based on the record as a whole, the Commission is persuaded that the benefits of including an exemption for established business relationships outweigh the costs of such an exemption. Therefore, the Commission has decided to provide an exemption for “established business relationships” from the national “do-not-call” registry, as long as the consumer has not asked to be placed on the seller’s company-specific “do-not-call” list. Once the consumer asks to be placed on the seller’s “do-not-call” list, the seller may not call the consumer again regardless of whether the consumer continues to do business with the seller. If the consumer continues to do business with the seller after asking not to be called, the consumer cannot be deemed to have waived his or her company-specific “do-not-call” request.652

The amended Rule limits the “established business relationship” exemption to relationships formed by the consumer’s purchase, rental or lease of goods or services from, or financial transaction with, the seller within 18 months of the telephone call or, in the case of inquiries or applications, to three months from the inquiry or application. As indicated in the discussion of the definition of “established business relationship” in §310.2(n), this time frame is consistent with most state laws that include a time limit.653 The exemption is terminated by the consumer’s request to be placed on the company’s “do-not-call” list, which is consistent with the FCC’s regulations and those of many of the states.654 As explained above in the discussion of §310.2(n), the definition of “established business relationship” encompasses those affiliates of the seller that the consumer would reasonably expect to be included given the nature and type of goods or services offered and the identity of the affiliate.

In addition to an exemption for “established business relationships,” the Commission has decided to retain the provision that allows sellers to obtain the express agreement of consumers who wish to receive telephone calls from that seller, but has modified the provision to require that such express agreement may be evidenced only by a signed, written agreement. The Commission believes that it is important to limit the established business relationship to those where there is ongoing contact or where the relationship has recently lapsed or terminated. However, the Commission recognizes that consumers may have ongoing relationships with sellers where the contacts may be infrequent. Therefore, the Commission has decided to retain the provision that would allow sellers to obtain the consumer’s express agreement to call, regardless of whether there has been contact during the prior 18 months. In order to minimize the potential for abuse, the amended Rule does not permit sellers or telemarketers to obtain the consumer’s oral authorization. Rather, the amended Rule requires that the express agreement meet the same standards as written authorization in §310.3(a)(3)(i)—i.e., that the express agreement be in writing, signed by the consumer—and must also include the telephone number to which the calls may be placed. Because the express agreement requires the consumer’s signature, the Rule makes it more difficult for sellers and telemarketers to bury the consent in the fine print of a document where the consumer might not notice it. The Commission intends that the consent be clear and conspicuous. This express agreement is effective as long as the consumer has not asked to be placed on the seller’s company-specific “do-not-call” list. Once the consumer asks to be placed on the seller’s “do-not-call” list, the seller may not call the consumer again regardless of whether the consumer continues to do business with the seller.

First Amendment and related considerations applicable to “do-not-call” provisions. As noted above, the proposal to include charitable solicitation telemarketing by for-profit telemarketers within the scope of a national “do-not-call” registry requirement generated negative comment from non-profit organizations and their representatives. These commenters advanced a number of criticisms of the proposal based upon the practical effects it would foreseeably produce if adopted. They also argued that the proposal was fatally flawed from the standpoint of First Amendment analysis. Each of the major points made by these commenters is discussed below.

Because of the central role of the telephone and of professional fundraisers in the non-profit arena, non-profit organizations and their representatives uniformly predicted financial disaster for the non-profit sector if such a proposal were adopted.655 According to DMA-NonProfit, a quarter of all charitable contributions raised in 2001 came from telephone solicitation,656 and an estimated 60 to 70 percent of that solicitation was performed by professional fundraisers.657 These commenters feared the detrimental impact of a national “do-not-call” registry on this important element of the non-profit world’s financial support system. One commented that the proposed “do-not-call” registry requirement would reduce the potential donor pool by between 40 to 50 percent, and based on sign-up rates in some states, possibly by as much as 70 or 80 percent.658

The proposed registry’s impact on non-profit organizations’ ability to solicit previous donors was of particular concern. According to a number of commenters, it is axiomatic that persons who have already contributed to a non-profit or charitable organization are much more likely to contribute than are persons who have never done so.660 In

651 AARP-Supp. at 3.

652 See June 2002 Tr. 1 at 278-82 (Consumer recounted that a telemarketer from a retailer telephoned her, notwithstanding the fact that she questioned them about this apparent error, the telemarketer said that she had recently made a purchase at the retailer, which re-created an established business relationship, which terminated the consumer’s solicitation telemarketing by for-profit telemarketers within the scope of a national “do-not-call” registry requirement. See also note 142 above).

653 See discussion of §310.2(n) and note 135, above.

654 See 47 CFR 64.1200(f)(4), and discussion in FCC TCPA 2002 (see note 633 above) at 8675, para. 23, and at 8677, para. 34, n.63. In addition, several state “do-not-call” statutes contain a similar provision in their exemption for “established business relationships” which terminates the exemption if the consumer has not asked to be called. See, e.g., Alaska, California, Colorado, Connecticut, Illinois, Kansas, New York, Oklahoma, Texas, and Wyoming. See note 592, above, for citations to each state’s “no-call” laws and/or regulations.
this regard, Not-for-Profit Coalition stated that “[c]ompounding the harm is the fact that the registry would apply equally to donors with a long history of supporting bona fide non-profit and charitable organizations as well as new prospective donors. Deprivations and non-profits of the ability to contact prior supporters will be financially devastating.”

Not-for-Profit Coalition also argued that the effect of the “do-not-call” registry requirement would be to drive non-profit organizations away from efficient use of professional telefunders, and toward inefficient in-house operations. According to commenters, the efficiency benefits of using professional telefunders may be substantial. For example, Hudson Bay stated:

HBC’s phone canvass is mostly for smaller non-profit organizations (and the state chapters of large ones). Instead of renting space, buying computers and phone equipment, hiring supervisors and so on, HBC’s clients find it cheaper to contact their members and donors by sharing these resources. Even after paying HBC’s fee, which ranges from 4 to 7% of the sales of goods or services, the “do-not-call” registry provisions will also serve another substantial governmental interest, preventing the privacy of consumers from unwanted commercial telemarketing calls is a substantial governmental interest, “Individuals are not required to welcome unwanted speech into their own homes and the government may protect this freedom.”

Several representatives of non-profit organizations argued that under relevant First Amendment precedent, charitable fundraising is fully protected speech, and that attempts by the government to regulate it are subject to the highest level of scrutiny. These commenters also noted that under the relevant precedents, no distinction between the speech of the non-profit organization and that of the professional telemarketer actually making the calls is recognized—both are equally protected. Several criticized the proposal’s exemptions for solicitations by “political clubs, committees, or parties” and “constituted religious organizations” as making distinctions based on the type of speech or speaker that are impermissible under the First Amendment.

The Commission believes that, with respect to telemarketing that solicits sales of goods or services, the “do-not-call” registry provisions are consistent with the relevant First Amendment cases. In Central Hudson Gas & Elec. v. Pub Serv. Comm. of N.Y., the Supreme Court established the applicable analytical framework for determining the constitutionality of a regulation of commercial speech that is not misleading and does not otherwise involve illegal activity. Under that framework, the regulation (1) must serve a substantial governmental interest; (2) must directly advance this interest; and (3) may extend only as far as the interest it serves—that is, there must be “a fit between the legislative ends and the means chosen to accomplish those ends . . . a fit that is not necessarily perfect, but reasonable . . . that employs not necessarily the least restrictive means but . . . a means narrowly tailored to achieve the desired objective.”

With respect to the first of these criteria, protecting the privacy of consumers from unwanted commercial telemarketing calls is a substantial governmental interest, “Individuals are not required to welcome unwanted speech into their own homes and the government may protect this freedom.” The “do-not-call” registry is designed to advance the privacy rights of consumers by providing them with an effective, enforceable means to make known to sellers their wishes not to receive solicitation calls. Simply put, sellers or telemarketers soliciting sales may not call persons who have placed themselves on the registry. The registry is also designed to cure the inadequacies as a privacy protection measure that became apparent in the company-specific “do-not-call” provisions included in the original Rule. Thus, the second of Central Hudson’s criteria is satisfied. Finally, the national “do-not-call” registry is a mechanism closely and exclusively fitted to the purpose of protecting consumers from unwanted telemarketing calls.

In Rowan v. Post Office Dept., the Supreme Court upheld a federal statute empowering a homeowner to bar mailings from specific senders by notifying the Postmaster General that she wished to receive no further mailings from that sender. The Court stated:

We therefore categorically reject the argument that a vendor has a right under the constitution or otherwise to send unwanted material into the home of another. If this prohibition operates to impede the flow of even valid ideas, the answer is that no one has a right to press even “good” ideas on an unwilling recipient. That we are often “captives” outside the sanctuary of the home and subject to objectionable speech and other sound does not mean we must be captives everywhere. The asserted right of a mailer, we repeat, stops at the outer boundary of every person’s domain. . . . To hold less would tend to license a form of trespass and would make hardly more sense than to say that a radio or television viewer may not twist the dial to cut off an offensive or boring communication and thus bar its entering his home. Nothing in the Constitution compels us to listen to or view any unwanted communication, whatever its merit; we see no basis for according the printed word or pictures a different or more preferred status because they are sent by mail. The ancient concept that “a man’s home is his castle into which ‘not even the king may enter’” has lost none of its vitality, and none of the recognized exceptions includes any right to communicate offensively with another.

Under Rowan, the First Amendment allows a statutory scheme whereby a person may block a sender’s mailings by notifying the Postmaster General, who then will prevent that sender’s mailings from being delivered to that person. The Commission believes that the First Amendment similarly raises no impediment to Rule provisions that will enable a person by signing up on a national “do-not-call” registry to block commercial communications via telephone, which are far more intrusive than the communications, at issue in Rowan, via printed words and images.
With respect to telemarketing that solicits charitable contributions, the Commission believes that the applicable analytical framework is more stringent.\textsuperscript{675} “[C]haritable solicitations involve a variety of speech interests . . . that are within the protection of the First Amendment and therefore have not been dealt with as purely commercial speech.”\textsuperscript{676} In considering the more stringent analysis, the Commission notes, preliminarily, that the company-specific “do-not-call” provisions that apply to charitable solicitation telemarketing, are content-neutral. “Laws that confer benefits or impose burdens on speech without reference to the ideas or views expressed are in most instances content neutral.”\textsuperscript{677} The company-specific “do-not-call” provisions apply equally to all for-profit solicitors, regardless of whether they are seeking sales of goods or services or charitable contributions, and regardless of what may be expressed in the solicitation calls whether they were sexually provocative. The determinative factor was that the mailings were unwanted. The Commission does not advance a theory, however, that Rowan should be read here to cover any non-commercial communications.

\textsuperscript{678} Similarly, the “do-not-call” registry provisions are also content-neutral, because they apply equally to all sellers and telemarketers engaged in the solicitation of sales of goods or services, regardless of the content of the calls, or the viewpoints of the telemarketers or the sellers.

\textsuperscript{679} The Village argues that three interests are served by its ordinance: the prevention of fraud, the protection of charities, and the victims. The Village will be the ultimate beneficiary of the ordinance; the prevention of fraud and protecting charities. The Village also found that these laws were not tailored narrowly enough to minimize the impact on the charities’ First Amendment rights.

\textsuperscript{680} At this time, however, the proposed solution met with uniform condemnation from non-profit organizations, who opined that it would be too costly for non-profit organizations to obtain prospective donors’ express permission to call, and too difficult for consumers to exercise their right to have the calls stopped. The Commission is persuaded that these objections may be well-founded, and that this, therefore, would not be an adequate approach to narrow tailoring.

Another solution alluded to in a specific question posed in the NPRM might be to bifurcate the registry into separate categories, one for commercial solicitation and another for charitable solicitation, enabling consumers to sign up separately to stop commercial calls while allowing charitable solicitations.\textsuperscript{682} At this time, however,
the Commission believes that such an approach may be impractical because of cost considerations and because of the difficulty for consumers to understand and deal with the complications of such a system. Thus, these factors may render a bifurcated registry an insufficient or excessively cumbersome response to the imperative of narrow tailoring.

After careful consideration of the record as a whole and the relevant case law, the Commission has determined that the best approach to achieve narrow tailoring of the “do-not-call” provisions at this time is to exempt from the “do-not-call” registry requirements solicitations to induce charitable contributions via outbound telephone calls,683 and instead to bring charitable solicitation telemarketing only within the ambit of the company-specific “do-not-call” regime contained in the original Rule.684

The Commission believes that the encroachment upon consumers’ privacy rights by unwanted solicitation calls is not equivalent to commercial telemarketers; consumers are disturbed by unwanted calls regardless of whether the caller is seeking to make a sale or to ask for a charitable contribution.685

Thus, the Commission rejects the suggestion from numerous non-profit organizations and their representatives that no privacy protection measures are necessary with respect to charitable solicitation telemarketing, and that telefunders should be exempt from even the company-specific “do-not-call” provisions.686

The Commission believes that even though the company-specific approach has not been fully adequate to the task of protecting consumers’ privacy rights against an onslaught of commercial solicitations, this more limited approach does provide some privacy protection in the context of charitable fundraising, and works better to accommodate both the right of privacy and the right of free speech. The Commission is persuaded by the arguments of Hudson Bay that fundamental differences between commercial solicitations and charitable solicitations may confer upon the company-specific “do-not-call” requirements a greater measure of success with respect to preventing a pattern of abusive calls from a fundraiser to a consumer than it was able to produce in the context of commercial fundraising:

When a pure commercial transaction is at stake, callers have an incentive to engage in all the things that telemarketers are hated for. But non-commercial speech is a different matter. The success of an advocacy call does not hinge entirely on whether the recipient decides to part with a sum of money. A calling center employee working for a citizens’ group is less interested in the volume of calls than in effective communication of the group’s concerns. That is the reason the money is needed in the first place, not for profit.

In a non-commercial call the recipient is more than a potential source of income. Rather he or she is also a voter, a constituent, a consumer, a source of information to others, and a potential source of a future contribution, even if not in the current call. There is more than a sale, there is a cause at stake. It is, therefore, self-defeating for the advocacy caller to engage in the abrasive telemarketing practices that motivated the draft TSR. Such a caller risks alienating the recipient of the call against the cause not just against the caller or their organization.687

Nevertheless, if experience indicates that the company-specific approach does not in fact provide adequate protections for consumers’ privacy in the context of charitable solicitation telemarketing, the Commission may revisit this decision in the future, and reconsider whether to require telemarketing calls soliciting charitable donations to comply with the national “do-not-call” registry requirements.

FTC authority to establish a “do-not-call” registry. Several industry members questioned whether the FTC had the statutory authority to establish a national “do-not-call” registry.688 They argued that the Telemarketing Act does not mention the creation of a “do-not-call” registry and that, in fact, another statute (TCPA) had directed another agency (the FCC) to explore the possibility of establishing such a registry.689 They noted that the FCC had considered such a registry and rejected it in 1992 in favor of a company-specific approach that required consumers to tell those companies from which they did not wish to receive calls to place them on the company’s “do-not-call” list.690 Congress passed the Telemarketing Act three years after the FCC rejected a national registry. As noted in the NPRM, the Telemarketing Act authorizes the Commission to prescribe rules “prohibiting deceptive telemarketing acts or practices and other abusive telemarketing acts or practices,” and specifically mandates that these rules prohibit telemarketers from undertaking “a pattern of unsolicited telephone calls which the reasonable consumer would consider coercive or abusive or approach consumers’ right to privacy.”691 Thus, establishment of the national “do-not-call” registry is squarely within the authority granted by the statute.

The goal in both the TCPA and § 6102(a)(3) of the Telemarketing Act is to protect consumer privacy. When Congress directed the FTC to include in the TSR a prohibition against a pattern of unsolicited telephone calls which the reasonable consumer would consider
coercive or abusive of such consumer’s right to privacy. Congress knowingly put the FTC on the same path that the FCC had trod three years earlier, but did not mandate that the two agencies arrive at the identical conclusion. Instead, the Telemarketing Act is written broadly and does not limit how the Commission is to effectuate the Congressional mandate; it leaves the method of achieving the goal of protecting privacy to the Commission’s discretion.692 There is nothing in the TCPA that would lead to the conclusion that the FCC was the only federal agency authorized to create a national registry. In fact, although Congress had passed the TCPA only three years earlier, it mandated in the Telemarketing Act that the FTC promulgate provisions similar to those that the FCC had promulgated pursuant to TCPA. For example, although FCC regulations already restricted the times that telemarketers can call consumers,693 Section 6102(a)(3)(B) of the Telemarketing Act directed the FTC to also include in its regulations a provision that would prohibit telemarketers from making unsolicited phone calls to consumers during certain hours of the day or night. Thus, Congress clearly intended to provide the FTC with sufficient authority to remedy the problem of unwanted telemarketing calls by means of a national registry, notwithstanding that the FCC had earlier decided not to exercise its own authority to do so.

Interplay between the national “do-not-call” registry and state “do-not-call” laws. The NPRM specifically requested comment on how the proposed establishment of a national “do-not-call” registry should interplay with similar requirements on the state level.694 In response, NAAG and representatives of individual states with “do-not-call” laws expressed concern about the possible preemptive effect of a national “do-not-call” registry.695 On the other hand, industry representatives urged that if, despite their opposition, the Commission adopted TSR provisions establishing a national “do-not-call” registry, the national registry must preempt similar state requirements.696

At this time, the Commission does not intend the Rule provisions establishing a national “do-not-call” registry to preempt state “do-not-call” laws. Rather, the Commission’s intent is to work with those states that have enacted “do-not-call” registry laws, as well as with the FCC, to articulate requirements and procedures during what it anticipates will be a relatively short transition period leading to one harmonized “do-not-call” registry system and a single set of compliance obligations.697 The Commission is actively consulting with the individual states to coordinate implementation of the national registry to minimize duplication and maximize efficiency for consumers and business. The Commission’s goal is a consistent, efficient system whereby consumers, in a single transaction, can register their requests not to receive calls to solicit sales of goods or services, and sellers and telemarketers can obtain a single list to ensure that in placing calls they do not contravene consumers’ requests. In adopting the “do-not-call” provisions in the amended Rule, the Commission intends to advance that goal. At this time, the Commission specifically reserves further action on the issue of preemption until sufficient time has passed to enable it to assess the success of the approach outlined above.698

Implementation of a National Do-Not-Call Registry

In developing an implementation plan for a national “do-not-call” registry, the Commission has been guided by a number of concerns. Most importantly, the Commission has sought to ensure the accuracy and validity of the consumer telephone numbers added to the registry, and to build a system that can handle the potential volume of consumer requests to be placed on the registry.699 Equally important, the system must ensure the security of the information maintained in the registry. The registry also must be easily accessible to both telemarketers and appropriate law enforcement agencies. In addition, the Commission seeks to develop the system with the lowest possible costs.

The Commission conducted extensive research to determine the feasibility of a national “do-not-call” registry and to develop a plan for implementing such a registry. The NPRM asked for comment on a number of specific implementation questions.700 The staff contacted the states with their own registries, and also contacted many of the contractors used by those states to develop their registries. On February 28, 2002, as part of its research, the Commission issued a Request for Information (“RFI”) to contractors capable of assisting the FTC in the development, deployment, and operation of the national registry.701 Thirty-six different companies responded to the RFI. In August 2002, the Commission issued a Request for Quotes (“RFQ”) to selected vendors.702 A number of those vendors have submitted proposals and quotes to the Commission; the agency is currently evaluating those proposals.703

Based on all of the information gathered during this process, the Commission plans to develop a national registry with three components: consumer registration; access to the consumer registration database by telemarketers and sellers; and law enforcement access to both the consumer registration database and the list of telemarketers and sellers who have accessed the consumer registration database. The entire system will be fully automated to simplify the process and keep costs to a minimum.

Consumer registration. Consumers will be able to add their telephone numbers to the national “do-not-call” registry through two methods: either through a toll-free telephone call or over...
the Internet. Consumers who choose to register by phone will have to call the registration number from the telephone line that they wish to register. Their calls will be answered by an Interactive Voice Response (“IVR”) system. After a brief introductory message, the consumer will be asked to enter his or her telephone keypad the telephone number from which the consumer is calling. The number entered will be checked against the automatic number information (“ANI”) that is transmitted with the call. If the telephone number the consumer enters on the keypad matches the ANI of the line from which the consumer is calling, then the IVR system will inform the consumer that the number is registered and the call will end. If the telephone number does not match, the IVR system will advise the consumer to call back from the telephone the consumer wishes to register. In the small percentage of calls in which ANI is not available, the system will offer other verification options.

Using this process, the Commission will verify, at a minimum, that each consumer is calling from a telephone line assigned the number the consumer is attempting to register to. The Commission has determined that this is sufficient verification for the limited purposes involved here — ensuring that a telephone number in the national registry was entered by someone in the household to which telephone number is assigned. A number of commenters stated that the FTC should prohibit third parties from registering consumers’ preferences not to receive telemarketing calls with the national “do-not-call” registry, citing concerns that such third-party registrations could lead to abuse. The Commission has determined that these are sufficient verification procedures for Internet registrations. Such verification processes will enhance the likelihood that individuals will register their own telephone numbers. If the email verification process is used, the Commission will also develop procedures to prevent large numbers of registrations from being confirmed through the same email account. Once again, the Commission has determined that these are sufficient verification procedures for the limited purpose of adding telephone numbers to the national “do-not-call” registry, and should help prevent the potential abuses cited concerning massive third-party registrations.

708 Several commenters supported allowing any household member to register the household telephone number. See, e.g., NCL-NPRM at 9 (allow registration requests to be made by the line subscriber, spouse, roommate, care giver, or others with a legitimate interest). One telemarketer that calls on behalf of non-profit organizations opposed this view, commenting that “each person has an individual, separate constitutional right to speak and be in association with other like-minded people, and the groups to which they belong also have the right to contact their members and the public at large. When dealing with fully protected, non-commercial speech, any do-not-call list that keeps track only of numbers, rather than names and numbers, needs some way to be certain that everyone who is lawfully and regularly reached at a telephone number has consented to be cut off from the organizations to which they belong.”

707 The Commission notes that the “do-not-call” provisions will not “cut off” individuals from organizations or sellers because it will not foreclose other means of communication with any member of the household, such as by conventional mail, email, or door to door solicitation. The “do-not-call” provisions are strongly analogous to laws requiring solicitors to honor a “no solicitation” sign posted by a homeowner, which the Supreme Court has approved in such cases as Martin v. Struthers, 319 U.S. 141 (1941), involving “a form of regulation . . . which would make it an offense for any person to ring the bell of a household, such as by conventional mail, email, or door to door solicitation.”

706 See, e.g., DialAmerica-NPRM at 13; NAAG-NPRM at 19, n.47.

705 Moreover, the Commission has determined that to accomplish its privacy protection objectives, there is no workable way of allowing any member of a household to exercise the “do-not-call” rights of the entire household using a shared telephone number. Households in which one member wants to sign up while another wishes not to have any household member exercise “do-not-call” rights, or to do so using an additional telephone line that is not on the registry and may therefore receive telemarketing calls, or they can provide express authorization to

704 Unlike the Commission’s cases challenging the unauthorized billing of goods or services to consumers’ telephone numbers based solely on ANI verification, see, e.g., FTC v. Vrana Int’l, Ltd., No. 00 Civ. 7422 (LAK) (S.D.N.Y. 2000); FTC v. American TelNet, Inc., No. 99-1587 CIV:KING (S.D. Fla. 1999), the verification process needed to ensure the validity of numbers in the national registry is much less stringent. Here, only the right not to receive unwanted telemarketing calls is being asserted; there is no insuring charges for goods and services, possibly purchased by unauthorized third parties, based on ANI information.
For both telephone and Internet registrations, the only personal identifying information that will be maintained by the national “do-not-call” registry will be the consumer’s telephone number. Based on our discussions with the states, that appears to be the only piece of information that is needed by telemarketers. Moreover, the Commission has determined that it has no need for consumer names or addresses in the registry. Thus, the Commission will not collect that information.

Consumers will be able to verify or cancel their registration status using either the telephone or Internet. The same verification procedures established for the initial registration will apply to these requests as well. Allowing consumers to verify their registration status and to cancel their registrations if they so wish offers yet another method to enhance the accuracy of the national registry.

The Commission has determined that consumers registrations will remain valid for five years, with the registry periodically being purged of all numbers that have been disconnected or reassigned. The Commission wishes to minimize the inconvenience to consumers entailed in periodically re-registering their preference not to receive telemarketing calls. However, the Commission is also aware that the length of time registrations remain valid directly affects the overall accuracy of the national registry. A number of commenters stated that 16 percent of all telephone numbers change each year, and that 20 percent of all Americans move each year. Unless the system includes a process to counteract this effect, numbers in the national registry that have been disconnected and then reassigned to other line subscribers would remain in the registry even though those line subscribers to whom the numbers are reassigned may not object to receiving telemarketing calls.

To guard against this possibility, the system will periodically check all telephone numbers in the national registry against national databases, and those telephone numbers that have been disconnected or reassigned will be purged from the registry. This procedure will help maintain the accuracy of the national registry, while limiting the number of times consumers must go through the registration process. The Commission believes that a five-year registration period coupled with the periodic purging of disconnected telephone numbers from the registry adequately balances, on the one hand, the need to maintain a high level of accuracy in the national registry and, on the other hand, the onus on consumers to periodically re-register their telephone numbers.

Access to consumer registration information. To comply with the amended Rule’s “do-not-call” provisions, telemarketers and sellers must gain access to the telephone numbers in the national registry so that they can “scrub” their call lists to eliminate the telephone numbers of consumers who have registered a desire not to be called. For the telemarketer and seller access component of the registry, the Commission plans to develop a fully-automated, secure website dedicated to providing this information to telemarketers and sellers. The first time a telemarketer or seller accesses the system, the company will be asked to provide certain limited identifying information, such as company name and address, company contact person, and the contact person’s telephone number and email address. If a telemarketer is accessing the registry on behalf of a client seller, the telemarketer will also need to identify that client.

The only consumer information telemarketers and sellers will receive from the national registry is the registrants’ telephone numbers. Those telephone numbers will be sorted and available by area code. Telemarketers and sellers will be able to access any area codes as desired, by selecting, for example, all area codes within a certain state or region of the country. Of course, telemarketers and sellers will also be able to access the entire national registry, if desired.

When a seller or telemarketer first submits an application to access registry information, the company will be asked to specify the area codes that they want to access. Each company accessing the registry data will be required to pay an annual fee for that access, based on the number of area codes of data the company accesses. Fees will be paid via credit card, which will permit the real-time transfer of data) or electronic funds transfer (which will require the telemarketer or seller to wait approximately one day for the funds to clear before data access will be provided).

After payment is processed, the telemarketer or seller will be given an account number and permitted access to the appropriate portions of the registry.

709 In fact, based on discussions between the states and the Commission staff, it appears that in states where additional information is provided to telemarketers, the states have received requests to strip their lists of all information except the telephone number.

710 Some commenters stated that the Commission would have to collect consumers’ names, addresses and telephone numbers in the national registry to remain accurate. See, e.g., NAA-NPRM at 12; Household-NPRM at 13. Another stated that to keep the registry accurate, “the Commission must be prepared to accept a data stream from every local exchange carrier in the country on a daily basis.” SBC-NPRM at 11. The Commission has learned that this is not necessarily true. National databases with sufficient accuracy that contain only telephone numbers now exist, permitting the Commission to purge a telephone number from the national registry when that number is disconnected or the party in whose name the number is registered changes.

711 Consumer inconvenience includes not just their time and effort necessary to register, but also their need to remember when it is time to re-register. Of course, requiring frequent consumer re-registrations also increases the costs of operating the national registry. Several commenters supported allowing registrations to continue indefinitely, until the consumer’s telephone number is disconnected or he requests that his number be removed. See, e.g., New Orleans at 9; NCL at 9. In addition, 14 states with “do-not-call” registries do not specify a renewal period for registrations in their “do-not-call” statutes (Alabama, Alaska, California, Colorado, Indiana, Kentucky, Louisiana, Massachusetts, Minnesota, Missouri, New York, Oklahoma, Pennsylvania, and Tennessee).

712 Commenters citing this concern over the accuracy of the national registry reached various conclusions concerning the time period for which registrations remain should remain valid. Some suggested registrations remain valid for only one year. See DialAmerica-NPRM at 15; NCTA-NPRM at 16; Nextel-NPRM at 26. Others stated that registrations should remain valid for two years, unless the Commission can ensure greater accuracy through a purging process. See NRP-NPRM at 18; PMA-NPRM at 29. Still others suggested that a five-year registration period is sufficient. See NAAG-NPRM at 18; Household-NPRM at 11. State registration periods vary from one year to five years, while, as stated in the previous footnote, fourteen states impose no expiration on consumer registrations. Three states require consumers to renew their registration annually (Arkansas, Florida, and Oregon). Two states (Georgia and Wisconsin) have a two-year registration, and two others (Texas and Utah) have registrations that are good for three years. Six states require consumers to re-register after five years (Connecticut, Illinois, Kansas, Maine, Vermont, and Wyoming).

713 See DMA-NPRM at 12; Nextel-NPRM at 26; Household-NPRM at 13; SBC-NPRM at 11. Of course, not all consumers who move change their telephone numbers. For consumers who keep their existing telephone numbers when they move, no action by either the consumer or the Commission is necessary to maintain the registry’s accuracy.

714 The DMA TPS is operated in a similar manner. TPS registrations remain valid for five years. During that five-year period, information in the TPS against the U.S. Postal Service’s National Change of Address List, purging the telephone numbers of those registered consumers who have moved. DMA-NPRM at 7, 12.

715 They will be able to amend the list of area codes for which they seek data on future visits, provided they pay the appropriate fee for the additional area codes.

On May 29, 2002, the Commission issued a Notice of Proposed Rulemaking to add a new section 310.9 to the Rule, which would establish a “user fee” for telemarketer access to the national do-not-call registry. 67 FR 37362. After reviewing the comments received in response to that NPRM, the Commission has decided that it will issue a revised NPRM seeking additional comment on the fee issue in the near future. Section 310.6 of the amended Rule has been reserved for the fee section.
That account number will be used in future visits to the website, to shorten the time needed to gain access. On subsequent visits to the website, telemarketers and sellers will be able to download either an updated list of numbers from their selected area codes, or a more limited list, consisting only of additions to or deletions from the registry that have occurred since the company’s last download. This would limit the amount of data that a company needs to download during each visit. Telemarketers and sellers will be permitted to access the registry as often as they wish for no additional cost, once the annual fee has been paid. As indicated in the discussion of Section 310.4(b)(3)(iv), however, the Rule requires a seller or a telemarketer to employ a version of the “do-not-call” registry obtained from the Commission no more than three months prior to the date any telemarketing call is made.

**Law enforcement access to the registry.** Any law enforcement agency that has responsibility to enforce either the Rule or any state do-not-call statute or regulation will be permitted to access appropriate information in the national registry. This information will be provided through a secure Internet website, with access obtained through the Commission’s existing Consumer Sentinel® system. Law enforcement agents will be able to query the registry to determine if and when a particular telephone number was registered by a consumer. They will also be able to query if and when a particular telemarketer or seller accessed the registry, and the information accessed by that telemarketer or seller. Such law enforcement access to data in the national registry is critical to enable state Attorneys General and other appropriate law enforcement officials to gather evidence to support enforcement actions under the Telemarketing and Consumer Fraud and Abuse Prevention Act, and, as discussed below, once harmonization between the national registry and state do-not-call programs has been completed, to support law enforcement action under state law as well.

**Harmonization of various do-not-call registries.** As discussed above, the Commission is working with the states to develop a single, national “do-not-call” registry. The Commission envisions allowing consumers throughout the United States to register their preference not to receive telemarketing calls in a single transaction with one governmental agency. In addition, the Commission anticipates allowing telemarketers and sellers to access that consumer registration information through one visit to a national website, developed for that purpose.

To further those goals, the Commission will allow all states, and the DMA if it so desires, to download into the national registry—at no cost to the states or the DMA—the telephone numbers of consumers who have registered with them their preference not to receive telemarketing calls. Telemarketers and sellers will be allowed to access that data through the national registry as the information is received.

It will take some time to achieve these goals completely, however. Some states will be able to transfer their state “do-not-call” registration information, and will cease requiring telemarketers to access the state registries, by the time telemarketers first gain access to the national registry. For other states, it may take from 12 to 18 months to achieve those results. At least one state, Indiana, may need up to three years before it can become part of the national system. In any event, the Commission will continue to work diligently with the states in an effort to harmonize these different systems.

**Implementation time line.** As stated above, the Commission has issued an RFQ to vendors to develop and operate a national “do-not-call” registry. The implementation time line for the registry begins on the date the contract is awarded to a vendor in response to that RFQ. The Commission anticipates awarding the contract as soon as the agency receives appropriate authority and funding from Congress to begin building the national registry.

Consumers will be allowed to begin to register their preference not to receive telemarketing calls approximately four months after a contract for the national “do-not-call” registry is awarded. To avoid an unmanageable surge of calls when the national registry is initially opened, the Commission anticipates phasing in registry availability to consumers one geographic region at a time throughout the United States over a period of approximately two months. Telemarketers and sellers will be given access to the telephone numbers in the national registry approximately six months after the contract is awarded. The effective date for the “do-not-call” provisions of the amended Rule will be approximately seven months after the date the contract to develop and implement the system is awarded. Thus, to comply with the amended Rule, telemarketers will need to obtain the list of registered telephone numbers during the sixth month after the contract is awarded, allowing themselves sufficient time to scrub their calling lists before placing outbound telemarketing calls in the seventh month after the date the contract is awarded.

As stated below in the Effective Date section, in the future the Commission will announce the date by which full compliance with the national “do-not-call” registry provisions of the amended Rule will be required. As noted elsewhere in this document, full compliance with all other provisions of the amended Rule—with the exception of the Caller ID provision (§310.4(a)(7))—will be required by the date on which the amended Rule is effective, March 31, 2003. Full compliance with the Caller ID provisions will be required by January 29, 2004.

§ 310.4(b)(1)(iv) — Abandoned calls & § 310.4(b)(4) — Safe harbor for abandoned calls

In the NPRM, the Commission explained that “abandoned calls” violate §310.4(d) of the original Rule because such calls failed to provide the requisite prompt disclosures.718 In providing this explanation, the Commission noted that “abandoned calls” include two distinguishable scenarios: “hang up” calls, in which telemarketers hang up on consumers whom they have called without speaking to them; and “dead air” calls, in which there is a prolonged period of silence between the consumer’s answering a call and the connection of that call to a sales representative.719 The record shows that both types of abandoned calls arise from the use of predictive dialers, which promote telemarketers’ efficiency by calling multiple consumers for every available sales representative.720 Doing so maximizes the amount of time representatives spend speaking with consumers and minimizes the amount of time representatives spend waiting to reach a prospective customer.721 An inevitable “side effect” of predictive dialers’ functionality is that the dialer will reach more consumers than can be connected to available sales.

718 67 FR at 4524.
719 67 FR at 4532.
720 ABA-NPRM at 12; ATA-NPRM at 32; CADMNPRM at 3; DialAmerica-NPRM at 22; Peland-NPRM at 2; Sytel-NPRM at 3; Miller Study at 13; http://www.predictive-dialers.com/home/faq.html.
721 ATA-NPRM at 31; ERA-NPRM at 41; MPA-NPRM at 31; NAA-NPRM at 14; Private Citizen-NPRM at 3; PMA-NPRM at 30; TeleDirect-NPRM at 2.
representatives. In those situations, the dialer will either disconnect the call or keep the consumer connected in case a sales representative becomes available.

According to one consumer organization, the Rule’s prohibition on abandoned calls as set forth in the NPRM addresses “one of the most invasive practices of the telemarketing industry.” “Hang up” calls and “dead air” frighten consumers, invade their privacy, cause some of them to struggle to answer the phone, only to be hung up on, and waste the time and resources of consumers working from home.

The amended Rule prohibits abandoning outbound telephone calls, but constructs a safe harbor allowing telemarketers to continue using predictive dialers in a regulated manner. Under § 310.4(b)(1)(iv), an outbound telephone call is abandoned if, once the call has been answered by a consumer, the telemarketer fails to connect the call to a sales representative within two seconds of the consumer’s completed greeting. (As explained herein, “hang up” calls and delays of more than two seconds before connecting the call to a sales representative are prohibited by this section of the Rule.) The Commission’s prohibition of abandoned calls is authorized by § 6102(a)(3)(A) of the Telemarketing Act, which directs the Commission to prohibit telemarketers from undertaking a pattern of unsolicited telephone calls which the reasonable consumer would consider coercive or abusive of such consumer’s right to privacy, and by § 6102(a)(3)(C), which directs the Commission to require telemarketers to promptly and clearly disclose certain material information. Section 6102(a)(3), which directs the Commission to consider recordkeeping requirements in prescribing rules regarding deceptive and abusive telemarketing acts or practices, is the authority for the required recordkeeping related to predictive dialers.

Section 310.4(b)(4), the amended Rule’s safe harbor provision, provides that the Commission will refrain from bringing a Rule enforcement action against a seller or telemarketer based on violations of § 310.4(b)(1)(iv) if the seller or telemarker’s conduct meets certain specified standards designed to minimize call abandonment. These standards are: (1) the seller or telemarker must employ technology that ensures abandonment of no more than three percent of all calls answered by a consumer, measured per day per calling campaign; (2) the seller or telemarker must allow each telemarketing call placed to ring for at least fifteen seconds or four complete rings before disconnecting an unanswered call; (3) whenever a sales representative is not available to speak with the person answering the call within two seconds of that person’s completed greeting, the seller or telemarker must promptly play a recorded message; and (4) the seller or telemarker must retain records, in accordance with § 310.5(b)-(d), establishing compliance with § 310.4(b)(4)(i)-(iii).

Telemarketers voiced strong objection to the NPRM discussion of abandoned calls as violative of § 310.4(d), and argued that this interpretation would in effect ban the use of predictive dialers, causing the loss of efficiency benefits that arise from the use of predictive dialers. The Commission is mindful of the benefits of increased efficiency, but believes that the increased efficiency of predictive dialers must be balanced against the abusive nature of abandoned calls. The abuses of abandoned calls delineated in the NPRM and elsewhere in the record. As NAAG asserted at the June 2002 Forum, an abandoned call is basically a "prank call." However, the Commission is persuaded that a total ban on abandoned calls, which would amount to a ban on predictive dialers, would not strike the proper balance between addressing an abusive practice and allowing for the use of technology that provides substantially reduced costs for telemarketers. At the June 2002 Forum, one telemarketing group posited that consumers who make purchases via the telephone ultimately benefit from these reduced costs in the form of lower prices. Therefore, taking into account the record as a whole, and arguments raised by both sides of this issue, the Commission has determined to prohibit abandoned calls from continuing without regulation, and has created requirements that, in effect, closely govern the use of predictive dialers. Under this approach, consumers will benefit from a substantial reduction in the number of abandoned calls they receive, but telemarketers will not be deprived of a large part of the efficiency benefits that accrue from the use of predictive dialers. The Commission also notes that the amended Rule’s establishment of a national “do-not-call” registry should significantly reduce the number of calls received by consumers who place their numbers on the registry, thereby reducing the number of abandoned calls these consumers must contend with as well.

"Abandoned call": Section 310.4(b)(1)(iv) of the amended Rule defines a prohibited abandoned outbound call as one in which the recipient of the call answers the call, and the telemarketer does not connect the call to a sales representative within two seconds of the person’s completed greeting. This definition of abandoned call covers “dead air” and “hang up” calls, in which the telemarketer hangs up on a called consumer without connecting that consumer to a sales representative. This approach to abandoned calls clarifies several issues raised by telemarketers in the record.

The amended Rule removes any possibility of doubt that a call placed by a telemarketer is an outbound telephone call within the meaning of the Rule, even if the telemarketer hangs up on the called consumer without speaking to him or her, or subjects the called consumer to dead air. The Rule’s disclosure requirement is triggered once a recipient of a telemarketing call...
answers the phone.\textsuperscript{737} This approach is consistent with the treatment of this issue in the NPRM.\textsuperscript{738} The Commission rejects the argument, advanced by ACA, ATA, DMA, and ERA, that abandoned calls cannot be regulated by the Rule because they are not “outbound telephone calls.”\textsuperscript{739} If this theory were valid, telemarketers could abuse consumers in a variety of ways without violating the Rule as long as they did not also engage in a sales pitch. That interpretation and that result are contrary to the overall purpose and intent of the Telemarketing Act and plainly at odds with the Rule’s definition of “outbound telephone call” and with the Rule generally. A telemarketer initiates a telephone call by causing the called consumer’s telephone to ring. Abandoning the call after the consumer answers but before the sales representative begins a sales pitch is an abusive telemarketing act or practice.\textsuperscript{740} Certainly this is the type of practice that prompted Congress, in the Telemarketing Act, to direct the Commission to prohibit telemarketers from undertaking “a pattern of unsolicited telephone calls which the reasonable consumer would consider coercive or abusive of such consumer’s right to privacy.”\textsuperscript{740} The record contains ample evidence that consumers find abandoned calls to be coercive or abusive of their privacy rights.\textsuperscript{741} ATA, in its comment and at the June 2002 Forum, requested guidance from the Commission on how “abandoned call” would be defined in the Rule.\textsuperscript{742} Accordingly, the Commission has clarified, in § 310.4(b)(1)(iv), that an outbound call is “abandoned” if, once answered by a consumer, it is not connected to a sales representative within two seconds of the consumer’s completed greeting (i.e., no more than two seconds of “dead air”).\textsuperscript{743} As explained above, this definition of “abandoned call” also includes situations in which the telemarketer hangs up on a consumer who has answered the telemarketer’s call without connecting that call to a sales representative.

Abandoned call “safe harbor”: The abandoned call safe harbor consists of four components, each of which is supported by record evidence. A seller or telemarketer will not be deemed to have violated § 310.4(b)(1)(iv) by abandoning calls, provided that the seller or telemarketer can show that its conduct conforms to the standards specified in this safe harbor.

Under the first subsection of the safe harbor, the telemarketer or telemarketer must employ technology that ensures abandonment of no more than three percent of all calls answered by called consumers. The safe harbor’s three percent abandonment rate is measured per day per calling campaign. The “per day per campaign” unit of measurement is consistent with DMA’s guidelines addressing its members’ use of predictive dialer equipment.\textsuperscript{744} Under this standard, a telemarketer running two or more calling campaigns simultaneously cannot offset a six percent abandonment rate on behalf of one seller with a zero percent abandonment rate for another seller in order to satisfy the Rule’s safe harbor provision. Each calling campaign must record a maximum abandonment rate of three percent per day to satisfy the safe harbor.

What constitutes an “acceptable” abandonment rate was the subject of substantial comment on the record. A number of telemarketers urged the Commission to alter the position implied in the NPRM that the appropriate abandonment rate is two percent abandonment rate.\textsuperscript{745} Among industry representatives who advanced this argument, ATA took the most extreme position, arguing against any regulation of abandonment rates.\textsuperscript{746} The Commission rejects this position in light of the record of conduct affiliated with abandoned calls and predictive dialers under the current regulatory scheme.\textsuperscript{747} Other industry comments recommended that the Commission set a “reasonable” or “acceptable” abandonment rate above zero percent that would curb abuses while allowing use of predictive dialers to continue.\textsuperscript{748} A third group of telemarketers argued that the Commission’s abandonment rate should be consistent with DMA’s current guideline, which calls for an abandonment rate no higher than five percent.\textsuperscript{749} Consumer groups and law enforcement representatives advocated strongly for a zero abandonment rate.\textsuperscript{750}

Taking all of these viewpoints into account, the Commission has concluded that neither extreme strikes the right balance on this issue. The Commission believes that a maximum abandonment rate of three percent strikes a reasonable balance between curbing a very abusive practice and preserving some of the substantial economic benefits that accrue from the use of predictive dialers. Two telemarketers essentially supported this abandonment rate as being “feasible, realistic” and “fully capable” of being achieved.\textsuperscript{751} ATA asserted that the three percent standard would result in “a significant drop in efficiency” among some of its members.\textsuperscript{752} Sytel, a leading provider of predictive dialer technology, urged the Commission not to set a rate below three percent.

\textsuperscript{737} The safe harbor, which, among other things, directs how long telemarketers must allow a called consumer’s telephone to ring before disconnecting the call, addresses telemarketers’ practices before the consumer answers the phone.

\textsuperscript{738} 67 FR at 4524.

\textsuperscript{739} ACA-NPRM at 9-10; ATA-NPRM at 30; DMA-NPRM at 43-44; ERA-NPRM at 40, DMA, ERA, and PMA argued that the FTC lacks authority to regulate telemarketers’ use of predictive dialer technology. [See DMA-NPRM at 4, 42-48; ERA-NPRM at 38-40; PMA-NPRM at 29-30.] Specifically, DMA, ERA, and PMA argued that the FCC has authority to regulate automatic telephone dialing systems through the TCPA. But nothing in the TCPA limits the authority of the FTC under the Telemarketing Act. The Rule’s regulation of calls falls squarely within the FTC’s authority to regulate abusive telemarketing acts or practices under the Telemarketing Act. As the Commission stated in the NPRM, the harm to consumers that arises from abandoned calls is very real and falls within the areas of abuse that the Telemarketing Act explicitly aimed to address. [See 67 FR at 4524.] The Commission therefore rejects the argument offered by DMA, ERA, and PMA that it lacks the legal authority to address call abandonment in the TSR.


\textsuperscript{741} A rate between three and five percent is reasonable.

\textsuperscript{742} See also TeleDirect-NPRM at 2.

\textsuperscript{743} 67 FR at 4522-23. In the present environment, telemarketers have engaged in predictive dialer practices that frighten, disturb, and aggravate consumers. See, e.g., June 2002 Tr. II at 17-18 (AARP); June 2002 Tr. II at 21 (NAAG); June 2002 Tr. II at 22 (DialAmerica).

\textsuperscript{744} BoA-NPRM at 9; Citigroup-NPRM at 10; ICTC-NPRM at 3; KeyCorp-NPRM at 6; MasterCard-NPRM at 13; Time-NPRM at 11.

\textsuperscript{745} 67 FR at 4524.

\textsuperscript{746} See also TeleDirect-NPRM at 2.

\textsuperscript{747} See also DIAL America-NPRM at 19; Sytel, Outbound Focus Issue 16, http://www.outboundfocus.com.\textsuperscript{748} See also http://www.the-dma.org/library/guidelines/dotherightthing.shtml#3B: ABA-NPRM at 12; AFSA-NPRM at 16; ARDA-NPRM at 16; CRA-NPRM at 10; Citigroup-NPRM at 10; DialAmerica-NPRM at 6; ERA-NPRM at 43; MPA-NPRM at 8, 32-33; June 2002 Tr. II at 24 (ERA). See also NAA-NPRM at 15; PMA-NPRM at 31; ERA-Supp. at 23-23; MPA-Supp. at 6, 23; NAA-Supp. at 2; Miller Study at 2; But see NASUCA-NPRM at 14; Tribune-NPRM at 9.

\textsuperscript{749} See also NASUCA-NPRM at 14; June 2002 Tr. I at 220 (Junkbusters). See also Horick-NPRM at 1; McKenna-Supp. at 2. But see McClure-NPRM at 1.

\textsuperscript{750} See also NAA-NPRM at 15; MPA-NPRM at 31; ERA-Supp. at 23-23; MPA-Supp. at 6, 23; NAA-Supp. at 2; Miller Study at 2; See also ARDA-Supp. at 1: “A rate between three and five percent is reasonable.”

\textsuperscript{751} 67 FR at 4523.

\textsuperscript{752} See also ATA-NPRM at 33; ATA-Supp. at 14. See also TeleDirect-NPRM at 2.
percent to allow for continuing use of predictive dialers.\textsuperscript{753} The three percent standard is also consistent with the California Public Utilities Commission’s Interim Opinion regarding predictive dialer use and abandoned calls.\textsuperscript{754}

The second component of the abandoned call safe harbor addresses “ring time” or “early hang ups.” According to Sytel, some telemarketers using predictive dialers may disconnect calls to consumers after allowing the phone to ring for only a very short period of time before hanging up, without giving consumers a reasonable opportunity to answer the phone; these disconnected calls are not considered “abandoned” by predictive dialers.\textsuperscript{755}

Employing a short “ring time” is yet another way for telemarketers to maximize the efficiency of their sales representatives; the predictive dialer calls many more consumers than the telemarker can handle to minimize the chance that a sales representative will remain idle.\textsuperscript{756} This kind of call is abusive of a consumer’s right to privacy, as consumers at home are interrupted without any benefit or purpose whatsoever. One runs to the phone only to have it stop ringing before one can pick it up; or answers it only to find no one there. Surprisingly, one commenter, MPA, actually argued in favor of allowing telemarketers to hang up after one ring if no sales representatives were available to handle the call.\textsuperscript{757} Sytel recommends that the Commission follow DMA guidelines on predictive dialers, which recommend allowing the phone to ring at least four times or for twelve seconds before disconnecting the call.\textsuperscript{758} Sytel stated that the practice of “early hang ups” is widespread, and it urged the Commission to set a “ring time” standard that allows consumers a reasonable length of time to answer the phone.\textsuperscript{759} The Commission has concluded that a modified version of the DMA guidelines presents a reasonable approach. Under this part of the safe harbor, telemarketers must let the phone ring either four times or for fifteen seconds before disconnecting the call.\textsuperscript{760} This ring time standard will give consumers, including the elderly or infirm who may struggle to get to the telephone, a reasonable opportunity to answer telemarketing calls while preventing the undesirable result of consumers’ privacy being disrupted by ringing phones with no caller present on the other end of the line.

The third component of the abandoned call safe harbor requires telemarketers to play a recorded message whenever a sales representative is not available to speak with a consumer within two seconds of the consumer’s completed greeting. The silence that consumers face when the sales representative is unavailable and does not respond after the consumer says, “hello,” is “dead air.”\textsuperscript{761} The recorded message will significantly mitigate the problems associated with “dead air” by identifying the caller responsible for the extended silence. According to the record amassed in this proceeding, dead air is an unavoidable feature of predictive dialers.\textsuperscript{762} Some dead air in telemarketing calls is caused by answering machine detection (“AMD”): consumers are met with silence as the dialer determines whether the call was answered by a person or an answering machine.\textsuperscript{763} Dead air also results when the dialer waits for a sales representative to become available to speak with the called consumer.\textsuperscript{764} Sytel argued in favor of setting a maximum dead air standard of two seconds.\textsuperscript{765} DMA’s predictive dialer guidelines also set a two second maximum for dead air.\textsuperscript{766} This standard is consistent with the recent CPUC Interim Opinion governing predictive dialers.\textsuperscript{767} Based on the record established on this issue—that use of predictive dialers inevitably entails some dead air and that two seconds of dead air allows predictive dialers to impart significant efficiencies—the amended Rule provision allows two seconds of dead air before a call answered by a consumer will be considered “abandoned.”

Consumers on the receiving end of dead air may wonder if “someone is waiting to get into my home when I’m away, or . . . determining when I’m home alone.”\textsuperscript{768} The Commission believes it is not so much the pause that frightens consumers, it is the silence. By playing a recorded message giving the name and telephone number of the seller responsible for the call, the fear generated by telemarketers’ dead air is substantially mitigated, and telemarketers are able to continue using predictive dialer technology.\textsuperscript{769}

The “recorded message” component of the safe harbor must be read in tandem with the prohibition of abandoned calls, under which telemarketers must connect calls to a sales representative within two seconds of the consumer’s completed greeting to avoid a violation of the Rule. Clearly, telemarketers cannot avoid liability by connecting calls to a recorded solicitation message rather than a sales representative. The Rule distinguishes between calls handled by a sales representative and those handled by an automated dialing-announcing device.\textsuperscript{770} The Rule specifies that telemarketers must connect calls to a sales representative rather than a recorded message.\textsuperscript{771}

The record reflects a range of views regarding the prospect of using recorded messages in telemarketing. A consumer advocacy group, a law enforcement body, and some telemarketers expressed support for recorded messages as a way to mitigate the abuses arising from dead air.\textsuperscript{772} Others opposed requiring the use of recorded messages.\textsuperscript{773} DMA opposed it based on the assumption that telemarketers’ messages would need to include all of the prompt disclosures required by § 310.4(d).\textsuperscript{774} DMA noted

\textsuperscript{753}June 2002 Tr. II at 53 (Sytel).
\textsuperscript{754}CPUC Interim Opinion, Rulemaking 02-02-020 (June 27, 2002) at 20. The CPUC concluded that, based on comments it had received in its rulemaking process, “most responsible users of predictive dialing equipment are either already at or near a 3 percent error rate or can achieve it with minimum reprogramming effort.”
\textsuperscript{756}Private Citizen-NPRM at 3.
\textsuperscript{757}June 2002 Tr. II at 25 (MPA).
\textsuperscript{758}Sytel-NPRM at 4; http://www.the-dma.org/library/guidelines/dothingright.shtml#38.
\textsuperscript{759}Sytel-NPRM at 4.
\textsuperscript{760}According to Sytel, the 15-second standard has been adopted by the United Kingdom DMA. Outbound Focus Issue 16, http://www.outboundfocus.com.
\textsuperscript{761}ARDA-NPRM at 15.
\textsuperscript{762}Sytel, Outbound Focus Issue 16, http://www.outboundfocus.com; Sytel-NPRM at 4-5. See also ATA-NPRM at 34; Cendant-NPRM at 9; DMA-NPRM at 42.
\textsuperscript{763}DialAmerica-NPRM at 19-20; Private Citizen-NPRM at 3; Sytel-NPRM at 4-5; Time-NPRM at 4-5; TeleDirect-NPRM at 3; Texas PUC-NPRM at 5.
\textsuperscript{764}ARDA-NPRM at 15; DialAmerica-NPRM at 20-21; Sytel-NPRM at 4.
\textsuperscript{765}Sytel-NPRM at 5-6.
\textsuperscript{766}But see NACAA-NPRM at 10; PCIC-NPRM at 1; Household Auto-NPRM at 11; AARP-NPRM at 9; CAPM-NPRM at 1; NASUCA-NPRM at 13-14; NCL-NPRM at 11; Private Citizen-NPRM at 4.
\textsuperscript{767}This comports with the CPUC Interim Opinion governing predictive dialers, DMA’s guidelines for predictive dialers, and Sytel’s recommended approach. See CPUC Interim Opinion at 10-12; http://www.the-dma.org/library/guidelines/dothingright.shtml#38; Sytel-NPRM at 3.
\textsuperscript{768}ARDA-NPRM at 9; ARDA-NPRM at 15; BoIA-NPRM at 9; CAPM-NPRM at 1; Household Auto-NPRM at 12; PCIC-NPRM at 2; Texas PUC-NPRM at 5. See also McClure-NPRM at 2. But see MasterCard-NPRM at 13.
\textsuperscript{769}DMA-NPRM at 44; EPIC-NPRM at 24; Time-NPRM at 11; Worsham-NPRM at 5.
\textsuperscript{770}DMA-NPRM at 44. See also Capital One-NPRM at 6-7; NASUCA-NPRM at 13-14; NCL-NPRM at 11; Private Citizen-NPRM at 4.
that recorded messages containing these disclosures could violate the TCPA.\textsuperscript{775} Time similarly opposed it based on concern for requiring the recorded message to include the prompt disclosures and, in addition, posited that consumers would not support receiving recorded-message disclosures on their answering machines.\textsuperscript{779} The Commission’s approach to the recorded message component of this safe harbor should allay these concerns.\textsuperscript{777} The recorded message need not include all required prompt disclosures; rather, the message need contain no more than the seller’s name and telephone number.\textsuperscript{778} Of course, it must comply with applicable state and federal laws governing the use of recorded messages, such as the FCC’s TCPA regulations. Moreover, telemarketers are not required to leave a recorded message on the answering machines of consumers who are not home to answer the telemarketer’s call. In light of the limited nature of the elements of the recorded message component of the safe harbor, the Commission’s approach also resolves Sytel’s caution against allowing the use of recorded messages without regulation.\textsuperscript{777}

The fourth component of the abandoned call safe harbor is a recordkeeping requirement. Specifically, telemarketers using predictive dialers under this safe harbor must keep records documenting compliance with the first three components of this safe harbor in a manner that is in accordance with the recordkeeping requirements of the Rule set out in §310.5(b)-(d). The record clearly establishes the need for this requirement. According to statements at the June 2002 Forum, some telemarketers routinely exceed DMA’s recommended maximum abandonment rate of five percent.\textsuperscript{780} At the June 2002 Forum, DMA explained that enforcement of its guideline was difficult despite receiving complaints.\textsuperscript{781} The Commission foresees that, absent recordkeeping requirements, the Commission would encounter similar difficulty in enforcing this aspect of the amended Rule. Furthermore, the record does not contain opposition to a recordkeeping requirement associated with the use of predictive dialers, and the records required by the Commission in this provision of the Rule are similar to those supported by industry representatives in the CPUC’s predictive dialer rulemaking proceeding.\textsuperscript{782} The Commission believes that predictive dialer technology can capture and preserve abandonment rate records as a matter of routine;\textsuperscript{783} records showing compliance with the ring time and recorded message requirements will not impose a significant burden on telemarketers who wish to take advantage of this safe harbor.

§ 310.4(b)(2) — Restrictions on use of list

Section 310.4(b)(1)(v) of the proposed Rule prohibited any seller or telemarketer from selling, purchasing, or using a seller’s “do-not-call” list for any purpose other than complying with the Rule’s “do-not-call” provision. The amended Rule retains the provision but modifies the language to also prohibit the sale, purchase, rental, lease, or use of the national registry maintained by the Commission for any purpose other than compliance with the Rule’s “do-not-call” provision or otherwise to prevent telephone calls to telephone numbers on either the sellers’ lists or the national registry.

Those commenters who addressed this provision supported such a prohibition.\textsuperscript{784} NCL stated that, since consumers who sign up for a “do-not-call” list are seeking to preserve their privacy, it would be an invasion of their privacy to use any information that would identify those consumers (e.g., names or telephone numbers) for any purpose other than to ensure that those individuals do not receive unsolicited telemarketing calls.\textsuperscript{785} In addition to expanding the provision to cover the sale, purchase, rental, lease, or other use of the registry, the amended Rule has made this prohibition a separate and distinct abusive practice. In the proposed Rule, this provision was part of §310.4(b)(1), which sets out prohibited practices by telemarketers, including adherence to the “do-not-call” provision. Section 310.4(b)(1) also prohibited sellers from causing telemarketers to engage in the prohibited practices. However, the Commission believes that it is important for all persons, not just sellers and telemarketers, to use the “do-not-call” lists properly. Therefore, the amended Rule retains this provision, renumbered as §310.4(b)(2), but extends the prohibition to “any person,” in order to prohibit all entities, not just sellers and telemarketers, from misusing “do-not-call” lists. By extending the prohibition to “any person,” the Commission intends that the provision apply to such parties as list brokers and other entities that do not fall within the definitions of “seller” or “telemarketer.” In addition, the amended Rule adds a provision that permits a person to use either seller-specific lists, or the national registry, not only to comply with the “do-not-call” provisions of the Rule, but also “to prevent telephone calls to telephone numbers on such lists.” This provision will permit an entity not subject to the amended Rule for whatever reason (e.g., because it is outside of the Commission’s jurisdiction) to access the national registry in order to scrub its calling lists, if it wants to avoid calling consumers who have expressed a preference not to receive telemarketing calls.

§ 310.4(b)(3) — Safe harbor for “do-not-call”

Section 310.4(b)(3) provides sellers and telemarketers with a limited safe harbor from liability for violating the “do-not-call” provision found in §310.4(b)(1)(iii).\textsuperscript{786} During the original rulemaking, the Commission determined that sellers and telemarketers should not be held liable for calling a person who previously asked not to be called if they had made a good faith effort to comply with the Rule’s “do-not-call” provision and the call was the result of error. The Rule established four requirements that a seller or telemarketer must meet in order to avail itself of the safe harbor: (1) it must establish and implement written procedures to comply with the “do-not-call” provision; (2) it must train its personnel in those procedures; (3) it must maintain and record lists of persons who may not be contacted; and (4) any subsequent call must be the result of error.

These criteria tracked the FCC’s regulations, which set forth the minimum standards that companies must follow to comply with the TCPA’s...
“do-not-call” provision. In the NPRM, the Commission proposed three additional requirements which have to be met by sellers or telemarketers or others acting on behalf of a seller or charitable organization before they may avail themselves of the “safe harbor”: (1) they must use a process to prevent telemarketing calls from being placed to any telephone number included on the Commission’s national registry using a version of the registry obtained not more than 30 days before the calls are made; (2) they must maintain and record consumers’ express verifiable authorizations to call; and (3) they must monitor and enforce compliance with their “do-not-call” procedures.

Based on the record in this matter, and for the reasons set forth below, the amended Rule retains the “safe harbor” requirement to monitor and enforce compliance. However, the amended Rule deletes the “safe harbor” provision expressly requiring maintenance and recording of express verifiable authorizations. In addition, § 310.4(b)(3)(iv), the “safe harbor” requirement to purchase and reconcile the registry, has been modified to delete the 30-day requirement and, instead, require that telemarketers employ a version of the registry which has been obtained no more than three months before a call is made, and to maintain records documenting that process.

The Commission continues to believe that the Rule should contain a “safe harbor” from liability for violations of its “do-not-call” provision. Commenters generally agreed with this position. Sellers or telemarketers who have made a good faith effort to provide consumers or donors with an opportunity to exercise their “do-not-call” rights should not be liable for violations that result from error. Further, as discussed in the NPRM, the Commission believes that the same rationale applies to potential violations of § 310.4(b)(1)(iii), and therefore has, in the introductory sentence of § 310.4(b)(5), extended the “safe harbor” to cover violations of both amended §§ 310.4(b)(1)(ii) and (iii). Section 310.4(b)(1)(ii) prohibits a seller or telemarketer from denying or interfering with a person’s right to be placed on a “do-not-call” list, whereas § 310.4(b)(1)(iii) prohibits calling a person who has previously requested to be placed on such a list.

Although the Commission has extended the “safe harbor” provision to cover the additional practice of denying or interfering with a consumer’s right to be on a “do-not-call” list, it has also tightened the provision by adding the requirement that sellers and telemarketers monitor compliance and take disciplinary action for non-compliance in order to be eligible for the safe harbor. Section § 310.4(b)(5)(v) of the amended Rule requires the seller or telemarketer to monitor and enforce compliance with the procedures established in § 310.4(b)(5)(i).

During the Rule Review, numerous commenters described the problems they had encountered in attempting to assert their “do-not-call” rights and with companies that continued to call after the consumer asked not to be called. Several commenters echoed these complaints in their responses to the NPRM. The do-not-call registry does not indicate that some entities may not be enforcing employee compliance with their “do-not-call” policies. In fact, one consumer reported that telemarketers for two different companies told her that it was not necessary that a company’s “do-not-call” policy be effective, only that such a policy exist.

To clarify this apparent misconception about the Rule’s requirements, the Commission proposed that, in order to avoid themselves of the “safe harbor” provision, sellers and telemarketers must be able to demonstrate that, as part of ordinary business practice, they monitor and enforce compliance with the written procedures required by § 310.4(b)(5)(i). The Commission received few comments on this proposal, and those commenters supported the proposal.

Therefore, the Commission retains § 310.4(b)(5)(v) unchanged, except for renumbering. It is not enough that a seller or telemarketer has written procedures in place; the company must be able to show that those procedures have been and are implemented in the regular course of business. Thus, a seller or telemarketer cannot take advantage of the safe harbor exemption in § 310.4(b)(5) unless it can demonstrate that it actually trains employees in implementing its “do-not-call” policy, and enforces that policy.

Finally, in the “safe harbor” provision in the proposed Rule, the Commission required that the seller or telemarketer use a process to prevent calls to telephone numbers on the national “do-not-call” list, employing a version of the “do-not-call” registry obtained from the Commission not more than 30 days before the calls are made, and to maintain records documenting this process. Virtually all comments on the safe harbor provision were directed at the proposed 30-day requirement for using the registry, which would have required sellers and telemarketers to reconcile or “scrub” the names on the registry with their customer list every 30 days. Industry commenters were unanimous in their view that a 30-day requirement would be extremely burdensome. They also pointed out that a 30-day requirement would be virtually impossible to meet without shutting down operations for a day to scrub their lists, and would be particularly burdensome for small businesses with few employees or those that do not use sophisticated technology. Industry commenters urged the Commission to require quarterly updating, which is the standard adopted by the majority of states in implementing their “do-not-call” statutes. They pointed out that, after an initial period of “volatility” when consumers sign up for the new registry, the number of names on the registry will stabilize and there may not be as great a need for frequent updating.

This requirement was in § 310.4(b)(2)(iii) of the proposed Rule.
The Commission is persuaded that the costs of requiring monthly updating outweigh any additional benefits that might accrue to consumers from such a provision. Based on the record in this matter, the amended Rule modifies the “safe harbor” requirement that lists be reconciled every 30 days. Instead, renumbered § 310.4(b)(3)(iv) of the amended Rule requires that the seller or telemarketer employ a version of the registry obtained not more than three months before any call is made, and maintain records documenting the process it uses to prevent telemarketing to any number on the list. Thus, telemarketers will be required to update their lists at least every three months, a time period that is consistent with most state requirements. Instead of making the list available on specific dates, the registry will be available for downloading on a constant basis, 24 hours a day, seven days a week, so telemarketers can access the registry at any time. As a result, each telemarketer’s three-month period may begin on a different date. The Commission intends that the records documenting the process to prevent telemarketing calls to telephone numbers on the “do-not-call” registry will include copies of any express agreements the seller has obtained from consumers giving their permission for the seller to call, as well as documentation showing when and how often the seller has reconciled its list of names and/or telephone numbers against the national “do-not-call” registry.

The Commission is confident that the additional criteria in the amended Rule do not conflict with FCC regulations. FCC regulations are silent as to the process to be used, or the specific time frame within which the company must reconcile the names on its “do-not-call” list with its list of prospective customers to be called in a telemarketing campaign. Therefore, any FTC requirement that there be a process in place to prevent calls to telephone numbers on a “do-not-call” list would not conflict with unique FCC regulations. Similarly, FCC regulations are silent as to the requirement to monitor compliance and take action to correct any non-compliance, or to maintain evidence of express verifiable written authorization to accept telemarketing calls. Thus, the proposed Rule would not conflict with the FCC’s regulations. Furthermore, as discussed more fully above, the Commission believes that it is necessary for the amended Rule to diverge from FCC regulations by imposing a monitoring requirement in the “safe harbor” provision in order to clarify the applicability of the safe harbor.

§ 310.4(c) — Calling time restrictions

Section 310.4(c) of the original Rule proscribes the making of outbound telemarketing calls before 8:00 a.m. and after 9:00 p.m. local time at the called person’s location.801 In response to comments received during the Rule Review suggesting further limitations on calling times, the Commission noted in the NPRM that it declined to adopt further restrictions because the original Rule’s calling times strike the appropriate balance between protecting consumer privacy and not unduly burdening industry.

In response to the NPRM, the Commission received more than 100 comments from consumers on this issue, the vast majority of which recommended that the calling times be limited in some fashion. Many consumers urged that the calling times provision further restrict calls during the “dinner hour,” or at either end of the day, arguing that calls that come at 8:00 a.m. or 9:00 p.m. are inconvenient, particularly for families with small children. Some commenters urged the Commission to prohibit telemarketing on Saturdays, Sundays, or the entire weekend.804 Still others urged the Commission to consider the plight of those shift workers for whom the current calling hours provide little or no protection from calls during “sleep time.”

The few industry comments regarding calling times were supportive of the current hours, but critical of the notion that allowing consumers to customize their preferred calling times via the national “do-not-call” registry would be workable.808 EPIC noted that it favored retaining the current calling times provision, but found it desirable to allow consumers who wish to do so to set other preferred times via the national “do-not-call” registry.807

As noted in the NPRM, the Commission believes the current calling hours provide a reasonable window for telemarketers to reach their existing and potential customers. The Commission recognizes that while some consumers may find it objectionable to receive telemarketing calls between 8:00 a.m. and 9:00 p.m., the majority of consumers would not find calls within these hours to be particularly abusive of their privacy. Furthermore, consumers who wish to avoid telemarketing calls will, under the amended Rule, have the option of placing their telephone numbers on the national “do-not-call” registry, thus blocking most unwanted calls at all times. Therefore, the Commission declines to modify the calling hours prescribed by § 310.4(c), and retains this provision without amendment.

§ 310.4(d) — Required oral disclosures

Section 310.4(d) of the original Rule requires that a telemarketer in an outbound call make certain oral disclosures promptly, and in a clear and conspicuous manner. The NPRM proposed to make two minor modifications to the wording of this section. First, the Commission proposed inserting, after the phrase “in an outbound telephone call,” the phrase “to induce the purchase of goods or services.” This would clarify that § 310.4(d) applies only to telemarketing calls made to induce sales of goods or services (in contrast to proposed new § 310.4(e), which contains an analogous phrase clarifying that § 310.4(e) will apply to calls made “to induce a charitable contribution”). Second, the Commission proposed to add the word “some” to clarify that the requirement does not conflict with the disclosures be made; the disclosures must also be made

800 See ARDA-NPRM at 13 (noting it felt no need to comment on this provision because the Commission had proposed no modification, and urging that no customizing of calling preferences be allowed); NAA-NPRM at 17.
801 See EPIC-NPRM at 18, 22 (noting that while generally acceptable, the current calling times “represent only the Commission’s judgment on what time of day people most value their privacy,” and urging the Commission to allow for customizable calling time preferences).
802 See amended Rule § 310.4(b)(3)(ii)(B), discussed above.
truthfully. The amended Rule adopts both modifications, but also provides additional guidance on when the oral disclosures should be made in upsell transactions and what information should be disclosed in those situations.

The Commission received very few comments on these proposed changes. NAAG expressed its support for inclusion of the word “truthfully” in this section, noting that however obvious it might seem that mandatory disclosures be made truthfully, abuses have occurred when, for example, a telemarketer misstates the purpose of the call, claiming it is a “courtesy” call rather than a sales call.

The Commission agrees that the express requirement that the required disclosures be “truthful” will benefit consumers, and should impose no additional burden on telemarketers. Thus, this requirement is adopted in the amended Rule.

A few commenters recommended limiting or expanding the provision. ASTA urged the Commission to limit the applicability of parts of the oral disclosure provision so that sellers with whom a customer had a prior business or personal relationship would be exempt from making two particular disclosures: 1) that the purpose of the call is to sell goods and services (§ 310.4(d)(2)); and 2) the nature of the goods and services (§ 310.4(d)(3)).

ASTA argued that it does not believe “situations in which there is a prior business or personal relationship between the parties, are, in practice, subject to the same sort of abuses that the Rule seeks to address by way of [the § 310.4(d)(2) and (3) disclosures].” Tribune made a similar argument, requesting an exemption from compliance with the § 310.4(d) disclosures for newspapers with whom a customer has a prior business relationship. According to Tribune, in many instances, newspapers call current subscribers to ascertain whether the customer is satisfied, and then to offer additional services, such as the weekday paper in addition to an existing Sunday-only subscription; Tribune also believes the required oral disclosures may be off-putting to customers.

The Commission does not believe that the existence of a prior or even an ongoing business or personal relationship obviates the need for the required prompt oral disclosures in calls that are, in whole or in part, designed to induce the purchase of goods or services.

Therefore, the Commission declines to create exemptions to § 310.4(d). DOJ recommended that an additional disclosure—the “seller’s title or position in the company”—be added to this section, arguing that such a disclosure would directly address the fraudulent practice wherein a telemarketing sales agent misrepresents that he or she holds a position of great authority within the company on behalf of whom the call is made, such as a claim that he or she is the president of the company.

Although the Commission agrees that such misrepresentations of other provisions of the Rule as well. Therefore, the Commission declines to add a disclosure regarding the telemarketing sales representative’s position within the company.

A few commenters requested further clarification regarding the meaning of the term “promptly,” suggesting that it is too vague to be a useful guideline in the Rule. One of these commenters also sought to clarify the timing of the prompt oral disclosures required by this section in a multiple purpose call. These two issues were discussed at length in the NPRM, and the Commission reiterates here what it has previously stated: 1) the term “promptly,” as used in the Rule, means “at once or without delay, and before any substantive information about a prize, product or service is conveyed to the consumer,” a standard which allows for some flexibility without sacrificing the consumer’s need to know certain material information prior to the beginning of any sales pitch; and 2) in “any multiple purpose call where the seller or telemarketer plans, in at least some of those calls, to sell goods or services, the [§ 310.4(d) disclosures] must be made “promptly,” during the first part of the call, before the non-sales portion of the call takes place.” The Commission does not believe that any change in the text of the Rule is necessary to achieve clarity regarding these two issues, nor does it believe the suggested modifications would provide greater clarity; thus, the Commission declines to modify this section.

A few commenters suggested that an additional disclosure—of the seller’s telephone number—should be added. NASUCA suggested that this number be one useful to consumers who wish to be placed on a seller’s “do-not-call” list, while Patrick suggested that the number be one consumers could use to report violations of the Rule. Patrick suggested, in the alternative, that the Rule prohibit the failure to provide name, address, and telephone number information for the seller or telemarketer, if such information is requested by the consumer. The Commission previously has expressed its concern that too many disclosures are required, particularly in the beginning of the call, their effectiveness is diluted. Further, the Commission believes that amended § 310.4(a)(7), regarding transmission of Caller ID, and § 310.4(b)(1)(iii)(B), creating a national “do-not-call” registry, will help to mitigate the problem these commenters have proposed to cure. Therefore, the Commission declines to require a disclosure of the seller’s telephone number in this section.

As explained in the discussion of § 310.2(dd) above, regarding the definition of “upselling,” the Commission believes that upsell transactions are analogous to outbound telephone calls. Therefore, the amended Rule requires that the oral disclosures mandated by § 310.4(d) must be promptly disclosed at the initiation of the upsell if any of the information in these disclosures differs from the disclosures made in the initial transaction. For example, in an external upsell (where there is a second seller), the consumer must be told the identity of the second seller—the one on whose behalf the upsell offer is being made. In an internal upsell, however, the identity of the seller remains the same in both transactions and need not be repeated in the second transaction. Thus, the Commission has inserted the phrase “or internal or external upsell” after the
term "outbound telephone call" in § 310.4(d) of the amended Rule; and has inserted the requirement that "in any internal upsell for the sale of goods or services, the seller or telemarketer must provide the disclosures listed in this section only to the extent the information in the upsell differs from the disclosures provided in the initial telemarketing transaction." The goal in this provision is to ensure that consumers receive all of the information they need in order to make an informed decision whether to make a purchase, without requiring duplicative or irrelevant disclosures.

§ 310.4(d)(4) — Sweepstakes disclosure

Section 310.4(d)(4) of the original Rule required that a telemarketer promptly disclose that no purchase or payment is necessary to be eligible to win a prize or participate in a prize promotion if a prize promotion is offered. In the NPRM, the Commission proposed to modify § 310.4(d)(4) to require that the telemarketer disclose that a purchase will not enhance a customer’s chances of winning a prize or sweepstakes, which would make the amended Rule’s disclosure requirement consistent with the requirements for direct mail solicitations under the Deceptive Mail Prevention and Enforcement Act ("DMPEA"). As discussed above with regard to the same disclosure in § 310.3(a)(1)(iv), commenters generally supported this proposal. PMA maintained that the disclosure was unnecessary and that there was no evidence in the record to support adding the disclosure. Nonetheless, PMA stated that, as a gesture of good faith, they would not oppose the change. They asked, however, that the Commission allow them flexibility on when to make the disclosure, rather than mandating that it be made “promptly,” as required by § 310.4(d), because the disclosure would be more meaningful if it were delivered in conjunction with the sales solicitation rather than the discussion about the sweepstakes.

The Commission believes that it is important that consumers promptly be put on notice when a call promoting a sweepstakes also includes a sales solicitation. The Commission does not believe it is necessary to script the telemarketing call or to define with finite specificity within how many seconds particular disclosures must be made. As with the Rule’s requirement that the telemarketer promptly disclose that no purchase or payment is necessary to win a prize, the Commission believes that the disclosure that a purchase will not enhance the consumer’s chances of winning may occur "before or in immediate conjunction with the description of the prize." As the Commission stated in the original Rule’s SBP, this language was included in § 310.4(d)(4) "to prohibit deceptive telemarketers from separating the disclosure (in that instance, of the fact that no purchase or payment is necessary to win a prize) from the description of the prize, thereby negating its salutary effect." Although this guidance does not alter the imperative that the disclosures be made "promptly"—i.e., "at once or without delay," but "[a]t a minimum... before any sales pitch is given"—it should provide telemarketers of prize promotions the necessary flexibility in making the requisite disclosures.

Therefore, the Commission has determined that it is an abusive telemarketing act or practice to fail to disclose truthfully, promptly, and in a clear and conspicuous manner, any prize promotion, that no purchase or payment is required to win a prize or participate in a prize promotion, that any purchase or payment will not increase the customer’s chances of winning, and, upon request, the no-purchase/no-payment method of participating in the prize promotion.

§ 310.4(e) — Required oral disclosures in charitable solicitations

As noted in the NPRM, § 1011(b)(2)(D) of the USA PATRIOT Act mandates that the TSR include a requirement to address abusive practices in the solicitation of charitable contributions. Specifically, the USA PATRIOT Act directs the Commission to include in the Rule: a requirement that any person engaged in telemarketing for the solicitation of charitable contributions, donations, or gifts of money or any other thing of value, shall promptly and clearly disclose to the person receiving the call that the purpose of the call is to solicit charitable contributions, donations, or gifts, and to make such other disclosures as the Commission considers appropriate, including the name and mailing address of the charitable organization on behalf of which the solicitation is made.

In response to this mandate, the Commission included in the proposed Rule new § 310.4(e), which requires in calls to solicit charitable contributions the truthful, prompt, clear and conspicuous disclosure of two pieces of information: 1) the identity of the charitable organization on behalf of which the request is being made; and 2) that the purpose of the call is to solicit a charitable contribution. The Commission declined to require the oral disclosure of a charitable organization’s mailing address because it was dubious that requiring disclosure of this information in every instance would prove sufficiently beneficial to consumers to justify the costs incurred by telemarketers, and the charities for whom they solicit, of making this disclosure. However, the Commission did pose specific questions on this issue, including whether the disclosure requirement should be triggered only when a donor asks for such information.

Few comments addressed the proposed requirements for disclosures in the solicitation of charitable
the consumer to decide whether to identify information in unsolicited telemarketers to disclose basic Telemarketing Act, in requiring organizations of their right to anonymity solicitation is made strips charitable organization on behalf of which the further argues that the mandatory contribution process.

``'

a charity was legitimate, and that the that such information would be of little use to consumers in discerning whether a charity was legitimate, and that the time and distraction involved in disclosing an address would be “counterproductive to the charitable contribution process.”837

Hudson Bay expressed its view that both of the proposed disclosures are unconstitutional.838 According to Hudson Bay, the requirement that a telemarketing company promptly disclose that the call is to solicit a charitable contribution runs afoul of the First Amendment because it mandates not only what must be said, but when.839 Hudson Bay further argues that the mandatory disclosure of the name of the charitable organization on behalf of which the solicitation is made strips charitable organizations of their right to anonymity and violates the First Amendment’s guarantee of freedom of association.840

As previously noted, the USA PATRIOT Act directs the Commission to include these specific disclosures in the TSR.841 Congress’ purpose in the Telemarketing Act, in requiring telemarketers to disclose basic identifying information in unsolicited outbound telemarketing calls, is to ensure that the consumer is given information promptly that will enable the consumer to decide whether to allow the infringement on his or her time and privacy to go beyond the initial invasion. The Commission believes that the USA PATRIOT Act amendments are consistent with this purpose. Moreover, the Commission believes there is a tight nexus between this purpose and the statutory and regulatory means employed to achieve this purpose. The Commission also believes that these disclosure requirements are very narrowly tailored to impinge as little as possible on protected speech while still accomplishing the purpose Congress intended. The Commission has exercised restraint in implementing this statutory mandate, keeping the disclosure requirements for charitable solicitation telemarketing to the bare minimum necessary to fulfill the purpose of the USA PATRIOT Act amendments. The Commission notes that the Supreme Court has specifically noted that requiring a professional fundraiser “to disclose unambiguously his or her professional status . . . [is a] narrowly tailored requirement [that] would withstand First Amendment scrutiny.”842 The Commission believes that if a requirement to disclose one’s status as a professional fundraiser would pass First Amendment scrutiny, then so would a requirement to make the disclosures now required by the Rule to fulfill the mandate of the USA PATRIOT Act amendments.

Some commenters recommended that the Commission expand the provision to require additional disclosures in certain circumstances. For example, NAAG recommended that, in the event a paid telemarketer is making the charitable solicitation, three additional disclosures be required: “(1) the name of the caller; (2) the name of the telemarketing company; and (3) the fact that the caller is being paid to solicit.”843 NCL concurred, suggesting that the Rule require fundraisers to “identify themselves as well as the charities on whose behalf they are operating.”844 NAAG and NCL argued that this additional set of disclosures would provide three distinct benefits. First, such disclosures would prevent donors from being deceived about the identity of the solicitor. NAAG noted that in many instances, for-profit fundraisers “misrepresent” that they are affiliated with, or members of, the charity or public safety organization in whose name they are calling.”845 Second, the information would serve as an important means of identifying potential Rule violators.846 The third benefit from these suggested disclosure requirements would be the triggering role they would serve, prompting consumers to inquire, of the telemarketer or of a state regulatory agency, about the amount of their contribution that will go to charity after the fundraiser takes its share.847

The Commission declines to add a mandatory disclosure of the name of the caller in calls to induce charitable contributions. In the initial proposed TSR, the Commission had included such a requirement for all outbound telephone calls;848 but it was deleted because commenters noted that “‘desk names’ are commonly used in the industry to protect the safety and privacy of employees, and to protect against potential prejudice and harassment.”849 The Commission concluded that the disclosure of the seller’s identity is most meaningful to consumers, not the name of the individual with whom they are speaking. The Commission can conceive of no reason why this analysis would not apply with equal force in the context of charitable solicitation. Moreover, the Commission is not persuaded that disclosure of this information is necessary to advance the privacy objectives underlying the Commission’s authority to prohibit “abusive” practices pursuant to § 6102(a)(3) of the Telemarketing Act.850 Therefore, the Commission declines to include in the amended Rule a requirement that the caller’s name be disclosed in charitable telemarketing solicitations.

The Commission also declines to adopt the suggestion that it mandate disclosure of the name of the telemarketing company.851 In adopting the original Rule, the Commission rejected such a disclosure in the context of the sale of goods or services because it was deemed unnecessary; rather, a requirement to disclose the identity of the seller—which is clearly material to the consumer—was included. In the charitable fundraising context, the Commission believes the identity of the charity is the analogous material item of

---

834 As noted above in the section discussing amended § 310.3(d), AARP and NCL noted in their comments in response to the NPRM that they supported the goal of expanding the Rule’s ambit to cover charitable solicitations.
835 See AFP-NPRM at 3.
836 Id.
837 Id. (noting, however, that it had no objection to requiring the disclosure of the mailing address, provided the donor asked for such information).
838 See Hudson Bay-Goodman-NPRM at 6-7.
839 Id. (citing Riley, 441 U.S. at 791).
840 Id. at 7 (citing Talley v. California, 362 U.S. 60 (1960)).
841 USA PATRIOT Act, § 1011.
842 Riley, 487 U.S. at 799, n.11.
843 NCL-NPRM at 11. See also Make-A-Wish-NPRM at 6 (recommending adding a disclosure that the professional fundraiser is being paid for its services); NASCO-NPRM at 6.
844 NAAG-NPRM at 52.
845 NCL-NPRM at 11.
organization’s mission, while the telefundraiser’s fee gobbles up the lion’s share. This occurs in some instances, but the record does not support an inference that such a scenario inevitably follows from the use of paid telefundraisers by charitable organizations, and there is evidence on the record tending to show that the opposite is often true: the use of professional telefundraisers saves charitable organizations money—as compared with in-house telephone fundraising.

Additionally, the Commission is concerned, as it is with the other recommended disclosures, about the potential negative consequences that derive from overloading the beginning of a charitable solicitation call. Further, it is notable that the USA PATRIOT Act did not specifically require such a disclosure. While disclosure of the identity of the telemarketer may, arguably, be beneficial to potential donors because it may prompt them to think and inquire about the proportion of a contribution that will be consumed by a professional fundraiser’s fee; but the Commission believes the record falls short of showing that the benefits of mandating such a disclosure would outweigh the burdens it would impose upon legitimate charities who choose to conduct their fundraising efforts using professional telefundraisers.

Therefore, the Commission does not believe the current record supports a finding that disclosure of this information is necessary to prevent “abusive” practices pursuant to § 6102(a)(3) of the Telemarketing Act.

For similar reasons, the Commission also declines to require a mandatory disclosure that the telemarketer is a paid fundraiser. The comments on this issue reflect considerable concern about instances where only a minuscule portion of contributions are devoted to the actual support of a charitable

### Other issues regarding abusive practices raised in response to the NPRM

Commenters responded to the Commission’s questions in the NPRM regarding additional issues related to abusive practices that had surfaced during the Rule Review, in particular, prison-based telemarketing. Commenters also raised other issues: telefundraisers’ use of courier services to pick up payments from consumers; telemarketers’ targeting of vulnerable groups; and the sale of victim lists. Each of these issues, and the reasoning behind the Commission’s responses to them, are discussed in detail below.

#### Prisoner telemarketing

During the Rule Review, the Commission received several comments describing problems that had occurred when sellers or telemarketers used prison inmates to telemarket goods or services. These commenters recommended that the Commission ban the use of prisoners as telemarketers or, in the alternative, tightly regulate it, including requiring that inmates disclose their status as prisoners when they make calls to, or receive calls from, the public. These commenters cited several graphic incidents in which inmates have abused consumers’ information and other resources to which they had access through inmate telemarketing to make improper, invasive, and illegal contact with members of the public.

Specifically, these commenters pointed out that, while working as telemarketers, inmates inevitably gain access to personal information about individuals, including minors, that may endanger the lives and safety of those they call. In the NPRM, the Commission stated that it was extremely concerned about the potential misuse of personal information and abusive telemarketing activity in connection with prison-based telemarketing, but

---

852 See USA PATRIOT Act § 1011(b)(2)(D). The absence of such a requirement from the USA PATRIOT Act is noteworthy because such a disclosure was specifically approved in *Riley*, 487 U.S. at 799, n.11.

853 As noted by Not-for-Profit Coalition, Hudson Bay and others, telefundraisers play a critical role in enabling charitable organizations, particularly smaller ones, to raise funds necessary to fund their missions. Not-for-Profit Coalition-NPRM at 17-20; Hudson Bay-Goodman-NPRM at 2.

854 The Commission believes that, as in the case of the required oral disclosures in the sale of goods or services, the failure to make certain material disclosures in the solicitation of a charitable contribution rises to the level of an abusive practice under the Rule. As noted in the NPRM, the Commission believes the prompt disclosure of certain information in a telemarketing call to induce the sale of goods or services is necessary to enable a consumer “to decide whether to allow the infringement on his or her time and privacy to go beyond the initial invasion.” 67 FR at 4511.

855 See, e.g., Pennies for Charity, 2001, New York Attorney General, http://www.oag.state.ny.us/charities/pennies01/penintro.html [accessed Oct. 8, 2002] (stating that “charities retained an average of 31.5% of the funds raised for charity by registered to solicit contributions in New York in 2000. Some of the charities received much less than that and some received nothing at all.”); NASCO-NPRM at 2 (citing the New York Attorney General’s report as well as a 1999 report by the California Attorney General showing charities received only 48.2 percent of funds raised by telemarketers who solicited on their behalf that year). See also Private Citizen-NPRM at 5.

856 Hudson Bay-Goodman-NPRM at 2.

857 See USA PATRIOT Act § 1011(b)(2)(D). This omission, too, is conspicuous in light of the fact that numerous states have included this mandatory disclosure and that such a disclosure is, at least in dicta, sanctioned by the Court in *Riley*, See NAAG-NPRM at 52; Riley, 487 U.S. at 799, n.11.

858 See note 856 above.

859 These comments cited several graphic incidents in which inmates have abused consumers’ information and other resources to which they had access through inmate telemarketing to make improper, invasive, and illegal contact with members of the public.

860 For example, in its 1997 report to Congress on the privacy implications of individual reference services, the FTC cited an example where a prison inmate (and convicted rapist), who was employed as a data processor, used his access to a database containing personal information to compose and send a threatening letter to an Ohio grandmother. See FTC, “Individual Reference Services: A Report to Congress” (Dec. 1997), at 16. Several states, including Wisconsin, Nevada, and Massachusetts, have considered legislation that would require their Departments of Correction to restrict prisoners from using personal information in communication with the public, including minors, that may endanger the lives and safety of those they call. See generally Jordan-RR, S. Gardner-RR, Budro-RR, and Warren-RR. In addition, this issue received considerable attention during the Rule Review. See RR Tr. at 220-45, 367-75, 443-47.

861 Specifically, these commenters pointed out that, while working as telemarketers, inmates inevitably gain access to personal information about individuals, including minors, that may endanger the lives and safety of those they call. In the NPRM, the Commission stated that it was extremely concerned about the potential misuse of personal information and abusive telemarketing activity in connection with prison-based telemarketing, but

---
also that some public benefit likely came from inmate work programs that entail telemarketing. The Commission noted that the record contained insufficient information upon which to base a proposal regarding prisoner telemarketing or to assess the costs and benefits of such a proposal. Therefore, the NPRM posed several questions to elicit comment on what action by the Commission, if any, might be appropriate regarding this issue. In response to the NPRM, the Commission received several comments on this issue. In addition, the June 2002 Forum devoted a session to the topic. Based on the entire record in this proceeding, the Commission has determined that any problems associated with the use of prison-based telemarketing would be more appropriately handled by the state legislatures and regulatory agencies than by adding a provision to the TSR. The comments show that the number of inmates used for commercial telemarketing purposes is a small percentage of the prisoners who are employed in inmate work programs. The majority of prison-based telemarketing programs are used by federal and state governments, often for such tasks as providing information to consumers who call state tourist bureaus. A 1999 GAO Report reveals that only seven percent of the inmates who had access to consumer information were performing work for private firms, while 93 percent were working for government agencies, performing tasks such as answering calls from the public to state tourist centers. Thus, the vast majority of inmates, repay taxpayers for the inmates’ room and board, and are an effective tool for rehabilitation and reducing recidivism. They maintain that inmate jobs are “vital to helping keep prisons safe and secure and offering meaningful educational and vocational training to aid in successful re-entry.” These commenters outlined the significant precautions taken in screening and monitoring inmates for these jobs.

Based on the record in this proceeding, the Commission believes that, while there is some evidence of consumer injury in a very few documented cases, it is not possible to conclude that the risk of consumer harm outweighs the countervailing benefits. Such a conclusion would be necessary to condemn prison-based telemarketing as an abusive practice. The extensive system of state regulation, coupled with the local nature of the work programs, persuades the Commission that any problems associated with prison-based telemarketing would best be handled at the state level.

Use of couriers: In response to the NPRM, AARP again raised its concern that the Commission ban the practice of allowing couriers, including overnight mail delivery services, to pick up payment for goods and services purchased through telemarketing. AARP points out that the use of couriers in sweepstakes and lottery scams is prevalent, and that some unscrupulous telemarketers use couriers not only to quickly separate the consumer from his or her money, but to make a headline appearance by giving a contribution. AARP notes that, in some instances, even legitimate companies benefit unfairly from the use of couriers by avoiding oversight by the U.S. Postal Service, and by ensuring that non-refundable “deposits” are secured, diminishing the likelihood, in many instances, that a consumer would back out of a transaction. NACAA concurred, and noted its further concern that in-person payment pickups by those posing as public safety officials is a practice perhaps even more harmful to consumers who are intimidated into quickly giving a contribution.

---

682 DialAmerica-NPRM at 28; Spiegel-NPRM at 1; Worsham-NPRM at 6. In addition, see generally CURE-NPRM; CCA-NPRM; UNICOR-NPRM; EPI-NPRM; and EPI-Supp. June 2002 Tr. III at 115-57.
683 The comments indicate that federal inmates are not used as telemarketers except in connection with sales to the federal government. UNICOR is the trade name for Federal Prison Industries, Inc., a wholly-owned government corporation within the U.S. Department of Justice, Federal Bureau of Prisons. UNICOR sells its products primarily to federal agencies. Federal prisoners in connection with those sales. In addition to calling UNICOR’s federal government agencies, the federal prisoners also call the businesses that support UNICOR’s federal sales.) UNICOR-NPRM at 2; see also EPI-Supp. at 1. UNICOR’s sales using prisoner-based telemarketing would not be covered by the TSR. Section 310.6(g) of the Rule exempts telemarketing sales to businesses. In addition, sales to government entities do not fall within the Rule’s definition of “person.”
684 EPI-Supp. at 1.
685 “Prison Work Programs, Inmates” Access to Personal Information.” GAO/GGD-99-146, cited in EPI-NPRM at 13, n.18. See also EPI-Supp. at 1. (All prisoners employed as telemarketers by the private sector are inmates in state prisons, regulated by state agencies.)
686 “Telemarketing” is defined, in part, as a “plan, program or campaign which is conducted to induce the purchase of goods or services or a charitable contribution . . . .” The prison-based telemarketing used by government agencies does not appear to involve calls to “induce the purchase of goods or services.”
687 EPI-NPRM at 2, 3, 9.
688 CCA-NPRM at 2; EPI-NPRM at 3, 14.
689 EPI-NPRM at 3.
690 DialAmerica-NPRM at 28; Spiegel-NPRM at 1; Worsham-NPRM at 6. See also June 2002 Tr. III at 115-57.
691 EPI-NPRM at 10.
692 CURE-NPRM at 1; EPI-NPRM at 13-14. See also June 2002 Tr. III at 115-57.
693 See generally CURE-NPRM; CCA-NPRM; EPI-NPRM; and UNICOR-NPRM. See also June 2002 Tr. III at 115-57.
694 EPI-NPRM at 5-8. See also June 2002 Tr. III at 115-57.
695 See 67 FR at 4510-12.
696 AARP-NPRM at 9-10.
697 Id. (citing NAAG’s comment in the original rulemaking proceeding).
698 AARP-NPRM at 9-10.
699 See NACAA-NPRM at 10-11.
The record does not contain any new evidence regarding the potential harm that accrues from the use of couriers, or any new evidence regarding the benefits to legitimate companies of being able to use couriers to collect payment. Although the Commission recognizes that fraudulent telemarketers often use couriers to collect payment, it continues to believe that “[t]here is nothing inherently deceptive or abusive about the use of couriers by legitimate business.” 883 Moreover, the Commission reiterates its view that telemarketers who seek to use courier services to defraud consumers are likely to “engage in other acts or practices that clearly are deceptive or abusive, and that are prohibited by this Rule.” 884

Therefore, the Commission declines to adopt the recommendation to ban the use of couriers to collect payment for goods or services sold through telemarketing.

Targeting vulnerable groups and the sale of victim lists: DOJ proposed that the Commission include in the amended Rule a provision that “would prohibit a seller or telemarketer who is engaged in any act or practice that violates §§ 310.3(a), (c), or (d) or 310.4(a)-(e) from purchasing lists of prospective contacts from any source.” 885 This suggested change responds to the problems of the sale of victim lists and the targeting of vulnerable groups. As DOJ explains, such a provision would “ensure that any injunctive relief it sought in enforcement proceedings would include a prohibition on any further purchases of ‘mooch lists’ by any individual or corporate defendants in the action,” and lay the foundation for criminal contempt proceedings if such an injunction were violated. 886 DOJ also argued that such an injunction, served on “any list provider known to have sold lists to the telemarketer,” would limit such telemarketer’s ability to resume fraudulent solicitations. 887 Finally, DOJ noted that such a provision “would enable the Commission to address, at least in part, the targeting of vulnerable victims by fraudulent telemarketers, without having to grapple with the difficulties of defining what constitutes ‘vulnerability’ or ‘targeting.’” 888

After careful consideration, the Commission has determined not to adopt the provision proposed by DOJ. The Commission believes that it is unnecessary to include an explicit prohibition against Rule violators purchasing lists of prospective contacts to provide the benefits delineated by DOJ in its comment. In numerous cases, the Commission has already included a similar prohibition in final orders that achieves the goals articulated by DOJ. 889 Therefore, the Commission declines to include a provision to this effect in the amended Rule.

E. Section 310.5 — Recordkeeping

Section 310.5 of the original Rule identifies the kinds of records that must be kept by sellers and telemarketers, and the time period for retention of these records. 890 In the NPRM, the Commission noted that it had declined to adopt any of the suggested modifications to this section submitted pursuant to the Rule Review. Specifically, the Commission declined to: (1) reduce the record retention period to less than 24 months; or (2) tie the duration of record retention either to the value of the goods or services sold or the refund policy of the seller, believing that such modifications would minimize the effectiveness of this provision in law enforcement. 891 The Commission did note that the effect of the USA PATRIOT Act amendments was to extend the recordkeeping requirement to include not only calls to induce charitable contributions. 892 The only explicit change to the language of the section to implement the USA PATRIOT Act amendments was to add the phrase “or solicitations of charitable contributions” to § 310.5(a)(4) following the phrase “employees directly involved in telephone sales.” 893

Very few comments addressed the recordkeeping requirements set forth in § 310.5. ARDA noted that it “agrees with the Commission and feels that the current provisions are adequate.” 894 DMA-NonProfit stated that “imposing burdensome and lengthy (two-year) recordkeeping responsibilities” on charities would hurt the ability of charities, especially small ones, because it would divert funds away from fulfillment of charities’ missions. 895 The Commission believes that the recordkeeping burden on telemarketers who solicit on behalf of charities will be minimal. As noted in the SBP for the original Rule, the recordkeeping provision was already tailored to “strike a balance between minimizing the recordkeeping burden on industry and retaining the records necessary to pursue law enforcement actions.” 896 In addition, the Commission believes that the records required to be maintained are those commonly maintained by businesses in the ordinary course of business. 897 The Commission believes that, as applied to telemarketers who solicit on behalf of charities, the burden of compliance with the recordkeeping provision will be further lessened because many of the recordkeeping provisions will be inapplicable in the charitable solicitation context, or are burdens typically borne by the telemarketer, not the organization on whose behalf the calls are made. 898 NEMA requested that the Commission consider the recordkeeping burden on energy marketers who must, pursuant to their self-regulatory guidelines, already

883 60 FR at 30415.
884 Id.
885 DOJ-NPRM at 7.
886 Id.
887 Id.
888 Id.
890 16 CFR 310.5.
891 67 FR at 4527-28.
892 67 FR at 4538.
893 Due to an oversight, the text of the NPRM noted the correct language of the provision (“or solicitations of charitable contributions”), while the text of the proposed Rule included an abbreviated version (“or solicitations”).
894 ARDA-NPRM at 17. ARDA did reiterate, however, its concern that “overlapping, inconsistent, and conflicting state laws create a substantial burden.”
895 DMA-NonProfit-NPRM at 16.
896 60 FR at 43657.
897 Id.
898 For example, § 310.5(a)(2) only applies when the offer includes a prize promotion, a circumstance unlikely to be implicated in most charitable solicitations. Section 310.5(a)(3) only applies in the commercial solicitation context, as it requires maintenance of records showing information about “customers.” Section 310.5(a)(4) is a requirement typically borne by telemarketers, and the Commission believes that charitable organizations are unlikely to incur additional costs of compliance with this provision as a result of the Rule’s inclusion of charitable solicitations. The Commission does not believe that compliance with amended § 310.5(a)(5), which requires that all verifiable authorizations or records of express informed consent or express agreement required to be provided under the Rule be maintained will be unduly burdensome to charities who are less likely to avail themselves of the marketing methods that implicate these Rule requirements. Therefore, the only provision of the recordkeeping section that is likely to affect charities is § 310.5(a)(1), the requirement that “[a]ll substantially different advertising, brochures, telemarketing scripts, and promotional materials” be maintained. To the extent that retention of such materials is not already customary in the non-profit sector, the Commission believes that the burden of compliance is offset by the corresponding law enforcement benefits that accrue from this provision.
maintain certain records. As noted above in the discussion of the express verifiable authorization provision, § 310.3(a)(3)(ii), the Commission believes that sellers, when they accept payment via methods that are novel or lack certain fundamental consumer protections, must obtain express verifiable authorization by any of the three means allowed by the amended Rule. The maintenance of such records is also necessary to ensure the law enforcement goals of the recordkeeping provision. Finally, ERA noted in its supplemental comment that it believed that it would be expensive for telemarketers conducting upsells to comply with the Rule’s recordkeeping requirements. As addressed above in the discussion of § 310.4(a)(6), the Commission believes that both because the cost of digital audio recording and storage is decreasing, and because of the limited circumstances in which such recording is required under the Rule, the burden on sellers who choose to market goods and services using a combination of a “free-to-pay conversion” coupled with preacquired account information is offset by the consumer protection benefits that will accrue from recording and maintaining consumers’ express informed consent in these circumstances.

Thus, the only modification to the language of § 310.5(a)(5) in the amended Rule is to require that in addition to retaining all verifiable authorizations, a seller or telemarketer must keep all “records of express informed consent or express agreement” for 24 months. This modification is necessitated by the introduction of these two terms in § 310.4(a)(6), dealing with unauthorized billing, and § 310.4(b)(1)(iii)(B)(f), addressing permission to a seller to call despite a consumer’s inclusion on the national “do-not-call” registry. The Commission believes it is necessary for a seller or telemarketer to retain such records of express informed consent and express agreement to enable the Commission and the states to determine compliance with these provisions of the Rule.

Section 310.6 — Exemptions

Section 310.6 exempts certain telemarketing activities from the Rule’s coverage. The exemptions to the Rule were designed to ensure that legitimate businesses are not unduly burdened by the Rule. Based on the record in this proceeding, and on its law enforcement experience, the Commission has determined to add an exemption, § 310.6(a), to specifically exempt outbound calls to solicit charitable contributions from the national “do-not-call” registry provisions of the amended Rule. In addition, the Commission has determined to modify each of the subsections of the original Rule that are now found in renumbered § 310.6(b).

The Commission amends newly renumbered §§ 310.6(b)(1), (2), and (3) to require telemarketers and sellers of pay-per-call services, franchises, and those whose sales involve a face-to-face meeting before consummation of the transaction, to comply with the “do-not-call” and other certain provisions of § 310.4. The Commission amends renumbered § 310.6(b)(4), which exempts inbound calls that are not a result of a solicitation, to make this exemption unavailable to upsell transactions and to calls in response to a message left pursuant to the abandoned call safe harbor provision in § 310.4(b)(4)(iii).

The Commission amends the general media exemption, now renumbered § 310.6(b)(5), to include the direct mail exemption, now renumbered § 310.6(b)(6), to make these exemptions unavailable to upsell transactions and to telemarketers of credit card loss protection plans and business opportunities other than business arrangements covered by the Franchise Rule. In addition, the amended Rule makes clear that email and facsimile messages are direct mail for purposes of the Rule. Finally, the amended Rule modifies the proposed business-to-business exemption, now at § 310.6(b)(7), to clarify that sellers and telemarketers of nondurable office or cleaning supplies need not comply with the amended Rule’s “do-not-call” provisions.

In addition, the amended Rule removes the proposal that would have made the business-to-business exemption unavailable to the telemarketing of Web services, Internet services, and charitable solicitations to businesses. Pursuant to the USA PATRIOT Act amendments to the Telemarketing Act, the Commission amends the Rule to expand several of the exemptions to encompass calls to induce charitable solicitations. Thus, the amended Rule exempts: charitable solicitation calls that are followed by face-to-face payment, § 310.6(b)(3); prospective donors’ inbound calls not prompted by a solicitation, § 310.6(b)(4); charitable solicitation calls placed in response to general media advertising, § 310.6(b)(5); and donors’ inbound calls placed in response to direct mail solicitations that comply with § 310.4(e). In the NPRM, the Commission proposed to make the business-to-business exemption unavailable for charitable solicitation calls. Based upon the record in this proceeding, the Commission has determined that it should not proceed with this proposal.

§§ 310.6(b)(1), (2), and (3) — Exemptions for pay-per-call services, franchising, and face-to-face transactions

Section 310.6(a) of the original Rule exempts all transactions subject to the Commission’s Pay-Per-Call Rule. Similarly, § 310.6(b) exempts transactions subject to the Commission’s Franchise Rule. Section 310.6(c) exempts transactions in which the sale of goods or services is not completed, and payment or authorization of payment is not required, until after a face-to-face sales presentation by the seller. In the NPRM, the Commission proposed to retain the following exemptions for pay-per-call services, franchising, and face-to-face transactions, and

902 The renumbered exemption in the amended Rule is found at § 310.6(b)(1).
903 The renumbered exemption in the amended Rule is found at § 310.6(b)(2).
904 Face-to-face transactions are also covered by the Commission’s Rule Concerning Cooling-Off Period for Sales Made at Homes or at Certain Other Locations, 16 CFR 429. This exemption has been renumbered in the amended Rule and is now found at § 310.6(b)(3).
910 No modifications to §§ 310.6(b)(1) and (2) are necessary to implement the USA PATRIOT Act amendments because charitable solicitations are not likely to be combined with pay-per-call or franchise sales. Therefore, there is no need to expressly exempt such an unlikely scenario from TSR coverage. However, it is necessary to amend
telemarketers selling those exempted goods and services to comply with § 310.4(a)(1) (prohibiting threats, intimidation, or use of profane or obscene language), § 310.4(a)(7) (requiring transmission of Caller ID), § 310.4(b) (prohibiting abusive pattern of calls and requiring compliance with “do-not-call” provisions), and § 310.4(c) (calling time restrictions).

The NPRM pointed out that the Rule Review recordered contained ample evidence of consumers’ increasing frustration with unwanted telemarketing calls, including soliciting for pay-per-call services or sales appointments.

A number of participants in the Rule Review Forum concurred that the “do-not-call” provision of the Rule should also be applicable to calls where a seller attempts to set up an in-person sales meeting at a later date. For these reasons, the Commission proposed making face-to-face, franchise, and pay-per-call transactions subject to the “do-not-call,” calling time restriction, and certain other abusive practices provisions in § 310.4.

Consumer and privacy advocates, as well as state regulators, supported the Commission’s proposal to make these transactions subject to the “do-not-call” and certain other provisions of § 310.4. They recommended that, in order to be effective, a “do-not-call” registry should have as few exemptions as possible. PRC pointed out:

‘Telemarketing as a business practice transcends the boundaries of regulated and unregulated industries. So-called “cold calling” is a common marketing technique, used by the most established regulated entity down to the fraudulent “boiler room” that is here today and gone tomorrow. Each type of entity—and all those in between that make unsolicited telephone calls to a private home—contribute to privacy invasions, costs for devices to stop the invasions, and the overall annoyance factor.

§ 310.6(b)(3) to exempt charitable solicitations that entail a face-to-face meeting before the donor pays. If FR at 4516-18. One consumer who spoke during the public participation portion of the DNC Forum noted frustration about her inability to invoke her right to be called again by a company that called her to solicit a sales appointment. See generally DNC Tr. at 241-46 (Mey). See also FTC v. Access Resource Servs., No. 02-60226 CIV GOLD (S.D. Fla. filed Feb. 13, 2002) (regarding Miss Cleo’s psychic services where psychics continued to call consumers despite repeated requests from the consumer to stop calling). See also FTC v. Access Resource Servs., No. 02-60226 CIV GOLD (S.D. Fla. filed Feb. 13, 2002) (regarding Miss Cleo’s psychic services where psychics continued to call consumers despite repeated requests from the consumer to stop calling).

§ 310.6(b)(3) to exempt charitable solicitations that entail a face-to-face meeting before the donor pays. If 67 FR at 4516-18. One consumer who spoke during the public participation portion of the DNC Forum noted frustration about her inability to invoke her right to be called again by a company that called her to solicit a sales appointment. See generally DNC Tr. at 241-46 (Mey). See also FTC v. Access Resource Servs., No. 02-60226 CIV GOLD (S.D. Fla. filed Feb. 13, 2002) (regarding Miss Cleo’s psychic services where psychics continued to call consumers despite repeated requests from the consumer to stop calling). See also FTC v. Access Resource Servs., No. 02-60226 CIV GOLD (S.D. Fla. filed Feb. 13, 2002) (regarding Miss Cleo’s psychic services where psychics continued to call consumers despite repeated requests from the consumer to stop calling).

The Commission received no comments opposing application of the “do-not-call” and other abusive practices provisions to pay-per-call transactions. With regard to transactions subject to the Commission’s Franchise Rule, industry commenters expressed concern about ambiguities on how the “do-not-call” and calling time restrictions would be applied when inbound calls are converted to outbound calls. The Commission has addressed this issue in its discussions above of the definition of “outbound call” and required disclosures in upsell transactions. IFA also noted that compliance with a national “do-not-call” registry would be costly, particularly if the registry does not contain an exemption for established business relationships and does not preempt state “do-not-call” laws.

The Commission has addressed these issues in its discussion above regarding the national “do-not-call” registry.

Face-to-face transactions: Industry commenters generally opposed making face-to-face transactions subject to the “do-not-call,” calling time restriction, and certain other abusive practices provisions. These commenters argued that face-to-face transactions should continue to be exempt because their practices are already heavily regulated by the states and by the Commission through other FTC rules and thus are less susceptible to abusive practices.

However, the national “do-not-call” registry is not focused on fraud, but rather on consumer privacy. The Commission agrees that the incidence of fraud may be diminished in face-to-face transactions, where the transactions are subject to regulation by other Commission rules or by state regulations. For that reason, the Commission has retained the exemption for face-to-face transactions from the provisions of the Rule that address deceptive or other abusive practices. However, the commenters failed to provide arguments showing why they should be exempted from regulations covering the particular abusive practices set forth in the Commission’s proposal—i.e., a national “do-not-call” registry, calling time restrictions, the prohibition against denying or interfering with a consumer’s right to be placed on a “do-not-call” list, the requirement to transmit Caller ID information, and the prohibition against threats and intimidation.

NAR argued that Congress intended the TSR to address abusive, deceptive, and fraudulent telemarketing practices, not to regulate or prohibit a single telephone call from a real estate professional that simply provides information to a consumer. A single, isolated telephone call would not be part of a plan, program, or campaign which is conducted to induce the purchase of goods or services or a charitable contribution, by use of one or more telephones and which involves more than one interstate telephone call.

Transactions subject to the Commission’s proposed Rule (and thus subject to the national “do-not-call” registry) are those that fall within the definition of “telemarketing,” i.e., “a plan, program, or campaign which is conducted to induce the purchase of goods or services or a charitable contribution, by use of one or more telephones and which involves more than one interstate telephone call.”

Furthermore, it is unlikely that the majority of real estate agents conduct campaigns of outbound calls to solicit potential customers who live out-of-state. Most of the outbound solicitation calls made by real estate agents are probably intrastate calls that would be excluded from the Rule’s coverage.

However, if a real estate agent routinely places outbound calls to solicit potential customers in other states, those calls, in the aggregate, would fall within the definition of a “plan, pattern, or campaign” of outbound calls and would be subject to the Rule.

NAR also argued that a call to set up a meeting does not fall within the definition of “telemarketing” because such calls do not involve the inducement to purchase using the telephone, but rather non-deceptive

915 PRC-NPRM at 3-4.
916 Car Wash Guys-NPRM at 51-56; IFA-NPRM at 2; NPC-NPRM at 3.
917 IFA-NPRM at 2. See also DMA-NPRM at 3; Callmatic-NPRM; DSA-NPRM; NAR-NPRM; ICFA-NPRM at 2-3; Insight-NPRM. See also June 2002 Tr. II at 157-226. But see ARDA-NPRM at 2, 7-9, which supports creation of a national “do-not-call” registry as long as the registry preempts state laws and the Commission provides an exemption for established business relationships.

918 See, e.g. DSA-NPRM at 6-7; NAR-NPRM at 4; June 2002 Tr. III 157-226.

919 See generally FTC v. Access Resource Servs., No. 02-60226 CIV GOLD (S.D. Fla. filed Feb. 13, 2002) (regarding Miss Cleo’s psychic services where psychics continued to call consumers despite repeated requests from the consumer to stop calling).

920 NAR-NPRM at 1-2. Similarly, DSA notes that many of the calls by direct sellers involve single telephone calls to individuals with whom the seller has a personal relationship. DSA maintains that calls to individuals with whom an on-going commercial or personal relationship exists are reasonable, frequently welcome, and expected by the consumer, and therefore suggests that the Commission provide an exemption for a prior business or personal relationship. DSA-NPRM at 5-8. As discussed above, in the section regarding the national “do-not-call” registry, the amended Rule provides an exemption for “established business relationships.”

921 Amended Rule § 310.2(cc).
communication of information about services that are not offered or made available for purchase in a phone conversation.922 However, the definition of “telemarketing” does not require that the purchase be made during the telephone conversation. The definition simply states that the call be “conducted to induce the purchase of goods or services.”

923 The inducement could be made during the telephone call, or it could be in the form of setting up a subsequent face-to-face meeting at which an additional sales presentation could take place.

In summary, the Telemarketing Act mandates that the Commission’s Rule address abusive telemarketing practices and specifically mandates that the Commission’s Rule include a prohibition on calls that a reasonable consumer would consider coercive or abusive of the consumer’s right to privacy, as well as restrictions on calling times.924 The rulemaking record shows that face-to-face transactions are not less susceptible to certain abusive practices prohibited in § 310.4.925 For this reason, the Commission has determined that telemarketing calls to solicit a face-to-face presentation or the purchase of pay-per-call services should be subject to certain Rule provisions designed to limit abusive practices. Because franchise sales generally involve a face-to-face meeting at some point, these transactions are simply another type of face-to-face transaction and thus the telemarketing of franchises should be held to the same standard.

Therefore, the Commission retains the exemptions for pay-per-call services, franchising, and face-to-face transactions set out in §§ 310.6(b)(1)-(3), but amends the TSR to require that telemarketers making these types of calls comply with §§ 310.4(a)(1) and (7), and §§ 310.4(b) and (c). The amended Rule continues to exempt such calls from the recordkeeping requirements of § 310.3 relating to deceptive practices and from the recordkeeping requirements set out in § 310.5.926 These calls would also continue to be exempt from providing the oral disclosures required by § 310.4(d). Similarly, telemarketers soliciting charitable donations would be exempt from § 310.4(e) when the payment or donation is made subsequently in a face-to-face setting.

However, the amended Rule requires that, even when a call falls within these exemptions, a telemarketer may not engage in the following practices:

• threatening or intimidating a customer, or using obscene language; failing to transmit Caller ID information;
• causing any telephone to ring or engaging a person in conversation with intent to annoy, abuse, or harass the person called;
• denying or interfering with a person’s right to be placed on a “do-not-call” registry;
• calling persons whose telephone numbers have been placed on the national “do-not-call” registry maintained by the Commission, unless an established business relationship exists between the seller and the person (telemarketers seeking charitable solicitations are exempted from this requirement);
• calling persons who have placed their names on that seller’s or charitable organization’s “do-not-call” list; and
• calling outside the time periods allowed by the Rule.

§ 310.6(b)(4) — Inbound calls not in response to a solicitation

The amended Rule revises § 310.6(b)(4) to expressly except from the exemption any upsell following an exempt transaction initiated by the consumer. When the Commission issued the original Rule in 1995, this exemption was intended to apply to a single telemarketing transaction initiated by the consumer without any solicitation by the seller or telemarketer. Since then, the practice of upselling has emerged, and has grown dramatically, particularly in the inbound telemarketing context. The reasons for exempting a telemarketing transaction pursuant to § 310.6(b)(4) do not apply to an upsell linked to that initial transaction.

Section 310.6(b)(4) of the amended Rule exempts calls initiated by consumers without solicitation by the seller or telemarketer because such calls are not part of a “plan, program, or campaign to induce the purchase of goods or services.”927 Thus, these calls do not fall within the definition of “telemarketing.” The exemption was intended to cover incidental uses of the telephone that are not in response to a direct solicitation, e.g., calls from a customer to make hotel, airline, car rental, or similar reservations, to place carry-out or restaurant delivery orders, or to obtain information or customer technical support.927

Furthermore, in these calls, the consumer presumably is in control of the transaction that the consumer initiated, absent any outbound call or direct mail piece.

In contrast, an upsell is a direct solicitation for a product or service other than that for which the consumer initiated the call. As such, upsells are part of a telemarketing “plan, program, or campaign to induce the purchase of goods or services” and thus do fall within the definition of “telemarketing.” Furthermore, in upsells, the consumer does not initiate the sales transaction: the sales solicitation is initiated by the seller. When the consumer initiates an unsolicited inbound call, the consumer does not necessarily expect to be offered a good or service during the course of that call (such as in the case of a technical support call), or to be offered additional goods or services (in the case where the consumer was calling to make a purchase). Some commenters suggested that upsells appended to inbound calls should be exempted.928 However, the Commission’s experience indicates that upsells appended to unsolicited inbound calls open the door to potential deception and abuse in the subsequent upsell transaction.929

Accordingly, the amended Rule excepts upsell transactions from the exemption provided for unsolicited inbound calls by consumers in § 310.6(b)(4).

There was substantial comment on the potential cost of subjecting upsells associated with inbound calls to any provisions beyond the Rule’s disclosure requirements.930 The original Rule exempted most inbound calls entirely, since most would fall within either this exemption for calls initiated by the consumer, or into renumbered §§ 310.4(b)(5) or (6) for general media advertisements or certain direct mail solicitations—each of which is discussed below. As a result, sellers and telemarketers were not required to...
comply with the Rule’s recordkeeping requirements with respect to these exempt telephone calls. While the amended Rule retains these exemptions (although with some modification), upsell transactions are excluded from those exemptions. Thus, to the extent that the Rule requires that records be maintained, including recordings of express verifiable authorization or express informed consent, such records must be maintained regarding these inbound upsells.

Commenters expressed concern primarily about the potential need for sellers and telemarketers to record certain inbound transactions.933 These commenters suggested that call centers accustomed to handling only inbound telemarketing calls were not necessarily equipped with recording equipment, and that obtaining and implementing the necessary systems would be prohibitively expensive for many such organizations.934 However, the Commission notes that taping is required only in one circumstance: under § 310.4(a)(6)(i)(C), the seller or telemarketer must make and maintain a recording of the entire sales transaction any time a telemarketing transaction involves both preacquired account information and a “free-to-pay conversion” feature.935 In instances where it is necessary to obtain the consumer’s express verifiable authorization pursuant to § 310.3(a)(3), the amended Rule provides alternatives to making a recording of the consumer’s oral authorization.936 Thus, the number of industry members who would be required to obtain recording equipment is relatively limited. Moreover, with the growth of digital recording technology, the capital investment in recording equipment and record storage is rapidly declining.937

CCC argued that in inbound calls not currently subject to the Rule, the impact of these amendments would be to “unnecessarily increase inbound call length by 50 percent or more and thereby increase the cost of goods or services to consumers.”938 CCC also suggested that additional recordkeeping, “public disclosure,” and taping requirements will be overly burdensome.939 While the Commission recognizes that, to the extent telemarketers have not been subject to the Rule, there is potential for additional burdens, the obligations of the Rule are minimal, and generally reflect regular practices already in place for most sellers and telemarketers in the ordinary course of business—such as the basic disclosure requirements, prohibition on misrepresentations, and recordkeeping requirements.940 Moreover, the taping requirement is limited to those transactions that involve both preacquired account information and a “free-to-pay conversion” offer. Thus, only those sellers and telemarketers that choose to structure their upelling campaigns in this fashion will be subject to this additional requirement. The Commission therefore believes that any additional burden caused by these new requirements will be minimal. Ultimately, the Commission believes that the benefits to consumers of receiving the appropriate disclosures in an upsell transaction outweigh the costs to industry of providing those disclosures and ensuring that any charges are authorized by the consumer.

Additionally, it should be clear that telephone calls initiated by a customer or donor in response to a telemarketer’s transmission of Caller ID information or use of a recorded message under the abandoned call safe harbor provision described in § 310.4(b)(4) are excepted from this exemption, as the customer or donor in this context would have had no reason to initiate a telephone call but for the solicitation efforts of the seller, charitable organization, or telemarketer. The transmission of Caller ID information and the use of a recorded message are considered forms of solicitation by a seller, charitable organization, or telemarketer under this exemption because they are part of a telemarketer’s efforts to induce the purchase of goods or services or a charitable contribution. Although the information displayed on a consumer’s caller identification service or provided via a recorded message will not include a sales pitch or “result of [a] solicitation” and therefore outside the scope of the exemption described in this section.

310.6(b)(5) — Exemption for general media advertisements

The Commission received few comments addressing its proposal to narrow the general media exemption by adding two additional categories of goods or services to the list of its exceptions: credit card loss protection plans, and business opportunities other than those covered by the Franchise Rule or any subsequent rule covering business opportunities the Commission may promulgate.941 The proposed expansion of the exemption to cover charitable solicitations pursuant to the USA PATRIOT Act yielded no comments.

Several of the commenters who addressed the general media exemption opposed having any exemption at all for general media, and therefore supported any effort to narrow it.942 NCL stated that if the Commission determined to retain the general media exemption, it supported the addition of credit card loss protection plans and business opportunities other than those covered by the Franchise Rule to the list of goods and services excepted from the exemption. In support of its position, NCL noted that in 35 percent of the work-at-home complaints made to the FTC in the year 2001, consumers reported that they were solicited through print media.943 Since work-at-home solicitations are not “business arrangements covered by the Franchise Rule,” the exception from the general media exemption will now ensure that inbound calls in response to general media advertisements touting work-at-home opportunities will be subject to the Rule. NCL also noted that although most of the solicitations for credit card loss protection plans were made by telephone, these services should be covered by the Rule regardless of how they are promoted “given the egregious nature of these complaints.”944 While commenters and forum participants generally endorsed the proposed narrowing of the general media exemption, some urged the Commission to reconsider whether a general media exemption is “appropriate and workable,” arguing that consumers who call in response to such advertisements are vulnerable to fraud and deception unless certain minimal disclosures are made.945 NCL acknowledged that the Commission could combat such deception using its authority under Section 5 of the FTC Act, but argued that consumer injury could better be prevented if disclosures

933 CCC-NPRM at 12-13; June 2002 Tr. II at 224 (CCC); June 2002 Tr. II at 232-33 (MPA).
934 CCC-NPRM at 12-13; June 2002 Tr. II at 224 (CCC); MPA-NPRM at 28-29; June 2002 Tr. II at 232-33 (MPA).
935 See discussion of §§ 310.2(o) and (w), and § 310.4(a)(6) above for a detailed explanation of these provisions.
936 See note 480 above.
937 CCC-NPRM at 16.
938 60 FR at 32682-83 (June 23, 1995).
939 Id.
940 Id.
941 Id. See also June 2002 Tr. II at 177-83 (NAAG and AARP).
942 60 FR at 32682-83 (June 23, 1995).
943 Id.
944 Id.
945 Id. See also June 2002 Tr. II at 177-83 (NAAG and AARP).
were required. NCL further advanced the proposition that all telemarketers should be subject to the express verifiable authorization requirements when consumers’ accounts will be billed, regardless of whether calls are outbound or inbound, and, in the latter instance, even when such calls are in response to an advertisement delivered by general media or direct mail.\textsuperscript{944} EPIC noted its position that “[g]eneral media advertising may be deceptive, abusive or merely lack the information required to be disclosed under the Rule, thus substantially reducing the level of protection otherwise afforded to consumers by the Rule.”\textsuperscript{945}

The Commission declines to adopt these recommendations to further regulate inbound calls resulting from general media advertisements. In the SBP issued with the original Rule, the Commission explained that in its experience “calls responding to general media advertising do not typically involve the forms of deception and abuse the Act seeks to stem.”\textsuperscript{946} The Commission’s experience since the promulgation of the Rule continues to support the exemption for general media advertising, with targeted exceptions for certain goods or services that have routinely been touted by fraudulent sellers using general media advertising to generate inbound calls. In response to the suggestion that express verifiable authorization be required in all telemarketing transactions when the consumer’s account will be billed, the Commission notes that the parameters of the amended express verifiable authorization provision, and the Commission’s rationale in adopting it, are discussed above in the analysis of § 310.3(a)(3).\textsuperscript{947} NAA expressed concern about the growing number of sellers of membership or buying club opportunities that operate using an “upsell” technique after an initial inbound call is placed by consumers in response to an advertisement for a completely different product.\textsuperscript{948} NAA suggested that the Commission amend the general media exemption to ensure that the Rule does not inadvertently exempt upselling transactions that occur when a consumer calls a seller or telemarketer in response to a general media advertisement.\textsuperscript{949} The Commission agrees that this scenario would be an unwelcome consequence of the provision’s wording and thus has amended this provision to clarify that the exemption may not be claimed in any instances of upselling that occur in the call. NAA also recommended that the list of exceptions to the general media exemption be expanded to include other transactions that involve a high risk of abuse, such as discount buyers clubs and offers involving “opt out free trials.”\textsuperscript{950} The Commission agrees that the telemarketing of these products or services frequently involves fraudulent or deceptive practices. However, there is no evidence on the record indicating that these products or services are telemarketed through general media advertisements. Rather, the states and the Commission have brought law enforcement actions challenging the deceptive telemarketing of these products predominantly when they are sold via outbound cold calls or in upselling, after the consumer has called to purchase another product or service in response to a general media advertisement.\textsuperscript{951} As discussed above, the amended Rule contains a modified general media exemption, which makes the exemption unavailable to upselling transactions that occur in a call in response to a general media advertisement. In addition, the amended Rule contains specific requirements for negative option, “free-to-pay conversion,” and upselling transactions.\textsuperscript{952} Therefore, the Commission finds it unnecessary to except discount buyers clubs and offers involving “opt out free trials” from the general media exemption.

DSA opposed the amendment of the general media exemption provision, expressing the concern that the exception for “business opportunities other than business arrangements covered by the Franchise Rule” will require individual direct sellers to comply with the Rule when they solicit customers or salespeople through general media advertisements.\textsuperscript{953} DSA argues that “[t]here is nothing inherently deceptive or abusive about communications over the telephone (particularly those initiated by the consumer) regarding a business opportunity” and that “there should be even fewer concerns about communications related to prospective transactions involving activities clearly deemed de minimis by the Franchise Rule.”\textsuperscript{954} As the Commission stated in the NPRM, it has determined, based on the record and in particular on its extensive law enforcement experience in this area, that “telemarketing fraud perpetrated by the advertising of work-at-home and other business opportunity schemes in general media sources is a prevalent and growing phenomenon.”\textsuperscript{955} Outbound telephone calls to induce the purchase of a business opportunity not regulated by the Franchise Rule have been subject to the Rule’s coverage since it was promulgated, and the new exception for general media advertisements merely expands that requirement when an inbound call results from the advertisement of such ventures in the general media.\textsuperscript{956} Moreover, if a direct seller is marketing its underlying product to customers, the exception would not bring such activity under the Rule because it would not implicate the sale of a business opportunity.\textsuperscript{957} Furthermore, as the Commission noted in the SBP for the original Rule, DSA’s concern about recruitment of persons to engage in the direct sale of goods or services is likely unfounded because the face-to-face exemption takes such efforts outside the Rule’s coverage.\textsuperscript{958} Based on its review of the record in this matter, and its law enforcement experience, the Commission has determined to retain the proposed general media provision in the amended Rule at § 310.3(a)(1)(vii), 310.3(a)(2)(ix), 310.3(a)(3)(iii), 310.4(a)(6)(i), 310.4(a)(7), and 310.4(d).\textsuperscript{959} NAA at 59.

\textsuperscript{944} NCL-NPRM at 12.
\textsuperscript{945} EPIC-NPRM at 25-26.
\textsuperscript{946} 60 FR at 43860.
\textsuperscript{947} The Commission also notes that new § 310.4(a)(6) requires that, in every instance, a seller or telemarketer secure the consumer’s express informed consent to be charged for the goods or services or charitable contribution, and to be charged using the identified account.
\textsuperscript{948} NAA-NPRM at 58-59.
\textsuperscript{949} The Commission also notes that new § 310.4(a)(6) requires that, in every instance, a seller or telemarketer secure the consumer’s express informed consent to be charged for the goods or services or charitable contribution, and to be charged using the identified account.
\textsuperscript{950} Id. See also EPIC-NPRM at 25 (agreeing that upselling calls should be subject to the Rule). Cf. Capital One-NPRM at 5 (requesting clarification that upselling calls are exempt, at least in an internal upsell).
\textsuperscript{951} NAAG-NPRM at 59.
\textsuperscript{952} Id.
\textsuperscript{953} DSA-NPRM at 8-9.
\textsuperscript{954} Id.
\textsuperscript{955} 67 FR at 4530-31 (this determination is equally applicable to the advertisement by direct mail of business opportunities other than business arrangements covered by the Franchise Rule).
\textsuperscript{956} The Commission noted in the original SBP that “[w]hen a business venture is not covered by the Franchise Rule, then consumers do not receive the protection afforded by that Rule’s pre-sale disclosure requirements. Therefore, it is appropriate that telephone sales of such ventures should be covered by this Rule, so that consumers may receive the benefit of its protections.” 60 FR at 4360. The addition of the exception provisions to the direct mail and general media exemptions merely expands upon the initial requirement.
\textsuperscript{957} For example, the exception to the general media exemption provision would be triggered under the Rule an effort by a direct seller to recruit others to market its products, but not the sale by the direct seller of cosmetics to its own end-customers.
Rule with two changes. First, the phrase "or any subsequent rule covering business opportunities the Commission may promulgate" has been deleted in the amended Rule. Should the Commission promulgate a rule covering business opportunities, the nexus between the TSR and any such rule will be considered, and any necessary conforming amendments made to the TSR at that time. Second, §310.6(b)(5) has also been amended to expressly except from the general media exemption any upsell following the exempt transaction associated with the general media solicitation. As with telephone calls initiated by the consumer without any solicitation by the seller or telemarketer, the reasons for exempting a telemarketing transaction following certain general media solicitations do not apply to an upsell linked to that initial transaction.959 The original Rule exempts calls in response to a general media advertisement because "calls responding to general media advertisements do not typically involve the forms of deception and abuse the Act seeks to stem."960 However, the Commission recognized that some fraudulent telemarketers and sellers have used general media advertisements to entice victims to call, and thus has excepted those problem areas from the exemption. Upselling is one of the problem areas where general media advertisements have provided the opening for subsequent deception and abuse.961 In addition, an upsell transaction is not similar to a general media advertisement. It is a wholly new sales offer targeted at the consumer a seller or telemarketer has on the line for some other purpose, whether it be in response to a general media advertisement about a different product or service, or a customer service call initiated by the consumer. Accordingly, the amended Rule excepts upsell transactions from the general media exemption in §310.6(b)(5).

§ 310.6(b)(6) — Exemption for direct mail solicitations

Section 310.6(b)(6) of the original Rule exempts from the Rule’s requirements inbound telephone calls resulting from a direct mail solicitation that clearly, conspicuously, and truthfully disclosed all material information required by §310.3(a)(1). Certain categories of transactions, specifically those in which the solicitation was for a prize promotion, investment opportunity, credit repair service, "recovery" service, or advance fee loan, were excepted from this exemption because the record and the Commission’s law enforcement experience made clear that these particular products and services were so often subject to abuse by fraudulent telemarketing under the TSR was appropriate.

The proposed Rule retained the direct mail exemption provision, but clarified that advertisements sent via facsimile or electronic mail were considered direct mail for purposes of this exemption.962 The proposed Rule also added two new categories of transactions to be excepted from the direct mail exemption: credit card loss protection plans and business opportunities other than those covered by the Franchise Rule or any subsequent Rule covering business opportunities the Commission may promulgate. Finally, pursuant to the USA PATRIOT Act, the proposed Rule expanded the exemption to exclude from the Rule’s coverage inbound calls to solicit a charitable contribution made in response to a direct mail solicitation that complies with §310.3(a)(1).

The Commission has determined, based on a review of the record and its own law enforcement experience, to adopt the proposed amendments to the direct mail exemption, renumbered in the amended Rule as §310.6(b)(6). The amended Rule, however, differentiates between the requirements for direct mail solicitations for goods or services and direct mail solicitations for charitable contributions. The amended Rule retains unchanged the requirements of the original Rule—i.e., the direct mail solicitation must clearly, conspicuously, and truthfully disclose all material information required by §310.3(a)(1). However, because §310.3(a)(1) applies only to goods and services and not to charitable solicitations, the amended Rule modifies the direct mail exemption language to ensure that prospective donors who receive direct mail solicitations for charitable contributions have protections similar to those enjoyed by consumers who purchase goods or services. Thus, the amended Rule adds language to the direct mail exemption provision prohibiting any item contained in §310.3(d) in charitable solicitations sent by direct mail to donors.

In the proposed Rule, the Commission stated that the direct mail exemption would be applicable to inbound calls made in response to a direct mail charitable solicitation that complies with §310.3(a)(1). NAAG suggested that inbound calls resulting from a direct mail charitable solicitation be exempt instead if the direct mail piece clearly, conspicuously, and truthfully sets forth the disclosure in §310.4(c)(1) (the identity of the charitable organization) and the fact that the organization is soliciting a charitable contribution.963 NAAG further recommended that, at a minimum, several categories of information (including the nature of the goods or services and the facts relating to a charitable contribution) deemed important to consumers and donors be expressly referenced in §310.6(f).964 The Commission agrees that the specific disclosures required by §310.3(a)(1)—targeted at the sale of goods or services—are an imperfect fit with the type of information a potential donor would need to determine if he or she wished to contact a charitable organization in response to a solicitation received via direct mail. Therefore, the amended Rule requires that, in order for the telemarketer to take advantage of the direct mail exemption for inbound calls in response to any direct mail charitable solicitation, such solicitation contain no material misrepresentation regarding any item contained in §310.3(d) of the Rule.

Section 310.6(b)(6) has also been amended to expressly except from the direct mail exemption any upsell following the exempt transaction associated with the direct mail advertisement. As with telephone calls initiated by the consumer without any solicitation by the seller or telemarketer, or in response to general media solicitations, the reasons for exempting a telemarketing transaction triggered by a direct mail advertisement do not apply to an upsell linked to that initial transaction.965 Section 310.6(b)(6) of the amended Rule exempts direct mail solicitations only if the disclosures required by §310.3(a)(1) are truthfully, clearly, and conspicuously provided in the direct mail piece. The Commission

959 The reasons for this exception are explained in greater detail in the discussion of amended Rule §310.6(b)(4) above.
960 60 FR at 43860.
961 FTC v. Smolev (a/k/a Trial Discount Buying Service) is one example of an internal upsell triggered by consumer response to a general media advertisement. Smolev, No. 01-8922-CIV ZLOCH (S.D. Fla. 2001). New York v. Ticketmaster (Settlement announced on Jan. 7, 2002).
962 The direct mail exemption provision is found in the proposed Rule at §310.6(f).
963 NAAG-NPRM at 59-60.
964 Id.
965 The reasons for this exception are discussed in greater detail in the explanation of §§310.6(b)(4) and (5) above. Capital One-NPRM at 5-6, EPIC requested clarification of the applicability of this exemption to upselling transactions. Capital One-NPRM at 5-6, EPIC requested clarification of the applicability of this exemption to upselling transactions.
exempted these direct mail solicitations because such solicitations are not uniformly related to the forms of deception and abuse the Act seeks to stem, nor are they uniformly related to such misconduct. Rather, in certain discrete areas of telemarketing, such solicitations often provide the opening for subsequent deception and abuse. The Commission has drawn upon its enforcement experience, identified those problem areas, and excluded them from this exemption.\(^{910}\)

Upselling transactions are one of the problem areas where direct mail solicitations have provided the opening for subsequent deception and abuse.\(^{916}\)

Upon receiving a direct mail solicitation in which all of the material terms of the offer may be available to evaluate in the direct mail piece, the consumer has the time and the information necessary to make an informed decision whether to call and inquire further or make a purchase. By contrast, an upsell presentation provides the consumer no opportunity to review the material disclosures pertinent to the offer. Once again, the upsell is more akin to an unsolicited outbound call to the consumer, who does not necessarily expect to be solicited for a purchase, and who has none of the material information he or she needs to evaluate the offer and make a purchasing decision. Accordingly, the amended Rule excepts upselling transactions from the direct mail exemption in § 310.6(b)(6).

Finally, the phrase “or any subsequent rule covering business opportunities the Commission may promulgate” has been deleted in the amended Rule. Should the Commission promulgate a rule covering business opportunities that is analogous to the TSR and any such rule will be considered, and any necessary conforming amendments made to the TSR at that time.

Facsimile and electronic mail solicitations as “direct mail”: NCL and ARDA supported the Commission’s view that facsimile and electronic mail solicitations are analogous to direct mail sent via the U.S. Postal Service, and should be considered direct mail for purposes of the exemption.\(^{968}\)

NCL noted that facsimile (“fax”) or electronic mail (“email”) solicitations are often sent to promote fraudulent goods or services.\(^{969}\) For example, in “Nigerian money offer” schemes, the fastest growing category of telemarketing fraud reported to NCL, faxes and emails are the primary methods of solicitation.\(^{970}\)

NCL noted that faxes and email are also used to solicit businesses for a variety of telemarketing scams.\(^{971}\) DMA also supported the interpretation that advertisements sent via fax or email should be considered as “direct mail” pieces for purposes of the Rule.\(^{972}\) Some commenters opposed the inclusion of fax and email advertisements in the exemption,\(^{973}\) and some expressed concern that the Commission’s interpretation could actually increase the number of unwanted solicitations sent to consumers by fax and email.\(^{974}\) NCL stated that unsolicited fax advertisements were prohibited under the TCPA because of their intrusive impact on recipients’ privacy, and expressed concern that exempting calls in response to unsolicited faxes from the Rule, even if the information in them is accurate and complete, “would ignore this important public policy determination.”\(^{975}\) NCL recommended that the Commission ban the sending of unsolicited fax advertisements as an abusive practice under the Rule.\(^{976}\)

The record in this matter provides no support for the assertion that the number of unwanted, but truthful, fax and email solicitations may increase as a result of being exempted from the TSR. The Commission notes that the TCPA, enforced by the FCC, already bans unsolicited fax messages.\(^{977}\) The FCC has promulgated rules effectuating that determination.\(^{978}\) Thus, the Commission’s determination that, for the purposes of the TSR, faxes and email are forms of “direct mail” should have no impact on the number of unsolicited faxes sent. To presume such would be to anticipate that sellers would blatantly ignore the FCC’s regulations. To be entirely clear, however, the Commission wishes to state that its interpretation of the term “direct mail” in no way alters the legality of the underlying direct mail contact. Rather, the new TSR provision will require that, to the extent that a fax or email solicitation is allowed by law, these direct mail solicitations must include the required disclosures, or else resulting inbound calls from consumers will be subject to the entire TSR.\(^{979}\)

Although it favored the Commission’s proposed interpretation which viewed faxes and email as “direct mail” for purposes of the Rule, DMA argued that the Rule should allow the disclosures of material information to be made in the telephone call, rather than in the fax or email advertisement.\(^{980}\) As support for its position, DMA stated that to do otherwise could result in increased expense to sellers who use email to reach their target audience, due to the increased length of the message. DMA further argued that the Commission lacks authority to dictate the content of either email or fax advertisements. Finally, DMA posited that, if the intent of the provision is to mandate disclosure of the NRPB, it would evaluate the costs of requiring such disclosures, particularly in email solicitations.\(^{981}\)

The Commission believes that, to warrant exemption of the inbound call in response to a direct mail solicitation from the Rule, it is critical that a consumer receive the required disclosures (or, in the case of a charitable solicitation, that the solicitation not contain misrepresentations) at the time the consumer contemplates contacting the seller or charitable organization by telephone. The amended Rule follows the reasoning of the original Rule, which requires that any direct mail

\(^{910}\) See 60 FR at 43860.

\(^{968}\) See ARDA-NPRM at 17; NCL-NPRM at 12.

\(^{969}\) See NCL-NPRM at 12.

\(^{970}\) Id.

\(^{971}\) See DMA-NPRM at 56.

\(^{972}\) See, e.g., EPIC-NPRM at 26.

\(^{973}\) See, e.g., CNO-NPRM at 46; NCL-NPRM at 12.

\(^{974}\) See NCL-NPRM at 12-13.

\(^{975}\) NCL-NPRM at 13.

\(^{976}\) 47 U.S.C. 227(b). In its recent Notice of Proposed Rulemaking, the FCC noted that complaints about unsolicited fax messages under the TCPA because of their intrusive character have increased significantly. See, e.g., United States v. Prochnow, 60 FR at 43860.

\(^{977}\) See, e.g., United States v. Prochnow, 60 FR at 43860.

\(^{978}\) See also ARDA-NPRM at 17; NCL-NPRM at 12.

\(^{979}\) See also Associations-NPRM at 4; Associations-Supp. at 8.

\(^{980}\) In their supplemental comment, Associations, of which DMA is a member, noted only that inclusion of the required disclosures in an email or fax “imposes significant costs on businesses. Particularly on email communications, ‘real estate’ and location have significant financial value.” Associations-Supp. at 8. This mere assertion remains all that exists on the record regarding the cost of requiring the disclosure in an email or fax, and the Commission finds this insufficient to cause it to reconsider its position based on the financial harm argument asserted by Associations.
solicitation contain the required disclosures in order to afford the consumer an opportunity to know certain material information before determining whether to call the telemarketer. Apart from DMA’s comment, the Commission finds no record evidence to support alteration of this requirement simply because the direct mail solicitations are sent by email rather than the U.S. Postal Service. It is not the intent of the Commission to use this provision to require new disclosures surreptitiously; indeed, the disclosures required (and misrepresentations prohibited, in the case of a charitable solicitation) are merely those that a telemarketer must make in the course of any non-exempt telemarketing transaction. Sellers remain free to choose the most advantageous method by which to contact consumers, and those opting for direct mail solicitations sent by email must determine whether the costs of making the relevant disclosures are offset by the savings attained by being exempt from the rest of the Rule.

Exceptions to the direct mail exemption: Commenters were generally supportive of the Commission’s proposal to narrow the direct mail exemption to make it unavailable to sellers of credit card loss protection and business opportunities other than business arrangements covered by the Franchise Rule or any subsequent rule covering business opportunities the Commission may adopt. In expressing its support, NCL noted that, although most solicitations for credit card loss protection plans were made via outbound telephone calls, it endorsed accepting such plans from the exemption to ensure that they will be covered by the Rule regardless of how they are promoted.988 Similarly, NCL supported the exclusion from the direct mail exemption of work-at-home solicitations, noting that in 2001, 42 percent of the victims of work-at-home scams said that the initial method of contact was direct mail.984 Because work-at-home solicitations are not “business arrangements covered by the Franchise Rule,” the exception from the direct mail exemption will now ensure that inbound calls in response to direct mail advertising work-at-home opportunities will be subject to the Rule.

Some consumer advocates and law enforcement officials argued, however, that by simply narrowing the categories of offers eligible for the exemption, the proposed Rule did not go far enough to protect consumers.985 Instead of narrowing the exemption, NCL recommended that the Commission eliminate the direct mail exemption altogether.986 A position with which NAAG and AARP concurred at the June 2002 Forum.987 NCL argued that telemarketing fraud and abuse could be prevented if those currently exempt from the Rule’s coverage were required to adhere to its provisions, particularly those Rule provisions mandating material disclosures and express verifiable authorization.988 As an alternative to eliminating the direct mail exemption, NCL suggested that all telemarketers should be required to obtain customers’ express verifiable authorization in every call, even those that would otherwise be exempt, such as inbound calls in response to a direct mail solicitation.989 NAAG suggested that the Rule should also except from the direct mail exemption transactions that involve a high risk of abuse, such as the sale of memberships for discount buyers clubs and for transactions involving negative option features.990 Based on a review of the record, the Commission declines to adopt these suggestions. In the SBP of the original Rule, the Commission noted that the direct mail exemption was included in the Rule because, in its experience, direct mail solicitations were not “uniformly related to the forms of deception and abuse the Act seeks to stamp out.”991 Based on this understanding, and in an effort to strike the appropriate balance between reining in fraudulent telemarketers and not unduly burdening legitimate industry, the Commission included the direct mail exemption in the original Rule. While it may be true that fraudulent telemarking scams might be reduced if the direct mail exemption were excised from the Rule, the Commission believes that to do so would tip the balance and unnecessarily burden legitimate telemarketers without bringing commensurate benefits to consumers. Therefore, the Commission declines to eliminate the exemption entirely.

The Commission also declines to require express verifiable authorization in all calls. The parameters of the amended express verifiable authorization provision, and the Commission’s rationale in adopting it, are discussed above in the analysis of § 310.3(a)(3). Finally, the Commission declines to add the sale of discount buyers club memberships and solicitations in which there is a negative option feature to the exceptions to the direct mail exemption. The record does not demonstrate that the sale of membership clubs or solicitations in which there is a negative option feature are particularly subject to abuse in conjunction with direct mail solicitations, and thus does not support including such exceptions.992

Other suggested changes

Some commenters raised concerns about the situation where there is a disparity between the disclosures made in a direct mail solicitation and those made in the subsequent telephone call. NAAG urged the Commission to clarify that a pre-call mailing is not truthful if it is inconsistent in a material way with what is stated during the call.993 In order to avoid itself of the exemption, a direct mail solicitation must provide the material disclosures required by § 310.3(a)(1) to ensure that the material information about the offer is in the hands of the consumer when the consumer elects whether to place a call to a telemarketer, including information about the total cost and quantity of the goods or services, all material restrictions, limitations or conditions to the offer, and certain information regarding refund policies and prize promotions. By its very definition, this material information is presumed “likely to affect a person’s choice of goods or services, or their conduct regarding them.”994 Thus, in order to meet the Rule’s requirement that the information in the direct mail solicitation be “truthful,” the information provided to the consumer in the telemarketing call should not vary in any material respect from the disclosures provided in the direct mail solicitation.995

984 Presumably in the solicitation of a charitable contribution, there is no cost associated with refraining from making misrepresentations.
985 See NCL-NPRM at 12 [expressing concern that increasing the number of exceptions to exemptions is confusing to businesses and consumers].
986 NCL-NPRM at 12.
987 June 2002 Tr. III at 177, 182-83.
988 NCL-NPRM at 12.
989 Id.
990 See NAAG-NPRM at 59.
991 60 FR at 43860.
992 The record does show that buyers club memberships have frequently been associated with complaints regarding preacquired account telemarketing, a practice that is addressed by amended Rule § 310.4(a)(5) and (6). Similarly, goods or services offered in conjunction with a “free-to-pay conversion” negative option feature have been shown to result in complaints of unauthorized charges, and are addressed by amended Rule § 310.4(a)(6) and § 310.3(a)(1)(iv) and 310.3(a)(2)(ix).
993 NAAG-NPRM at 59-60.
994 Cliffordale, 103 Fed. C. at 165.
995 The Commission recognizes that, in some instances, prices may be subject to change, or may only be in effect for a specified period of time. A
AFSA expressed concern over the “specter of vicarious liability” for telemarketers who receive inbound calls in response to direct mail solicitations sent by another party in which the required disclosures are not made “truthfully.” The Commission believes that under § 310.3(b), the assisting and facilitating provision, liability would only attach if a telemarketer knew or consciously avoided knowing that there was a disparity between the material representations in a direct mail piece and the telemarketing script being used in inbound calls in response to that solicitation.

EFSC requested, in connection with the proposal to broaden the direct mail provision to include solicitations by email and fax, that the Commission explicitly state that “a telemarketer’s electronic disclosure of the material information satisfies” the telemarketer’s obligation under the Rule. The E-SIGN Act makes such electronic disclosures permissible, and that the Commission should explicitly state that such is the case. As noted above, in the response to DMA’s suggestion that it should be permissible to make the required disclosures in the email or fax or in the subsequent telemarketing call, the Commission believes that to avail itself of the direct mail exemption, the seller must include the required disclosures in the direct mail piece itself, for to make these disclosures outside that context would defeat the consumer protection purpose of that requirement. Thus, for the same reason, the Commission believes that in the case of any direct mail solicitation conveyed by email or fax, the required disclosures would have to be included in the email or fax itself in order for any subsequent telemarketing disclosure to the effect in the direct mail solicitation should provide the consumer with sufficient notice that the price may fluctuate or may not be available after a particular date.

The Commission believes that for purposes of § 310.6(b)(6), it is critical that telemarketing calls in response to direct mail solicitations be exempt only on the condition that the direct mail piece contains the requisite disclosures. The requirement that these disclosures be displayed in the direct mail piece itself ensures that these disclosures are proximate in time and location to the direct mail solicitation, which makes it more likely that consumers will be made aware of certain material information that is useful or necessary to evaluate the sales transaction proposed in the solicitation before responding to it. The Commission notes that this outcome is consistent with § 101(f) of the E-SIGN Act, which states that, “Nothing in this title affects the proximity required by any statute, regulation, or other rule of law with respect to any warning, notice, disclosure, or other record required to be posted, displayed, or publicly affixed.” (emphasis added).

Finally, NFC requested that the Commission clarify whether the direct mail exemption applies to franchisors. The Commission believes that § 310.6(b)(2) makes clear that sales of franchises subject to the Commission’s Franchise Rule are exempt from the TSR. The sale of business opportunities not covered by the Franchise Rule, however, is subject to regulation by the Rule. Section 310.6(b)(6) of the amended Rule expressly states that a seller of “business opportunities other than business arrangements covered by the Franchise Rule” would not be able to avail itself of the direct mail exemption, and thus would be required to comply with the Rule’s provisions. Therefore a business opportunity seller, if not eligible for exemption pursuant to § 310.6(b)(2), would be ineligible for the direct mail exemption because of the specific exception for the sale of such services under § 310.6(b)(6).

§ 310.6(b)(7) — Business-to-business telemarketing

Section 310.6(g) of the original Rule exempts from the Rule’s requirements telemarketing calls to businesses, except calls to induce the sale of nondurable office or cleaning supplies. Based on the Commission’s law enforcement experience, the Commission proposed in the NPRM to add two more categories to the list of exceptions to the exemption for calls to businesses: the sale of Internet or Web services, and charitable solicitations. The Commission has determined, however, based upon comments received in response to the NPRM, not to include in the amended Rule the exception of the sale of Internet or Web services and charitable solicitations from the business-to-business exemption. The amended Rule retains unchanged the wording in the original Rule, except to add language clarifying that the Commission’s national “do-not-call” registry provisions do not apply to the telemarketing of nondurable office or cleaning supplies to businesses. The provision is also renumbered, and can be found at § 310.6(b)(7) of the amended Rule.

Consumer groups and state law enforcement officials argued that the Rule should not contain any exemption for business-to-business telemarketing, but if the Commission were to retain the exemption, they supported narrowing the exemption as much as possible so that sellers and telemarketers of those products or services that have particularly been subject to abuse would not benefit from the exemption. Thus, these commenters generally supported the Commission’s proposal to “carve out” the telemarketing of Internet and Web services from the business exemption, citing extensive law enforcement efforts to combat the proliferation of fraudulent telemarketing of website design, hosting, and maintenance services to small businesses.

On the other hand, industry commenters uniformly opposed the “carve out” of Internet and Web services from the business-to-business exemption. These commenters argued that the proposed definitions of these services were overly broad and that there was insufficient record evidence to support regulation of all Internet and Web services. They noted that federal and state law enforcement efforts had focused on website design, development, hosting, and maintenance services, but that the record does not reveal a pattern of fraud in the sale of Internet access services, including wireless Internet access services. Industry commenters argued that if the Commission persisted in requiring that the telemarketing of Internet and Web services comply with the TSR, the effect would be to chill innovation and development in a nascent industry that is rapidly changing. They also argued that such an action would be anticompetitive because it would subject those sellers and telemarketers who are within the FTC’s jurisdiction to the TSR’s requirements, while exempting competitors who happen to be common carriers. Furthermore, these commenters stated that although the Commission’s goal is to protect small business from fraud in the sale of Internet and Web services, the Commission’s proposal would actually...
The Commission finds persuasive industry’s arguments that the proposal to make the business-to-business exemption unavailable to telemarketing of Internet and Web services is overbroad and likely to produce perverse results for the small businesses it was intended to protect. The Commission believes that, although the Rule would provide benefits to law enforcement efforts, current federal and state consumer protection statutes have been effective tools in challenging fraudulent practices in this industry. Furthermore, the Commission believes that it is preferable to move cautiously so as not to chill innovation in the development of cost-efficient methods for small businesses to join in the Internet marketing revolution. Therefore, the Commission has removed the proposed exception for Internet and Web services sales to businesses by telephone, which will continue to be exempt from the Rule’s coverage. The Commission will, however, continue to monitor closely the practices in the telemarketing of Internet and Web services, and may revisit this issue in subsequent Rule Reviews should circumstances warrant.

Consumer groups and state law enforcement officials also supported the Commission’s proposal to make the business-to-business exemption unavailable to entities soliciting charitable contributions, citing the extensive problems with telemarketers soliciting on behalf of public safety organizations (so-called “badge fraud” operators) who often target small businesses. The Commission notes that “badge fraud” telemarketing directed at businesses has been a particularly pernicious practice that has been attacked on a regular basis by both the Commission and state regulators. Commenters have made it clear, however, that many legitimate non-profit organizations rely heavily on business contributions as a major portion of their donor base. The Commission seeks to protect businesses—particularly small businesses—from fraudulent fundraising, without burdening legitimate non-profit organizations with the cost of complying with unnecessary regulations. As some commenters pointed out, many legitimate non-profit organizations operate on a very narrow margin, and such costs may have a very significant impact on the viability of an organization’s fundraising efforts or even the very viability of the organization itself.

The Commission also notes that law enforcement actions attacking badge fraud under Section 5 and analogous state laws have been effective on a case-by-case basis. Furthermore, several of the entities that were targets of these law enforcement efforts also telemarketed to individuals, which would bring them within the purview of the amended Rule with respect to those transactions. In addition, the Commission recognizes that there are many legitimate public safety organizations that solicit funds for their charitable purposes in a non-deceptive manner. Therefore, the Commission believes that the more prudent course is to continue to rely upon its authority under Section 5 and the states’ authority under their analogous laws to address fraudulent fundraising, and, at this time, to leave beyond the scope of the TSR legitimate charitable fundraising directed to businesses. This issue could be revisited in subsequent Rule Reviews should evidence develop that the Commission has not struck the correct balance in making this determination.

Other recommendations by commenters

Some commenters recommended that the Rule be amended to include more exemptions. For example, several commenters advocated that their industry be exempt from compliance with the national “do-not-call” registry and/or from all of the Rule’s provisions. The Commission notes that many of those who requested

---

1008 See, e.g., SBC-NPRM at 15; SIIA-NPRM at 2. See also June 2002 Tr. III at 213-14, 217-18, 224.

1009 See, e.g., Reed-Elsevier-NPRM at 4-5 (noting, for example, that industry has adopted the Best Billing Practices guidelines set forth by the FCC to address unauthorized billing or “cramping” problems); SBC-NPRM at 14. See also June 2002 Tr. III at 213-14, 217-18, 224.


1011 See, e.g., NAAG-NPRM at 60-61; NCL-NPRM at 11. See also June 2002 Tr. III at 224-25.

1012 Most non-profit organizations commented on the application of the national “do-not-call” registry to their solicitation efforts, not on whether they should be otherwise excepted from the business-to-business exemption. See, e.g., Childhood Leukemia-NPRM at 1-2; California FFA-NPRM at 1-2; FIP-NPRM at 1-2; HRC-NPRM at 1-2; SO-IA-NPRM at 1-2.

1013 The Commission notes that “badge fraud” telemarketing directed at businesses has been a particularly pernicious practice that has been attacked on a regular basis by both the Commission and state regulators. Commenters have made it clear, however, that many legitimate non-profit organizations rely heavily on business contributions as a major portion of their donor base. The Commission seeks to protect businesses—particularly small businesses—from fraudulent fundraising, without burdening legitimate non-profit organizations with the cost of complying with unnecessary regulations. As some commenters pointed out, many legitimate non-profit organizations operate on a very narrow margin, and such costs may have a very significant impact on the viability of an organization’s fundraising efforts or even the very viability of the organization itself.

1014 The Commission also notes that law enforcement actions attacking badge fraud under Section 5 and analogous state laws have been effective on a case-by-case basis. Furthermore, several of the entities that were targets of these law enforcement efforts also telemarketed to individuals, which would bring them within the purview of the amended Rule with respect to those transactions. In addition, the Commission recognizes that there are many legitimate public safety organizations that solicit funds for their charitable purposes in a non-deceptive manner. Therefore, the Commission believes that the more prudent course is to continue to rely upon its authority under Section 5 and the states’ authority under their analogous laws to address fraudulent fundraising, and, at this time, to leave beyond the scope of the TSR legitimate charitable fundraising directed to businesses. This issue could be revisited in subsequent Rule Reviews should evidence develop that the Commission has not struck the correct balance in making this determination.

1015 The Commission notes that many of those who requested...
exemptions already are exempt from the Rule and, therefore, there is no reason to expressly restate that exemption in the Rule. The Commission also declines to add additional exemptions on behalf of specific industry segments, with the exception of charitable organizations. As noted above in the discussion on exempting charities from compliance with the national “do-not-call” registry provision, the Commission believes that charitable solicitations present unique circumstances that make an exemption necessary and appropriate. The Commission declines, however, to introduce further limitations to the applicability of the “do-not-call” registry because it believes such action would be inconsistent with the privacy mandate of the Telemarketing Act and would likely result in consumer confusion and frustration.

G. Section 310.7 — Actions by States and Private Persons.

Section 310.7 in the original and proposed Rules sets forth the procedures by which the states and private persons may bring actions under the Rule, as is provided for in the Telemarketing Act. In the NPRM, the Commission noted that it received no comments directly on this section, but that commenters were generally supportive of the Rule’s enforcement scheme allowing the Commission, the states, and private parties to bring actions under the TSR. The Commission noted that the record at that time contained evidence of two sources of frustration regarding enforcement of the Rule: 1) the $50,000 monetary threshold required for a private party to bring suit under the Rule; and 2) the difficulty in identifying Rule violators, particularly those who violate the abusive practices section of the Rule. The Commission noted then that the amount in controversy requirement was included in the Telemarketing Act, and it is therefore up to Congress to make any change to this amount. With regard to the difficulty in identifying violators, the Commission expressed its belief that two proposed provisions—the prohibition on blocking Caller ID information, and the prohibition on denying or interfering with a consumer’s right to be placed on a “do-not-call” list—would be beneficial in addressing these concerns.

The Commission received no comments on this section in response to the NPRM, and thus no modifications are included in the amended Rule.

H. Section 310.8 — Fees.

This section of the Rule, now allocated for the new provision on fees, is reserved. When completed, the fee section will be included here.

I. Section 310.9 — Severability.

This provision of the Rule is retained in the amended Rule, but renumbered as § 310.9. Section 310.8, formerly the section number for the Severability provision, now contains the provision regarding fees for the national “do-not-call” registry.

J. Rulemaking Review Requirement.

The original Rule required that a Rule Review proceeding be commenced within five years of the effective date of the original Rule. The amended Rule does not contain an equivalent provision. The Commission has a policy of reviewing all of its Rules and guides on a periodic basis to ensure that they continue to meet their goals and provide the protections that were intended when they were promulgated. This periodic review also provides an opportunity to examine the economic costs and benefits of the particular Rule or guide under review. The Commission believes that this periodic review should be sufficient for the amended Rule, and that it is unnecessary to include a specific provision regarding review within the text of the amended Rule.

K. Effective Date.

The amended Rule is effective on March 31, 2003, and full compliance with all provisions of the amended Rule—except § 310.4(a)(7), the caller identification transmission provision, and § 310.4(b)(1)(iii)(B), the national “do-not-call” registry provision—is required by that date. The Commission believes that making the amended Rule effective on March 31, 2003 will provide more than sufficient time for sellers and telemarketers to change their practices to conform to the amended Rule. The publication of the proposed Rule in January 2002 provided industry members with ample notice of the proposed changes in the Rule, and making the amended Rule effective on March 31, 2003 will give industry members sufficient additional time to familiarize themselves with the requirements of the amended Rule, and to ensure that their operations are in full compliance with all except two provisions of the amended Rule.

The Commission has determined that additional time may be required to allow sellers and telemarketers to come into full compliance with the caller identification transmission requirement. Therefore, full compliance with § 310.4(a)(7) is required by January 29, 2004. The Commission will announce at a future time the date by which full compliance with § 310.4(b)(1)(iii)(B), the “do-not-call” registry provision, will be required. The Commission anticipates that full compliance with the “do-not-call” provision will be required approximately seven months from the date a contract is awarded to create the national registry.

IV. Paperwork Reduction Act

In light of both changes to the Rule following the NPRM and public comments received on Commission staff’s prior PRA burden analysis for the NPRM, staff will submit for OMB review and clearance a supporting statement detailing its revised burden analysis.

V. Regulatory Flexibility Act

A. Need for and Objectives of the Rule.

The amendments to the Rule announced here are the result of a review of the existing Rule as required by the Telemarketing Act. As discussed above in this SBP, and in the NPRM, the objective of the amendments is to fulfill the mandate of the Telemarketing Act to ensure that consumers are protected from
“deceptive telemarketing acts or practices and other abusive telemarketing acts or practices.”\textsuperscript{1028} Other amendments, relating to the solicitation of charitable contributions through telemarketing, are made pursuant to the USA PATRIOT Act.\textsuperscript{1029}

B. Summary of the Significant Issues.

The public comments on the proposed Rule are discussed above throughout the SBP, as are the changes that have been made in response to comments indicating that the costs of some of the proposed amendments would be excessive. Many of the commenters did not focus specifically on the costs faced by small businesses relative to those that would be borne by other firms. Rather, they argued that the costs to be borne by all firms—including small firms—would be excessive. In response to these comments, the Commission has made a number of modifications in the amended Rule. These changes should significantly reduce the burden on all businesses, including small businesses.

Calls permitted where there is an existing business relationship.

One proposal that commenters contended would impose particularly great costs on small businesses was the proposed national “do-not-call” registry. Commenters were particularly concerned with the requirement that businesses could only call consumers who had put their telephone numbers on the “do-not-call” registry if they had obtained the consumer’s express verifiable authorization to make calls to that consumer. For example, Community Bankers expressed the concern that its members would be unable to use outside telemarketers to contact their existing customers. This would, they suggested, force community banks to do their own telemarketing, at higher cost, because calls made by third party telemarketing bureaus would be covered by FTC legislation.\textsuperscript{1030} Another commenter noted that small firms may not have the recording equipment that would be needed to establish that they had obtained the consumer’s express verifiable authorization to accept calls from that seller.\textsuperscript{1031}

Furthermore, many small businesses may not keep their customer records in a form that would permit them to economically compare the telephone numbers of their customers with those on the national “do-not-call” registry and avoid calling those numbers that appear on the registry.\textsuperscript{1032} According to NRF, converting their customer lists to a form that can be feasibly compared to the numbers on the national “do-not-call” registry could cost small businesses up to $1.00 per name. Furthermore, even after the records are converted, the NRF reports that the cost of eliminating names that appear on the “do-not-call” registry would be higher for small firms than for larger ones. Whereas, it might cost $0.01 per name to purge a large list, the cost for a small list is put at $0.10 to $0.15 per name.\textsuperscript{1033}

As discussed above in the SBP, the Commission has decided to alter the “do-not-call” provision proposed in the NPRM. One of the changes is to create an exemption that will allow a seller and its telemarketer to call consumers with whom the seller has an established business relationship, even if the consumer has placed his or her telephone number on the “do-not-call” registry. This effect of this change will be that businesses—and in particular small businesses—will not need to check their lists of existing customers against the national “do-not-call” registry. There will also be no need to obtain express verifiable permission before calling someone with whom the business has an established business relationship. Thus, most, if not all, of the costs described above will not be faced by small businesses.\textsuperscript{1035}

Quarterly access to “do-not-call” registry.

In addition, as discussed above, the Commission has decided not to require

\textsuperscript{1032} See, e.g., Aameriquest-NPRM at 9.
\textsuperscript{1033} NRF-NPRM at 4-5. ERA placed the cost of comparing a company’s calling lists against the “do-not-call” registry at $0.01 per 1,000 names, while CCC suggested that the cost would be in the neighborhood of $50 per hour and that it would take two hours for the average firm to compare their calling lists to the “do-not-call” registry and delete from the company’s lists any numbers that appear on the “do-not-call” registry. ERA-NPRM at 36; Miller Study at 11-12.
\textsuperscript{1034} See discussion of § 310.4(b)(3)(i)ii. above.
\textsuperscript{1035} While small businesses that wish to telemarket their products to consumers who are not existing customers will still have to check their calling lists against the “do-not-call” registry, they will not necessarily have to perform this work themselves. It is the Commission’s understanding that small businesses often find it more economical to employ telemarketing bureaus who make such calls on their behalf of these businesses. A seller that employs a telemarketing bureau can arrange to have the telemarketer compare the names and/or telephone numbers on its lists against the “do-not-call” registry.

For-profit fundraisers exempted from national “do-not-call” registry compliance.

The burden placed on small charities by the “do-not-call” requirements has also been significantly reduced. As discussed above, the Commission has determined that for-profit firms that make fundraising calls on behalf of
charitable organizations will not be required to ensure that they are not making calls to consumers who have placed their telephone numbers on the national “do-not-call” registry.1041 Rather, they will only have to honor individual consumer requests not to be called by the particular charity.1042

This change is likely to be of significant benefit to smaller charitable organizations since these organizations often find it more efficient to employ for-profit firms to make their calls rather than developing and maintaining the capacity to make such calls using their own staff.1043 For example, APTS reported that 75 percent of their members chose to hire other firms to manage their telemarketing operations. They further reported that the average annual cost of outsourcing these operations was $182,000, whereas the estimated cost of the stations doing the same amount of telemarketing with its own personnel was $224,000, an increase of almost 25 percent.1044 Similarly, Red Cross commented that it is more economical to hire a third party to operate short term blood-donor recruitment programs than to hire and maintain a full-time staff to perform such functions. According to Red Cross “[s]uch trained third party professionals offer expertise and operational efficiencies that cannot be rapidly duplicated by Red Cross to respond to the volatile demand for blood.”1045

Written confirmation as express verifiable authorization.

Another change that should reduce the burden on small firms involves the procedures a firm may use to obtain the consumer’s express verifiable authorization to use an account other than the consumer’s credit card or debit card to pay for a purchase. In the NPRM, the Commission proposed to eliminate a procedure by which a firm was permitted to obtain authorization by sending the consumer written confirmation prior to the time the account was charged. In part this proposal was based on the impression that very few firms used this method of obtaining express verifiable authorization.1046 However, commenters indicated that this was not the case and that many smaller firms—particularly newspapers—used this method.1047 In response, the Commission has decided to retain the written confirmation method of obtaining express verifiable authorization, with certain modifications, including an exception that makes it unavailable in cases where the transaction involves a “free-to-pay conversion” feature and preacquired account information.1048

No ban on preacquired account information.

Another proposal in the NPRM that attracted considerable business opposition was the prohibition on the disclosure or receipt of any consumer’s billing information. Commenters argued that such a prohibition on the use of preacquired account information would increase the costs of telemarketing. While these costs were not argued to be specific to small businesses, the costs faced by small businesses would be increased along with those of larger ones. According to CCC, requiring the consumer to provide an account number would add between 60 and 90 seconds to the length of a telemarketing call in those instances where the telemarketer already has the consumer’s account information.1049 MPA estimated the cost of requiring consumers to repeat their account information in the case of an upsell to be between 35 and 60 seconds.1050 In addition, MPA suggested that requiring consumers to read their account numbers in all instances would lead some consumers to decide not to purchase the item being offered. The effect could be, they suggested, a reduction of five to 30 percent in consumer purchases in response to particular offers.1051 Finally, a ban on the use of preacquired account information could increase the costs of engaging in telemarketing because of errors in the account information obtained from the consumer—either because the consumer misreads the account number or because the telemarketer makes a mistake in taking down the number.1052

As discussed in the SBP above, the Commission has decided not to prohibit the acquisition and use of preacquired account information. Instead, the Commission is limiting the prohibition to unencrypted account information and is requiring that telemarketers and sellers obtain the consumer’s express informed consent before any purchase is charged to a consumer’s account using preacquired account information. Except for transactions that involve a “free-to-pay conversion” feature combined with preacquired account information, the only steps a seller or telemarketer is required to undertake to obtain this consent are to provide the consumer with sufficient information for the consumer to understand the account that will be charged and to obtain the consumer’s express agreement to have the purchase charged to that account. Since both of these are practices that an honest business would follow even in the absence of a rule provision, it is clear that the costs businesses argued would follow from the original proposal have been eliminated.

Relaxed regulation of abandoned calls.

Another proposal contained in the NPRM that businesses argued would significantly increase the costs of telemarketing was the proposal to prohibit “abandoning” telemarketing calls—that is, to prohibit making a call unless a telemarketing sales representative is available to talk to the consumer if the consumer answers. Critics of this proposal argued that it would effectively ban the use of predictive dialers.1053 This would, they argued, significantly reduce the amount of time that individual telemarketing sales person spends talking to consumers. According to CCC, a telemarketing sales person can handle 13 to 14 calls per hour using a predictive dialer set to abandon five percent of calls. Without a predictive dialer, the same agent can only handle around eight calls per hour—a reduction of about 40 percent.1054 Another source suggested that a telemarketer using a predictive dialer could make 20 calls per hour, whereas only five calls per hour would be possible without the dialer.1055

1041 Amended Rule § 310.6(a).
1042 Amended Rule § 310.4(b)(1)(iii).
1043 Hudson Bay-Goodman-NPRM at 2. Hudson Bay noted that “[i]nstead of renting space, buying computers and phone equipment, hiring supervisors and so on, HBC’s clients find it cheaper to contact their members and donors by sharing these resources. Even after paying HBC’s fee, which ranges from 4 to 7%, it is much cheaper for these non-profits to centralize these services. The savings achieved by phone company volume discounts alone pays more than half of HBC’s fee.”
1044 APTS-NPRM at 3-4.
1045 Red Cross-NPRM at 3-4.
1046 67 FR at 4508.
1047 See, e.g., June 2002 Tr. III at 32-33 (NAA).
1048 See amended Rule § 310.3(a)(3)(iii), and discussion of that provision above.
1049 Miller Study at 17. According to the Miller Study, the total cost of this prohibition would have been approximately $1.5 billion. However, this estimate appears to be based on the incorrect assumption that the prohibition on the use of preacquired account information would add 60 to 90 seconds to every sale made in an outbound telemarketing call. In fact, the only sales that would be affected are those where the seller would otherwise obtain payment using preacquired account information.
1050 MPA-NPRM at 24.
1051 Id. at 19.
1052 ABA-NPRM at 8; Assurant-NPRM at 3-4; BoFA-NPRM at 7; Condant-NPRM at 7.
1053 June 2002 Tr. I at 211 (CCC); PMA-NPRM at 30; PCIC-NPRM at 2.
1054 Miller Study at 15. 
1055 Marketlink-NPRM at 3. This estimate, and perhaps the estimate of CCC, may overestimate the
As discussed in the SBP, the Commission has determined to create a safe harbor to the prohibition on abandoned calls. This safe harbor will allow firms to avoid being cited for violation of this provision of the Rule provided they play a recording that identifies the seller and provides the seller’s phone number when a sales representative is not available to handle a call and provided that this occurs in three percent or less of calls that are answered by a consumer. This change should substantially reduce the burden that would have been imposed by a total prohibition on abandoned calls.

Regulation of upselling.

Finally, the Commission has eliminated an unintended burden that would have resulted from treating any upsell as a separate outbound telemarketing call. As several people have noted, this would have required telemarketers who receive inbound calls to comply with the “do-not-call” provisions of the Rule as well as the calling hours provision before offering any upsell product. Such a requirement would have imposed substantial burdens on sellers who receive inbound telemarketing calls. However, it was never the intention of the Commission to require compliance with either the “do-not-call” provisions or the calling hour provisions in this context, and this requirement has been eliminated in the amended Rule which provides a separate definition of an upsell and clarifies that these provisions do not apply to an upsell.

C. Description of Small Entities to Which the Rule Will Apply.

This Rule will primarily impact firms that make telephone calls to consumers in an attempt to sell their products or services or entities that make calls to solicit charitable contributions. That is, the Rule will primarily impact entities that make outbound calls to consumers. Also affected will be firms that provide such services for others on a contract basis. It has been estimated that outbound calls to consumers resulted in total sales of $274.2 billion in 2001, and that the telemarketing industry that markets to consumers employs 4.1 million workers.

The number of firms making such outbound telemarketing calls, and the number that qualify as small entities, can be reliably estimated. According to the Office of Advocacy of the SBA, United States Census data shows that there are 2,305 firms that are identified as telemarketing bureaus. Of these, 1,279 are classified as being small businesses because they have sales of less than $5 million per year. These are firms that provide telemarketing services for other firms. However, not all of these firms will be impacted by the Rule to the same extent. According to NAICS, firms that are classified as telemarketing industry firms that provide “telemarketing services on a contract or fee basis for others, such as (1) promoting clients’ products or services by telephone, (2) taking orders for clients by telephone, and (3) soliciting contributions or providing information for clients by telephone,” firms that take orders for clients by telephone, as well as some firms that provide information for their clients by telephone, are going to be responding to calls made by consumers and not making calls themselves. Unless such firms are engaging in upselling of products or services that involve a “free-to-pay conversion” feature, they will not be impacted by the proposed Rule to any significant extent.

As discussed above, the Commission to require compliance with the “do-not-call” provisions or the calling hour provisions in this context, and this requirement has been eliminated in the amended Rule which provides a separate definition of an upsell and clarifies that these provisions do not apply to an upsell.

In addition to firms that provide telemarketing services for others, the Rule will have an effect on firms that use telemarketing as a way to market their own products. These may include, among others, retailers, manufacturers, and financial service providers. The number of such firms—and the number of those that are classified as small businesses—cannot be determined because such firms generally think of themselves as producers or sellers of particular products and not as telemarketers. Similarly, in the available statistics, these firms will be classified as producers or sellers of particular products and not as telemarketers.

D. Description of the Projected Reporting, Recordkeeping, and Other Compliance Requirements of the Rule.

As discussed above in the SBP, the amended Rule alters some collection of information requirements. The effect of those requirements on all businesses is discussed in detail in the PRA section of this Notice. First, the amended Rule requires firms that use preacquired account information in conjunction with a “free-to-pay conversion” feature to record all such transactions to show that they have obtained the consumer’s express informed consent to charge the consumer’s account. Section 310.5(a)(5) requires that the seller or telemarketer maintain copies of such audio recordings for 24 months. Similarly, §310.5(a)(5) requires that firms retain for 24 months copies of any written express agreements received from consumers permitting the company to call the consumer even though the consumer’s phone number is included on the “do-not-call” registry. Finally, the amended Rule extends the recordkeeping requirements of §310.5 to include charitable solicitations in a non-sales context, as required by the USA PATRIOT Act. All other amendments to the Rule relate to the Rule’s disclosures or other compliance requirements and are necessary to prevent telemarketing fraud and abuse.

The classes of small entities affected by the amendments include telemarketers or sellers engaged in acts or practices covered by the Rule. The types of professional skills required to comply with the Rule’s recordkeeping, disclosure, or other requirements would include attorneys or other skilled labor needed to ensure compliance.

E. Steps Taken to Minimize Impact on Small Entities.

As discussed above, the Telemarketing Act directs the Commission to enact “rules prohibiting deceptive telemarketing acts or practices and other abusive telemarketing acts or...
practices.”\textsuperscript{1066} Each of the amendments in the amended Rule is intended to better protect consumers from deceptive and abusive telemarketing practices. In order to achieve this end, the Commission believes that it is necessary to enact regulations that cover small and large firms equally. Based on the Commission’s enforcement experience, it is clear that many of the firms that engage in fraudulent telemarketing activities are small firms. A failure to include such small firms within the requirements of the regulations would, therefore, fail to prohibit deceptive practices by the types of firms that account for a significant share of the problems the Commission encounters.

At the same time, as discussed above both in the SBP and in the “Summary of Significant Issues Raised by the Public Comments in Response to the IRFA,” the Commission has sought to minimize as much as possible the burdens imposed on all affected entities, including small businesses. In general, the changes made in response to public comments have further reduced the burdens. The amendments to the disclosure and recordkeeping provisions of the TSR are generally consistent with the business practices that most sellers and telemarketers, regardless of size, would choose to follow, even absent legal requirements.

The Commission has taken care in developing the amendments to the Rule to set performance standards, which establish the objective results that must be achieved by regulated entities, but do not establish a particular technology that must be employed in achieving those objectives. For example, the Commission does not specify the form in which records required by the TSR must be kept. It also allows a seller and a telemarketer making calls on the seller’s behalf to allocate between themselves the responsibility for maintaining required records.

VI. National Environmental Policy Act

Under the Commission’s Rules of Practice implementing the National Environmental Policy Act of 1969 (“NEPA”),\textsuperscript{1067} no “major action significantly affecting the quality of the human environment will be instituted unless an environmental impact statement (‘EIS’) has been prepared,” if such is required.\textsuperscript{1068} To determine if such an impact statement is required, the Commission generally prepares an “environmental assessment.” However, such an environmental assessment is not necessary in every circumstance. For example, in circumstances when the “environmental effects, if any, would appear to be . . . so uncertain that environmental analysis would be based on speculation,” no “environmental assessment” is required.\textsuperscript{1069} The Commission believes, for the reasons set forth below, that this exception is applicable in the instant case, and that because the environmental effects, if any, of the amended TSR are uncertain and based on speculation, the Commission is not required to prepare an environmental assessment.

The amended TSR would modify the original Rule in several ways. Each of these is outlined above in Section I (F), which summarizes the changes in the amended Rule. However, the only comment that raised the issue of the environmental effects of the Rule did so solely with regard to the national “do-not-call” registry provision. Because the Commission does not believe that any other modification in the amended Rule implicates any impact on the environment, the analysis is confined to this provision.

The “do-not-call” registry provision will establish a centralized means for consumers across the country to notify sellers and telemarketers of their preference not to receive unsolicited outbound telemarketing calls. As discussed in greater detail above, in the section discussing § 310.4(b)(1)(iii), the “do-not-call” registry provision supplements the original Rule’s provision that allows consumers to exercise their “do-not-call” rights on a company-by-company basis. The Commission determined, based on the extensive record evidence from the rulemaking proceeding, that a national “do-not-call” registry is necessary to effectuate the purposes of the Telemarketing Act.\textsuperscript{1071}

The comment that addressed the potential environmental impact of the proposed national “do-not-call” registry stated, in relevant part,

For obvious reasons the FTC’s proposed action may drastically reduce the ability to sell goods and services via telemarketing. In addition, and for the reasons stated above (wherein the commenter argues that the national “do-not-call” registry will negatively impact inbound call centers which rely upon a combination of inbound and outbound calling to survive),\textsuperscript{1072} consumers’ ability to themselves purchase via catalogs may be compromised as well, as “call centers” are forced to close in the face of insufficient “outbound telemarketing work.” Either event would force consumers to climb into their cars and return to the mall for their wares, a result that itself would increase gas consumption and cause more air pollution.\textsuperscript{1073}

DeHart concluded, based on its belief that the “do-not-call” registry provision would increase the number of consumers driving to shopping at malls as a result of the implementation of the national “do-not-call” registry provision, that the Commission must prepare an EIS or, at minimum, an environmental assessment.\textsuperscript{1074}

The underlying premise in the DeHart comment, that a national “do-not-call” registry will have a negative impact on call centers that rely in part on inbound telemarketing and in part on outbound telemarketing for their livelihood, is unsupported in the comment. No evidence, other than a mere allusion to a study that purportedly shows that some firms’ cost of providing inbound call center service would increase if their outbound telemarketing load decreased, is provided by DeHart, nor is support for this proposition found in the record as a whole. Therefore, the fundamental assumption upon which DeHart’s argument is based is one that appears to be mere speculation.

The Commission believes that speculation, and indeed, logic, could as easily lead to the conclusion that a diminution in outbound calling, resulting from consumers’ decision to place their telephone numbers on the national “do-not-call” registry, could lead sellers to use other channels of distance marketing to sell their products, including channels that would significantly increase inbound telemarketing, such as direct mail, catalog sales, and Internet sales. This would mean that, even if many consumers utilize the “do-not-call” registry, inbound calling may benefit, not suffer, from such a result. Moreover, DeHart cites no authority for the

\textsuperscript{1066} 15 U.S.C. 6102(a)(1).
\textsuperscript{1067} 42 U.S.C. 4321 et seq.
\textsuperscript{1068} 16 CFR 1.81, 1.82.
\textsuperscript{1069} See discussion of § 310.4(b)(1)(iii) above.
\textsuperscript{1070} 15 U.S.C. 6102(a)(3)(A) (mandating that the Commission include in its Rule “a requirement that telemarketers may not undertake a pattern of unsolicited telephone calls which the reasonable consumer would consider coercive or abusive of such consumer’s right to privacy”).
\textsuperscript{1071} DeHart-NPRM at 2-3 (although the commenter alludes to a study that corroborates its assertion on this point, no title or citation is provided for such study).
\textsuperscript{1072} DeHart-NPRM at 3.
\textsuperscript{1073} Id. The Commission believes that this allegation would constitute, at most, “indirect effects” under the NEPA implementing regulations, or those “which are caused by the action and are later in time or farther removed in distance, but are still reasonably foreseeable.” 40 CFR 1508.4(b). The Commission does not believe that the “do-not-call” registry provision has been or could reasonably be alleged to have “direct effects” or those “caused by the action and occur at the same time and place.” 40 CFR 1508.4(b).
proposition that local retail shopping has, to date, been reduced as a result of inbound or outbound telemarketing. And, the fact remains that, other than DeHart, none of the commenters, including major sellers, telemarketers, and industry groups, provides any evidence relating to the potential for a national “do-not-call” registry to result in a reduction in service or an increase in cost for inbound telemarketing, nor in a concomitant increase in retail shopping done in local malls. Moreover, the Commission believes there can be no hard evidence on which to base a prediction of consumers’ actions following the implementation of the “do-not-call” registry provision. It seems likely, based on the experience of states that have implemented statewide “do-not-call” lists, and the overwhelmingly high response of consumers to the Commission’s proposal, that many consumers will avail themselves of the opportunity to place their telephone numbers on the national “do-not-call” registry. However, as noted above, this may or may not have any impact on consumers’ decision to shop at local malls, or on their choice of transportation. Thus, while consumer behavior may change as a result of the promulgation of amendments to the Rule, such changes cannot be quantified or even reasonably estimated because consumer decisions are influenced by many variables other than existence of the “do-not-call” registry. Any indirect impact of the amended Rule on the environment would therefore be highly speculative and impossible to accurately predict or measure.

The Commission does not believe that any alternative to creating a national “do-not-call” registry would both provide the benefits of the registry and ameliorate all potential concerns regarding environmental impact. For example, the Commission does not believe that given its justification for the necessity of the registry, eliminating the provision from the amended Rule would be appropriate based solely on the unsupported allegations of indirect environmental effect raised in the DeHart comment. Furthermore, the Commission can think of no alternative other than eliminating the national “do-not-call” registry that would address DeHart’s unsupported and highly speculative concern. In sum, although any evaluation of the environmental impact of the amendments to the TSR is uncertain and highly speculative, the Commission finds no evidence of avoidable adverse impacts stemming from the amended Rule. Therefore, the Commission has determined, in accordance with §1.83 of the FTC’s Rules of Practice, that no environmental assessment or EIS is required.1075

List of Subjects in 16 CFR Part 310.

Telemarketing, Trade practices.

Accordingly, title 16, part 310 of the Code of Federal Regulations, is revised to read as follows:

PART 310—TELEMARKETING SALES RULE

Sec. 310.1 Scope of regulations in this part. 310.2 Definitions. 310.3 Deceptive telemarketing acts or practices. 310.4 Abusive telemarketing acts or practices. 310.5 Recordkeeping requirements. 310.6 Exemptions. 310.7 Actions by states and private persons. 310.8 Reserved: Fee for access to “do-not-call” registry. 310.9 Severability.


§310.1 Scope of regulations in this part.

This part implements the Telemarketing and Consumer Fraud and Abuse Prevention Act, 15 U.S.C. 6101–6108, as amended.

§310.2 Definitions.

(a) Acquirer means a business organization, financial institution, or an agent of a business organization or financial institution that has authority from an organization that operates or licenses a credit card system to authorize merchants to accept, transmit, or process payment by credit card through the credit card system for money, goods or services, or anything else of value.

(b) Attorney General means the chief legal officer of a state.

(c) Billing information means any data that enables any person to access a customer’s or donor’s account, such as a credit card, checking, savings, share or similar account, utility bill, mortgage loan account, or debit card.

(d) Caller identification service means a service that allows a telephone subscriber to have the telephone number, and, where available, name of the calling party transmitted contemporaneously with the telephone call, and displayed on a device in or connected to the subscriber’s telephone.

(e) Cardholder means a person to whom a credit card is issued or who is authorized to use a credit card on behalf

1075 See also National Citizens Comm. for Broad. v. FCC, 567 F.2d 1095, 1098 n.3 (D.C. Cir. 1977).
purchase of goods or services or a charitable contribution.  

(s) Merchant agreement means a written contract between a merchant and an acquirer to honor or accept credit cards, or to transmit or process for payment credit card payments, for the purchase of goods or services or a charitable contribution.  

(t) Negative option feature means, in an offer or agreement to sell or provide any goods or services, a provision under which the customer’s silence or failure to take an affirmative action to reject goods or services or to cancel the agreement is interpreted by the seller as acceptance of the offer.  

(u) Outbound telephone call means a telephone call initiated by a telemarketer to induce the purchase of goods or services or to solicit a charitable contribution.  

(v) Person means any individual, group, unincorporated association, limited or general partnership, corporation, or other business entity.  

(w) Preacquired account information means any information that enables a seller or telemarketer to cause a charge to be placed against a customer’s or donor’s account without obtaining the account number directly from the customer or donor during the telemarketing transaction pursuant to which the account will be charged.  

(x) Prize means anything offered, or purportedly offered, and given, or purportedly given, to a person by chance. For purposes of this definition, chance exists if a person is guaranteed to receive an item and, at the time of the offer or purported offer, the telemarketer does not identify the specific item that the person will receive.  

(y) Prize promotion means:  

(1) A sweepstakes or other game of chance; or  

(2) An oral or written express or implied representation that a person has won, has been selected to receive, or may be eligible to receive a prize or purported prize.  

(2) Seller means any person who, in connection with a telemarketing transaction, provides, offers to provide, or arranges for others to provide goods or services to the customer in exchange for consideration.  

(aa) State means any state of the United States, the District of Columbia, Puerto Rico, the Northern Mariana Islands, and any territory or possession of the United States.  

(bb) Telemarketer means any person who, in connection with telemarketing, initiates or receives telephone calls to or from a customer or donor.  

(cc) Telemarketing means a plan, program, or campaign which is conducted to induce the purchase of goods or services or a charitable contribution, by use of one or more telephones and which involves more than one interstate telephone call. The term does not include the solicitation of sales through the mailing of a catalog which: contains a written description or illustration of the goods or services offered for sale; includes the business address of the seller; includes multiple pages of written material or illustrations; and has been issued not less frequently than once a year, when the person making the solicitation does not solicit customers by telephone but only receives calls initiated by customers in response to the catalog and during those calls takes orders only without further solicitation. For purposes of the previous sentence, the term “further solicitation” does not include providing the customer with information about, or attempting to sell, any other item included in the same catalog which prompted the customer’s call or in a substantially similar catalog.  

(dd) Upselling means soliciting the purchase of goods or services following an initial transaction during a single telephone call. The upsell is a separate telemarketing transaction, not a continuation of the initial transaction. An “internal upsell” is a solicitation made by or on behalf of a seller different from the seller in the initial transaction, regardless of whether the initial transaction and the subsequent solicitation are made by the same telemarketer. An “internal upsell” is a solicitation made by or on behalf of the same seller as in the initial transaction, regardless of whether the initial transaction and subsequent solicitation are made by the same telemarketer.

§310.3 Deceptive telemarketing acts or practices.  

(a) Prohibited deceptive telemarketing acts or practices. It is a deceptive telemarketing act or practice and a violation of this Rule for any seller or telemarketer to engage in the following conduct:  

(1) Before a customer pays\(^1\) for goods or services offered, failing to disclose truthfully, in a clear and conspicuous manner, the following material information:  

(i) The total costs to purchase, receive, or use, and the quantity of, any goods or services that are the subject of the sales offer;\(^2\)  

(ii) All material restrictions, limitations, or conditions to purchase, receive, or use the goods or services that are the subject of the sales offer;  

(iii) If the seller has a policy of not making refunds, cancellations, exchanges, or repurchases, a statement informing the customer that this is the seller’s policy; or, if the seller or telemarketer makes a representation about a refund, cancellation, exchange, or repurchase policy, a statement of all material terms and conditions of such policy;  

(iv) In any prize promotion, the odds of being able to receive the prize, and, if the odds are not calculable in advance, the factors used in calculating the odds; that no purchase or payment is required to win a prize or to participate in a prize promotion and that any purchase or payment will not increase the person’s chances of winning; and the no-purchase/no-payment method of participating in the prize promotion with either instructions on how to participate or an address or local or toll-free telephone number to which customers may write or call for information on how to participate;  

(v) All material costs or conditions to receive or redeem a prize that is the subject of the prize promotion;  

(vi) In the sale of any goods or services represented to protect, insure, or otherwise limit a customer’s liability in the event of unauthorized use of the customer’s credit card, the limits on a cardholder’s liability for unauthorized use of a credit card pursuant to 15 U.S.C. 1643; and  

(vii) If the offer includes a negative option feature, all material terms and conditions of the negative option feature, including, but not limited to, the fact that the customer’s account will be charged unless the customer takes an affirmative action to avoid the charge(s), the date(s) the charge(s) will be submitted for payment, and the specific steps the customer must take to avoid the charge(s).  

(2) Misrepresenting, directly or by implication, in the sale of goods or services any of the following material information:  

(i) The total costs to purchase, receive, or use, and the quantity of, any goods or services that are the subject of the sales offer;\(^2\)  

---

\(^1\) When a seller or telemarketer uses, or directs a customer to use, a courier to transport payment, the seller or telemarketer must make the disclosures required by §310.3(a)(1) before sending a courier to pick up payment or authorization for payment, or directing a customer to have a courier pick up payment or authorization for payment.  

\(^2\) For offers of consumer credit products subject to the Truth in Lending Act, 15 U.S.C. 1601 et seq., and Regulation Z, 12 CFR 226, compliance with the disclosure requirements under the Truth in Lending Act and Regulation Z shall constitute compliance with §310.3(a)(1)(i) of this Rule.
Regulation E.4 Such authorization shall be deemed verifiable if any of the following means is employed:
(A) The number of debits, charges, or payments (if more than one);
(B) The date(s) the debit(s), charge(s), or payment(s) will be submitted for payment;
(C) The amount(s) of the debit(s), charge(s), or payment(s);
(D) The customer’s or donor’s name;
(E) The customer’s or donor’s billing information, identified with sufficient specificity such that the customer or donor understands what account will be used to collect payment for the goods or services or charitable contribution that are the subject of the telemarketing transaction;
(F) A telephone number for customer or donor inquiry that is answered during normal business hours; and
(G) The date of the customer’s or donor’s oral authorization; or
(iii) Written confirmation of the transaction, identified in a clear and conspicuous manner as such on the outside of the envelope, sent to the customer or donor via first class mail prior to the submission for payment of the customer’s or donor’s billing information, and that includes all of the information contained in §§ 310.3(a)(3)(ii)(A)-(G) and a clear and conspicuous statement of the procedures by which the customer or donor can obtain a refund from the seller or telemarketer or charitable organization in the event the confirmation is inaccurate: provided, however, that this means of authorization shall not be deemed verifiable in instances in which goods or services are offered in a transaction involving a free-to-pay conversion and preacquired account information.
(4) Making a false or misleading statement to induce any person to pay for goods or services or to induce a charitable contribution.
(b) Assisting and facilitating. It is a deceptive telemarketing act or practice and a violation of this Rule for a person to provide substantial assistance or support to any seller or telemarketer when that person knows or consciously avoids knowing that the seller or telemarketer is engaged in any act or practice that violates §§ 310.3(a), (c) or (d), or § 310.4 of this Rule.
(c) Credit card laundering. Except as expressly permitted by the applicable credit card system, it is a deceptive telemarketing act or practice and a violation of this Rule for:
(1) A merchant to present to or deposit into, or cause another to present to or deposit into, the credit card system for payment, a credit card sales draft generated by a telemarketing transaction that is not the result of a telemarketing credit card transaction between the cardholder and the merchant;
(2) Any person to employ, solicit, or otherwise cause a merchant, or an employee, representative, or agent of the merchant, to present to or deposit into the credit card system for payment, a credit card sales draft generated by a telemarketing transaction that is not the result of a telemarketing credit card transaction between the cardholder and the merchant; or
(3) Any person to obtain access to the credit card system through the use of a business relationship or an affiliation with a merchant, when such access is not authorized by the merchant agreement or the applicable credit card system.
(d) Prohibited deceptive acts or practices in the solicitation of charitable contributions. It is a fraudulent charitable solicitation, a deceptive telemarketing act or practice, and a violation of this Rule for any telemarketer soliciting charitable contributions to misrepresent, directly or by implication, any of the following material information:
(1) The nature, purpose, or mission of any entity on behalf of which a charitable contribution is being requested;
(2) That any charitable contribution is tax deductible in whole or in part;
(3) The purpose for which any charitable contribution will be used;
(4) The percentage or amount of any charitable contribution that will go to a charitable organization or to any particular charitable program;
(5) Any material aspect of a prize promotion including, but not limited to: the odds of being able to receive a prize; the nature or value of a prize; or that a charitable contribution is required to win a prize or to participate in a prize promotion; or
(6) A charitable organization’s or telemarketer’s affiliation with, or endorsement or sponsorship by, any person or government entity.
§ 310.4 Abusive telemarketing acts or practices.
(a) Abusive conduct generally. It is an abusive telemarketing act or practice and a violation of this Rule for any seller or telemarketer to engage in the following conduct:

5For purposes of this Rule, the term “signature” shall include an electronic or digital form of signature, to the extent that such form of signature is recognized as a valid signature under applicable federal law or state contract law.
(1) Threats, intimidation, or the use of profane or obscene language;

(2) Requesting or receiving payment of any fee or consideration for goods or services represented to remove derogatory information from, or improve, a person’s credit history, credit record, or credit rating until:

(i) The time frame in which the seller has represented all of the goods or services will be provided to that person has expired; and

(ii) The seller has provided the person with documentation in the form of a consumer report from a consumer reporting agency demonstrating that the promised results have been achieved, such report having been issued more than six months after the results were achieved. Nothing in this Rule should be construed to affect the requirement in the Fair Credit Reporting Act, 15 U.S.C. 1681, that a consumer report may only be obtained for a specified permissible purpose;

(3) Requesting or receiving payment of any fee or consideration from a person for goods or services represented to recover or otherwise assist in the return of money or any other item of value paid for by, or promised to, that person in a previous telemarketing transaction, until seven (7) business days after such money or other item is delivered to that person. This provision shall not apply to goods or services provided to a person by a licensed attorney;

(4) Requesting or receiving payment of any fee or consideration in advance of obtaining a loan or other extension of credit when the seller or telemarketer has guaranteed or represented a high likelihood of success in obtaining or arranging a loan or other extension of credit for a person;

(5) Disclosing or receiving, for consideration, unencrypted consumer account numbers for use in telemarketing; provided, however, that this paragraph shall not apply to the disclosure or receipt of a customer’s or donor’s billing information to process a payment for goods or services or a charitable contribution pursuant to a transaction;

(6) Causing billing information to be submitted for payment, directly or indirectly, without the express informed consent of the customer or donor. In any telemarketing transaction, the seller or telemarketer must obtain the express informed consent of the customer or donor to be charged for the goods or services or charitable contribution and to be charged using the identified account information in any telemarketing transaction involving preacquired account information, the requirements in paragraphs (a)(6)(i) through (iii) of this section must be met to evidence express informed consent:

(i) In any telemarketing transaction involving preacquired account information and a free-to-pay conversion feature, the seller or telemarketer must:

(A) obtain from the customer, at a minimum, the last four (4) digits of the account number to be charged;

(B) obtain from the customer his or her express agreement to be charged for the goods or services and to be charged using the account number pursuant to paragraph (a)(6)(i)(A) of this section; and

(C) make and maintain an audio recording of the entire telemarketing transaction.

(ii) In any other telemarketing transaction involving preacquired account information not described in paragraph (a)(6)(i) of this section, the seller or telemarketer must:

(A) at a minimum, identify the account to be charged with sufficient specificity for the customer or donor to understand what account will be charged; and

(B) obtain from the customer or donor his or her express agreement to be charged for the goods or services and to be charged using the account number identified pursuant to paragraph (a)(6)(i)(A) of this section; or

(7) Failing to transmit or cause to be transmitted the telephone number, and, when made available by the telemarketer’s carrier, the name of the telemarketer, to any caller identification service in use by a recipient of a telemarketing call; provided that it shall not be a violation to substitute (for the name and phone number used in, or billed for, making the call) the name of the seller or charitable organization on behalf of which a telemarketing call is placed, and the seller’s or charitable organization’s customer or donor service telephone number, which is answered during regular business hours.

(b) Pattern of calls

(1) It is an abusive telemarketing act or practice and a violation of this Rule for a telemarketer to engage in, or for a seller to cause a telemarketer to engage in, the following conduct:

(i) Causing any telephone to ring, or engaging any person in telephone conversation, repeatedly or continuously with intent to annoy, abuse, or harass any person at the called number;

(ii) Denying or interfering in any way, directly or indirectly, with a person’s right to be free from any registry of names and/or telephone numbers of persons who do not wish to receive outbound telephone calls established to comply with §310.4(b)(1)(iii);

(iii) Initiating any outbound telephone call to a person when:

(A) that person previously has stated that he or she does not wish to receive an outbound telephone call made by or on behalf of the seller whose goods or services are being offered or made on behalf of the charitable organization for which a charitable contribution is being solicited; or

(B) that person’s telephone number is on the “do-not-call” registry, maintained by the Commission, of persons who do not wish to receive outbound telephone calls to induce the purchase of goods or services unless the seller

(i) has obtained the express agreement, in writing, of such person to place calls to that person. Such written agreement shall clearly evidence such person’s authorization that calls made by or on behalf of a specific party may be placed to that person, and shall include the telephone number to which the calls may be placed and the signature of that person; or

(ii) has an established business relationship with such person, and that person has not stated that he or she does not wish to receive outbound telephone calls under paragraph (b)(1)(iii)(A) of this section; or

(iv) Abandoning any outbound telephone call. An outbound telephone call is “abandoned” under this section if a person answers it and the telemarketer does not connect the call to a sales representative within two (2) seconds of the person’s completed greeting.

(2) It is an abusive telemarketing act or practice and a violation of this Rule for any person to sell, rent, lease, purchase, or use any list established to comply with §310.4(b)(1)(iii)(A), or maintained by the Commission pursuant to §310.4(b)(1)(iii)(B), for any purpose except compliance with the provisions of this Rule or otherwise to prevent telephone calls to telephone numbers on such lists.

(3) A seller or telemarketer will not be liable for violating §310.4(b)(1)(ii) and (iii) if it can demonstrate that, as part of the seller’s or telemarketer’s routine business practice:

(i) It has established and implemented written procedures to comply with §310.4(b)(1)(iii) and (iii);

(ii) It has trained its personnel, and any entity assisting in its compliance, in
the procedures established pursuant to § 310.4(b)(3)(i); (iii) The seller, or a telemarketer or another person acting on behalf of the seller or charitable organization, has maintained and recorded a list of telephone numbers the seller or charitable organization may not contact, in compliance with § 310.4(b)(1)(iii)(A); (iv) The seller or a telemarketer uses a process to prevent telemarketing to any telephone number on any list established pursuant to §§ 310.4(b)(3)(ii) or 310.4(b)(1)(iii)(B), employing a version of the “do-not-call” registry obtained from the Commission no more than three (3) months prior to the date any call is made, and maintains records documenting this process; (v) The seller or a telemarketer or another person acting on behalf of the seller or charitable organization, monitors and enforces compliance with the procedures established pursuant to § 310.4(b)(3)(i); and (vi) Any subsequent call otherwise violating § 310.4(b)(1)(i) or (iii) is the result of error. (4) A seller or telemarketer will not be liable for violating 310.4(b)(1)(iv) if: (i) the seller or telemarketer employs technology that ensures abandonment of no more than three (3) percent of all calls answered by a person, measured per day per calling campaign; (ii) the seller or telemarketer, for each telemarketing call placed, allows the telephone to ring for at least fifteen (15) seconds or four (4) rings before disconnecting an unanswered call; (iii) whenever a sales representative is not available to speak with the person answering the call within two (2) seconds after the person’s completed greeting, the seller or telemarketer promptly plays a recorded message that states the name and telephone number of the seller on whose behalf the call was placed; and (iv) the seller or telemarketer, in accordance with § 310.5(a)(b)-(d), retains records establishing compliance with § 310.4(b)(4)(ii)-(iii). (c) Calling time restrictions. Without the prior consent of a person, it is an abusive telemarketing act or practice and a violation of this Rule for a telemarketer to engage in outbound telephone calls to a person’s residence at any time other than between 8:00 a.m. and 9:00 p.m. local time at the called person’s location. (d) Required oral disclosures in the sale of goods or services. It is an abusive telemarketing act or practice and a violation of this Rule for a telemarketer in an outbound telephone call or internal or external upsell to induce the purchase of goods or services to fail to disclose truthfully, promptly, and in a clear and conspicuous manner to the person receiving the call, the following information: (1) The identity of the seller; (2) That the purpose of the call is to sell goods or services; (3) The nature of the goods or services; and (4) That no purchase or payment is necessary to be able to win a prize or participate in a prize promotion if a prize promotion is offered and that any purchase or payment will not increase the person’s chances of winning. This disclosure must be made before or in conjunction with the description of the prize to the person called. If requested by that person, the telemarketer must disclose the no-purchase/no-payment entry method for the prize promotion; provided, however, that, in any internal upsell for the sale of goods or services, the seller or telemarketer must provide the disclosures listed in this section only to the extent that the information in the upsell differs from the disclosures provided in the initial telemarketing transaction. (e) Required oral disclosures in charitable solicitations. It is an abusive telemarketing act or practice and a violation of this Rule for a telemarketer, in an outbound telephone call to induce a charitable contribution, to fail to disclose truthfully, promptly, and in a clear and conspicuous manner to the person receiving the call, the following information: (1) The identity of the charitable organization on behalf of which the request is being made; and (2) That the purpose of the call is to solicit a charitable contribution.

§ 310.5 Recordkeeping requirements. (a) Any seller or telemarketer shall keep, for a period of 24 months from the date the record is produced, the following records relating to its telemarketing activities: (1) All substantially different advertising, brochures, telemarketing scripts, and promotional materials; (2) The name and last known address of each prize recipient and the prize awarded for prizes that are represented, directly or by implication, to have a value of $25.00 or more; (3) The name and last known address of each customer, the goods or services purchased, the date such goods or services were shipped or provided, and the amount paid by the customer for the goods or services; and (4) The name, any fictitious name used, the last known home address and telephone number, and the job title(s) for all current and former employees directly involved in telephone sales or solicitations; provided, however, that if the seller or telemarketer permits fictitious names to be used by employees, each fictitious name must be traceable to only one specific employee; and (5) All verifiable authorizations or records of express informed consent or express agreement required to be provided or received under this Rule. (b) A seller or telemarketer may keep the records required by § 310.5(a) in any form, and in the same manner, format, or place as they keep such records in the ordinary course of business. Failure to keep all records required by § 310.5(a) shall be a violation of this Rule. (c) The seller and the telemarketer calling on behalf of the seller may, by written agreement, allocate responsibility between themselves for the recordkeeping required by this Section. When a seller and telemarketer have entered into such an agreement, the terms of that agreement shall govern, and the seller or telemarketer, as the case may be, need not keep records that duplicate those of the other. If the agreement is unclear as to who must maintain any required record(s), or if no such agreement exists, the seller shall be responsible for complying with §§ 310.5(a)(1)-(3) and (5); the telemarketer shall be responsible for complying with § 310.5(a)(4). (d) In the event of any dissolution or termination of the seller’s or telemarketer’s business, the principal of that seller or telemarketer shall maintain all records as required under this Section. In the event of any sale, assignment, or other change in ownership of the seller’s or telemarketer’s business, the successor business shall maintain all records required under this Section.

§ 310.6 Exemptions. (a) Solicitations to induce charitable contributions via outbound telephone calls are not covered by § 310.4(b)(1)(iii)(B) of this Rule. (b) The following acts or practices are exempt from this Rule: (1) The sale of pay-per-call services subject to the Commission’s Rule for offers of consumer credit products subject to the Truth in Lending Act, 15 U.S.C. 1601 et seq., and Regulation Z, 12 CFR 226, compliance with the recordkeeping requirements under the Truth in Lending Act, and Regulation Z, shall constitute compliance with § 310.5(a)(1) of this Rule.

Footnotes:
7 This provision does not affect any seller or telemarketer’s obligation to comply with relevant state and federal laws, including but not limited to the TCPA, 47 U.S.C. 227, and 47 CFR part 64.1200.8 For offers of consumer credit products subject to the Truth in Lending Act, 15 U.S.C. 1601 et seq., and Regulation Z, 12 CFR 226, compliance with the recordkeeping requirements under the Truth in Lending Act, and Regulation Z, shall constitute compliance with § 310.5(a)(1) of this Rule.
entitled “Trade Regulation Rule Pursuant to the Telephone Disclosure and Dispute Resolution Act of 1992,” 16 CFR Part 308, provided, however, that this exemption does not apply to the requirements of § 310.4(a)(1), (a)(7), (b), and (c);
(2) The sale of franchises subject to the Commission’s Rule entitled “Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures,” ("Franchise Rule") 16 CFR Part 436, provided, however, that this exemption does not apply to the requirements of § 310.4(a)(1), (a)(7), (b), and (c);
(3) Telephone calls in which the sale of goods or services or charitable solicitation is not completed, and payment or authorization of payment is not required, until after a face-to-face sales or donation presentation by the seller or charitable organization, provided, however, that this exemption does not apply to the requirements of § 310.4(a)(1), (a)(7), (b), and (c);
(4) Telephone calls initiated by a customer or donor that are not the result of any solicitation by a seller, charitable organization, or telemarketer, provided, however, that this exemption does not apply to any instances of upselling included in such telephone calls;
(5) Telephone calls initiated by a customer or donor in response to an advertisement through any medium, other than direct mail solicitation, provided, however, that this exemption does not apply to calls initiated by a customer or donor in response to an advertisement relating to investment opportunities, business opportunities other than business arrangements covered by the Franchise Rule, or advertisements involving goods or services described in § 310.3(a)(1)(vi) or 310.4(a)(2)-(4); or to any instances of upselling included in such telephone calls;
(6) Telephone calls initiated by a customer or donor in response to a direct mail solicitation, including solicitations via the U.S. Postal Service, facsimile transmission, electronic mail, and other similar methods of delivery in which a solicitation is directed to specific address(es) or person(s), that clearly, conspicuously, and truthfully discloses all material information listed in § 310.3(a)(1) of this Rule, for any goods or services offered in the direct mail solicitation, and that contains no material misrepresentation regarding any item contained in § 310.3(d) of this Rule for any requested charitable contribution; provided, however, that this exemption does not apply to calls initiated by a customer in response to a direct mail solicitation relating to prize promotions, investment opportunities, business opportunities other than business arrangements covered by the Franchise Rule, or goods or services described in §§ 310.3(a)(1)(vi) or 310.4(a)(2)-(4); or to any instances of upselling included in such telephone calls; and
(7) Telephone calls between a telemarketer and any business, except calls to induce the retail sale of nondurable office or cleaning supplies; provided, however, that § 310.4(b)(1)(iii)(B) and § 310.5 of this Rule shall not apply to sellers or telemarketers of nondurable office or cleaning supplies.
§ 310.7 Actions by states and private persons.
(a) Any attorney general or other officer of a state authorized by the state to bring an action under the Telemarketing and Consumer Fraud and Abuse Prevention Act, and any private person who brings an action under that Act, shall serve written notice of its action on the Commission, if feasible, prior to its initiating an action under this Rule. The notice shall be sent to the Office of the Director, Bureau of Consumer Protection, Federal Trade Commission, Washington, D.C. 20580, and shall include a copy of the state’s or private person’s complaint and any other pleadings to be filed with the court. If prior notice is not feasible, the state or private person shall serve the Commission with the required notice immediately upon instituting its action.
(b) Nothing contained in this Section shall prohibit any attorney general or other authorized state official from proceeding in state court on the basis of an alleged violation of any civil or criminal statute of such state.
§ 310.8 [Reserved: Fee for access to “do-not-call” registry.]

§ 310.9 Severability.

The provisions of this Rule are separate and severable from one another. If any provision is stayed or determined to be invalid, it is the Commission’s intention that the remaining provisions shall continue in effect.

By direction of the Commission.

Donald S. Clark,
Secretary.

Note: Appendices A and B are published for informational purposes only and will not be codified in Title 16 of the Code of Federal Regulations.

Appendix A

List of Acronyms for NPRM Commenters

February 28, 2000 Request for Comment

Acronym — Commenter

AAPR—AARP  
Alan—Alan, Alicia

ARDA—American Resort Development Association  
ATA—American Teleservices Association  
Anderson—Anderson, Wayne

Baressi—Baressi, Sandy  
Bell Atlantic—Bell Atlantic

Bennett—Bennett, Douglas H.  
Biagiotti—Biagiotti, Mary

Bishop—Bishop, Lew & Lois  
Blake—Blake, Ted

Bowman-Kruhm—Bowman-Kruhm, Mary  
Braddock—Braddock, Jane Ann

Brass—Brass, Eric  
Brosnahan—Brosnahan, Kevin

 Будро— Будро, Edgar  
Card—Card, G. Giles S.

Collison—Collison, Doug  
Conn—Conn, David

Conway—Conway, Candace  
Croushore—Croushore, Amanda

Curtis—Curtis, Joel  
Dawson—Dawson, Darcy

DMA—Direct Marketing Association  
DSA—Direct Selling Association

Doe—Doe, Jane  
ERA—Electronic Retailing Association

FAMSA—FAMSA-Funeral Consumers Alliance, Inc.  
Gannett—Gannett Co., Inc.

Garbin—Garbin, David and Linda  
A. Gardner—Gardner, Anne

S. Gardner—Gardner, Stephen  
Gibb—Gibb, Ronald E.

Gilchrist—Gilchrist, Dr. K. James  
Gindin—Gindin, Jim

Haines—Haines, Charlotte  
Harper—Harper, Greg

Heagy—Heagy, Annette M.  
Hecht—Hecht, Jeff

Hickman—Bill and Donna

Hollingsworth—Hollingsworth, Bob and Pat

Holloway—Holloway, Lynn S.

Holmey—Holmey, Kathleen

ICFA—International Cemetery and Funeral Association

Johnston—Johnston, Sharon Coleman

Jordan—Jordan, April

Kelly—Kelly, Lawrence M.

KTW—KTW Consulting Techniques, Inc.

Lamet—Lamet, Jerome S.

Lee—Lee, Rockie

LSAP—Legal Services Advocacy Project

LeQuang—LeQuang, Albert

Lesher—Lesher, David

Mack—Mack, Mr. and Mrs. Alfred

MFA—Magazine Publishers of America, Inc.

Manz—Manz, Matthias

McCurdy—McCurdy, Bridget E.

Meneffee—Meneffee, Marcie

Merritt—Merritt, Everett W.

Mey—Mey, Diana

Mitchelp—Mitchelp

TeleSource—Morgan-Francis/Tele-Source Industries

NACHA—NACHA-The Electronic Payments Association

NAAG—National Association of Attorneys General

NACAA—National Association of Consumer Agency Administrators

NCL—National Consumers League

NFA—National Federation of Nonprofits

NAA—Newspaper Association of America

NASA—North American Securities Administrators Association

Novatras—Novatras

Nurik—Nurik, Margy and Irv

PLP—Personal Legal Plans, Inc.

Peters—Peters, John and Frederickson, Constance

Reese—Reese Brothers, Inc.

Reynolds—Reynolds, Charles

Rothman—Rothman, Iris

Runnels—Runnels, Mike

Sanford—Sanford, Kanija

Schiber—Schiber, Bill

Schmied—Schmied, R. L.

Strang—Strang, Wayne G.

TeleSource—Morgan-Francis/Tele-Source Industries

Texas—Texas Attorney General

Thai—Thai, Lhin Vien

Vanderburg—Vanderburg, Mary Lou

Ver Steegt—Ver Steegt, Karen

Verizon—Verizon Wireless

Warren—Warren, Joshua

Wellha—Weltha, Nick

Worsham—Worsham, Michael C., Esq.

Appendix B

List of Acronyms for NPRM Commenters

Acronym — Commenter

1—800-DoNotCall—1—800-DoNotCall, Inc.

AARP—AARP

ACA—ACA International

ACUTA—ACUTA

Advanta—Advanta Corp.

Aegis—Aegis Communications Group

Alabama Police—Alabama State Police Association, Inc.

AAST—American Association of State Troopers

ABA—American Bankers Association

ABIA—American Bankers Insurance Association

American Blind—American Blind Products, Inc.

ACE—American Council on Education

ADA—American Diabetes Association

AmEx—American Express

AFSA—American Financial Services Association

Red Cross—American Red Cross

ARDA—American Resort Development Association

ARDA—2—American Resort Development Association—Do Not Call Registry

American Rivers—American Rivers

ASTA—American Society of Travel Agents

ATA—American Teleservices Association

Blood Centers—America’s Blood Centers

Community Bankers—America’s Community Bankers

Americare—Ameriquest Mortgage Company

Armey—Armey, The Honorable Dick (U.S. House of Representatives)

AFP—Association of Fundraising Professionals

APTS—Industries of Public Television Stations

ANA—Association of National Advertisers


Assurant—Assurant Group

Avinta—Avinta Communications, Inc.

Ayres—Ayres, Ian

Baldacci—Baldacci, The Honorable John

Elias (U.S. House of Representatives)

Bofa—Bank of America

Bank One—Bank One Corporation

Beautyrock—Beautyrock, Inc.

BellSouth—BellSouth Corporation

Best Buy—Best Buy Company, Inc.

BRI—Business Response Inc.

CCAA—California Consumer Affairs Association

CATS—Californians Against Telephone Solicitation

Capital One—Capital One Financial Corporation

Car Wash Guys—Carwash Systems

Carper—Carper, The Honorable Thomas R. (U.S. Senate)

Celebrity Prime Foods—Celebrity Prime Foods

Cendant—Cendant Corporation

Chamber of Commerce—Chamber of Commerce of the United States of America

CRF—Charitable Resource Foundation, Inc.

Chicago ADM—Chicago Association of Direct Marketing

Childhood Leukemia—Childhood Leukemia Foundation

CDI—Circulation Development, Inc.

CURE—Citizens United for Rehabilitation of Errants

Cigitgroup—Cigitgroup Inc.

Civil Service Leader—Civil Service Leader

Collier Shannon—Collier Shannon Scott

Comcast—Comcast

CNHI—Community Newspaper Holdings, Inc.

Community Safety—Community Safety, LLC

Connecticut—Connecticut Commissioner of Consumer Protection

CBA—Consumer Bankers Association

CCC—joint comment of: Consumer Choice Coalition, ACI Telecentrics, Coverdell & Company, Discount Development Services, HSN LP d/b/a HSN and Home Shopping Network, Household Credit Services, MBNA America Bank, MemberWorks
<table>
<thead>
<tr>
<th>State</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>NC</td>
<td>Zoo—North Carolina Zoological Society Not-For-Profit Coalition Not-For-Profit Telecommunications Committee</td>
</tr>
<tr>
<td>NSD</td>
<td>Tele-Response Center Tele-Response Center</td>
</tr>
<tr>
<td>OSU</td>
<td>Utah State University Oregon Teleperformance Ohio Ohio Teleperformance</td>
</tr>
<tr>
<td>OTC</td>
<td>Oregon Teleperformance Oregon Teleperformance Oregon Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperformance USA Teleperforman...</td>
</tr>
</tbody>
</table>
ABA-User Fee—American Bankers Association
Red Cross-User Fee—American Red Cross
ARDA-User Fee—American Resort Development Association
ATA-User Fee—American Teleservices Association
Community Bankers-User Fee—America’s Community Bankers
Ameriquest-User Fee—Ameriquest Mortgage Company
Celebrity Prime Foods-User Fee—Celebrity Prime Foods
CBA-User Fee—Consumer Bankers Association
DialAmerica-User Fee—DialAmerica Marketing, Inc.
DMA Comments-User Fee—Direct Marketing Association
DMA Comments-User Fee—Direct Marketing Association
Discover-User Fee—Discover Bank
ERAM-User Fee—Electronic Retailing Association and Promotion Marketing Association (joint comment)
Household-User Fee—Household Bank (SB), N.A. and Household Bank (Nevada), N.A. (joint comment)
Hudson Bay-User Fee—Hudson Bay Company of Illinois, Inc.
ICTA-User Fee—Industry Council for Tangible Assets
InfoCision-User Fee—InfoCision Management Corporation
ITC-User Fee—Interactive Teleservices Corporation
MPA-User Fee—Magazine Publishers of America
MasterCard-User Fee—MasterCard International, Inc.
NACDS-User Fee—National Association of Chain Drug Stores
NAR-User Fee—National Association of Realtors
NASUCA-User Fee—National Association of State Utility Consumer Advocates
NEMA-User Fee—National Energy Marketers Association
Not-For-Profit Coalition-User Fee—Not-For-Profit and Charitable Coalition
SBC-User Fee—SBC Communications, Inc.
Tennessee-User Fee—Tennessee Regulatory Authority
SBA-User Fee—United States Small Business Administration, Office of Advocacy
Visa-User Fee—Visa U.S.A., Inc.
Wells Fargo-User Fee—Wells Fargo & Company

Concurring Statement of Commissioner Orson Swindle in Telemarketing Sales Rule, File No. R411001

I wholeheartedly support the amendments to the Telemarketing Sales Rule ("TSR"), because I believe that they will help protect consumers from deceptive and abusive telemarketing practices. In particular, these amendments will give consumers the ability to avoid the sheer volume of unwanted telemarketing calls that many consider to be a nuisance. I write separately to explain my views on two issues — how the Commission determines whether an act or practice is "abusive" for purposes of the TSR, and the national do-not-call registry.

Abusive Telemarketing Acts or Practices

The Telemarketer and Consumer Fraud and Abuse Prevention Act ("Telemarketing Act") directs the Commission to promulgate rules that prohibit "deceptive telemarketing acts or practices and other abusive telemarketing acts or practices." 15 U.S.C. 6102 [a)(1). To determine what constitutes an abusive telemarketing practice, the Commission for the most part has used the examples of abusive practices that Congress provided in the Telemarketing Act and principles drawn from these examples. I agree that this is an appropriate analysis, and in light of the rulemaking record as a whole, I fully support the TSR amendments that fall within these parameters. These amendments include, among other things, the provisions involving the national do-not-call registry, transmission of caller identification information, and abandoned calls and predictive dailers.

When the Commission seeks to identify practices as abusive that are less distinctly within the parameters of the Act's examples and their emphasis on privacy protection, the Commission employs its traditional unfairness analysis.1 I understand the Commission's intention to narrow the potentially expansive scope of the term "abusive" by using its unfairness analysis. However, given the broad ordinary meaning of the term "abusive," I believe that the standard for determining what constitutes an abusive telemarketing practice likely is broader than the stringent definition of the term "unfair." Therefore, I would have preferred it had the Commission looked to the plain meaning of the term "abusive" and then formulated a separate standard to identify abusive telemarketing practices for purposes of the Telemarketing Act and the TSR.

Nevertheless, I agree with the Commission's conclusion that a telemarketing practice that meets the strict unfairness standard will constitute an abusive practice for purposes of the Act and the TSR. In light of the rulemaking record, I therefore support the TSR amendments that are analyzed under this standard. This includes the requirement that telemarketers obtain consumers' or donors' express informed consent before causing their information to be submitted for payment. The rulemaking record evidences the harm that results from unauthorized billing, the need for the consent requirement, and the need to mandate specific steps that telemarketers must take to obtain consumers' consent in transactions involving preacquired account information.

In addition, the record supports the prohibition on the disclosure or receipt, for consideration, of unencrypted account numbers for use in telemarketing (except to process a payment for goods or services or a charitable contribution pursuant to a transaction). I do not believe that the mere disclosure of personal financial information, without more, causes or is likely to cause substantial consumer injury. In this situation, however, the rulemaking record provides a basis for concluding that trafficking in unencrypted account numbers is likely to cause substantial consumer injury in the form of unauthorized billing. Industry comments state that there is no legitimate reason to purchase unencrypted lists of credit card numbers. Therefore, there is a strong likelihood that telemarketers who do engage in this practice will misuse the information in a manner that results in unauthorized charges to consumers' accounts. The Commission's law enforcement experience corroborates this conclusion.2 As a result, I conclude that this practice is abusive for purposes of the Telemarketing Act.

The National Do-Not-Call Registry

The Telemarketer and the TSR recognize consumers' "right to be let alone." See, e.g., Olmstead v. U.S., 277 U.S. 438, 478 (1928) (Brandeis, J., dissenting) (stating that the "right to be let alone" is the "most comprehensive of rights and the right most valued by

1 Given that nothing in the language of the Telemarketing Act or its legislative history indicates that Congress intended the Commission to use its unfairness standard to determine which practices are abusive, I previously raised concerns about this analysis and requested comment on this issue. Concurring Statement of Commissioner Orson Swindle in Telemarketing Sales Rule Review, File No. R411001, available at (www.ftc.gov/os/2002/01/swindletrletterst.htm). Although some comments agreed with this concern, they did not offer an alternative analysis of abusive practices beyond suggesting that the Commission's authority is limited to the examples of abusive practices included in the Telemarketing Act and its legislative history. See Statement of Basis and Purpose at 100, n. 428. However, because the Act does not limit the Commission's authority to identify abusive practices to the examples in the Act, the Commission may prohibit other practices that it identifies as abusive.

2 See Statement of Basis and Purpose at 97-98. In addition, given the evidence that the use of unencrypted account information in telemarketing can result in unauthorized charges, there is an even greater likelihood that injury will occur when a telemarketer has obtained, for consideration, consumers' actual credit card numbers.
the right and the First Amendment’s right to free speech. With this in mind, and in light of the rulemaking record as a whole, the Commission has determined to establish a national do-not-call registry. This will enable consumers to stop certain telemarketing calls — calls to induce the purchase of goods and services from companies within the FTC’s jurisdiction (except where the consumer has an “established business relationship” with the seller).

Although the USA PATRIOT Act of 2001 gave the Commission authority to regulate for-profit companies that make telephone calls seeking charitable donations on behalf of charities, the Commission has determined to exempt these entities from the national do-not-call registry requirements. Instead, the Commission requires these telemarketers to comply with the “entity-specific” do-not-call provision, which prohibits them from calling consumers who have said they do not want to be called by or on behalf of a particular entity. This more narrowly tailored approach seeks to protect consumers from unwanted telemarketing calls seeking charitable donations, while minimizing the impact of the TSR on charities’ First Amendment rights. I do not object to taking this approach at the outset; but if there is evidence that suggests that this approach is not effective in protecting consumers from unsolicited telemarketing calls, the Commission should revisit this decision and require for-profit telemarketers seeking charitable donations to comply with the national do-not-call registry.

While I believe that the amended TSR and the national do-not-call registry will go a long way to help consumers prevent unwanted intrusions into their homes, a number of entities are not subject to the TSR’s requirements. Under the Telemarketing Act and the TSR, the Commission does not have jurisdiction in whole or in part over the calls of entities such as banks, telephone companies, airlines, insurance companies, credit unions, charities, political campaigns, and political fund-raisers. From the perspective of consumers, the right to be let alone is invaded just as much by unwanted calls from exempt entities (e.g., banks, telephone companies, or political fundraisers) as it is by such calls from covered entities. Therefore, I believe that the entire spectrum of entities that make telemarketing calls to consumers should be subject to do-not-call requirements.

The Federal Communications Commission, however, has requested comment on whether to establish a national do-not-call registry that would address telemarketing calls by at least some of the entities that are exempt from the FTC’s jurisdiction. Notice of Proposed Rulemaking, Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991, 67 FR 62667 (Oct. 8, 2002).