

**Supporting Statement**  
**Trade Regulation Rule**  
**Rule on the Use of Prenotification Negative Option Plans**  
**16 C.F.R. Part 425**  
**(Control Number: 3084-0104)**

**(1) Necessity for Collecting the Information**

The Trade Regulation Rule on the Use of Prenotification Negative Option Plans (“Negative Option Rule” or “Rule”) governs the operation of prenotification subscription plans. Under these plans, sellers ship merchandise, such as books, compact discs, or tapes automatically to their subscribers and bill them for the merchandise if consumers do not expressly reject the merchandise within a prescribed time. The Rule protects consumers by: (a) requiring that promotional materials disclose the terms of membership clearly and conspicuously; and (b) establishing procedures for the administration of such “negative option” plans.

**(2) Use of the Information**

Consumers use the Rule’s required disclosures to weigh the benefits and burdens of negative option plans. These disclosures inform existing and potential subscribers of their rights under the Rule. Specifically, the seller must disclose the following information:

- that the subscriber will have at least ten days in which to decline the merchandise;
- the subscriber’s minimum purchase obligation;
- the subscriber’s right to cancel the membership after meeting the minimum obligation;
- the frequency with which the seller will send announcements and the maximum number of announcements that will be sent in a 12-month period;
- whether billing charges will include postage and handling; and
- that the seller will give full credit, and guarantee return postage, for merchandise returned by a subscriber who has not had at least ten days in which to mail a merchandise rejection form.

The failure to make these disclosures is an unfair or deceptive act or practice.

**(3) Consideration of Using Improved Information Technology to Reduce Burden**

The Rule’s disclosure requirements are technology-neutral and apply to advertisements and other promotional materials regardless of format. Thus, so long as the Rule’s requirements are satisfied, an advertisement or other promotional material would not violate the Rule merely

because it is disseminated in electronic form (*e.g.*, Internet, e-mail). In this way, the Rule leaves regulated entities free to take advantage of improved information technology and is consistent with the Government Paperwork Elimination Act, 44 U.S.C. § 3504 note.

**(4) Efforts to Identify Duplication/Availability of Similar Information**

The Restore Online Shoppers' Confidence Act ("ROSCA") relates to negative option marketing on the Internet. 15 U.S.C. §§ 8401 *et seq.* This Act makes it unlawful for Internet sellers to charge for any goods or services sold using negative option marketing, unless they: (a) disclose all material terms of sales transactions clearly and conspicuously before obtaining consumers' billing information; (b) obtain consumers' express informed consent before charging consumers; and (c) provide simple mechanisms for stopping recurring charges.

Notwithstanding ROSCA's overlap with the Negative Option Rule, the Rule's reach is broader, extending beyond Internet sales to other forms of prenotification negative option plan marketing and advertising, such as direct-mail solicitations. In addition, the Rule requires specific disclosures and certain procedures for administering prenotification negative option plans (*e.g.*, sellers must send consumers forms they can use to reject merchandise before it is shipped) that are not addressed by ROSCA.

Some states regulate negative option marketing, requiring disclosures similar to those required by the Rule. Nonetheless, the primary industries using negative option plans – book, music, and video clubs – have a nationwide customer base that necessitates federal regulation, and the Negative Option Rule has prevented a proliferation of conflicting state laws.

**(5) Efforts to Minimize Burden on Small Businesses**

Although the Rule does not exclude small businesses, FTC staff believes that negative option plans covered by the Rule are generally – if not exclusively – offered by book and record clubs that are operated by large, national companies.

**(6) Consequences of Conducting Collection Less Frequently**

The Rule's disclosure requirements do not apply to all promotional materials. The Rule limits its disclosure requirements to promotional materials that contain a means to join a plan, such as an enrollment form. The disclosures enable consumers to make informed purchasing decisions and protect consumers from incurring financial obligations for merchandise they do not want. Not requiring disclosures of material terms for this limited category of promotional materials could potentially injure consumers in that they might use enrollment forms to join negative option plans before learning that they are taking on the future obligation to affirmatively reject merchandise shipped on a periodic basis.

For each item of merchandise a seller ships under a plan, the Rule also requires the seller to send to subscribers pre-shipment both an announcement identifying the merchandise and a

form to reject it before it is shipped. The Rule does not require the seller to repeat the material terms of a negative option plan in the merchandise announcements or rejection forms.

Not requiring sellers to mail rejection forms to subscribers in advance of prospective shipments would result in subscribers receiving unwanted merchandise.

(7) **Circumstances Requiring Collection Inconsistent with Guidelines**

The collection of information in the Rule is consistent with guidelines contained in 5 C.F.R. 1320.5(d)(2).

(8) **Consultation Outside the Agency**

The Commission recently completed its regulatory review of the Negative Option Rule as part of its systematic review of all current FTC regulations and guides. *See* 79 Fed. Reg. 44,271 (July 31, 2014). The Commission sought comments on the Rule's costs and benefits, and on whether it should expand the Rule's scope to cover negative option features other than prenotification offers involving merchandise. After considering the comments and recent legislative developments, the Commission has determined to retain the Rule without amendment. All commenters who addressed the issue support the Rule's current provisions.

Additionally, the Commission recently sought public comment in connection with its latest PRA clearance request for this Rule. *See* 79 Fed. Reg. 43,047 (July 24, 2014) (no comments were received), and is doing so again contemporaneously with this submission.

(9) **Payments or Gifts to Respondents**

Not applicable.

(10) & (11) **Assurances of Confidentiality/Matters of a Sensitive Nature**

No confidentiality issues and no issues involving questions of a sensitive nature are involved.

(12) **Annual Hours Burden**

**Estimated annual hours burden:** 3,125 hours

Staff estimates that approximately 35 existing clubs each require annually about 75 hours to comply with the Rule's disclosure requirements, for a total of 2,625 hours (35 clubs x 75 hours). These clubs should be familiar with the Rule, which has been in effect since 1974, with the result that the burden of compliance has declined over time. Moreover, a substantial portion of the existing clubs likely would make these disclosures absent the Rule because they have helped foster long-term relationships with consumers.

Approximately 5 new clubs come into being each year. These clubs require approximately 100 hours to comply with the Rule, including start-up time. Thus, the cumulative PRA burden for new clubs is about 500 hours (5 clubs x 100 hours). Combined with the estimated burden for established clubs, the total burden is 3,125 hours.

**Estimated annual labor costs: \$153,950**

Based on recent data from the Bureau of Labor Statistics,<sup>1</sup> the mean hourly wage for advertising managers is approximately \$54 per hour; compensation for office and administrative support personnel is approximately \$17 per hour. Assuming that managers perform the bulk of the work, and clerical personnel perform associated tasks (*e.g.*, placing advertisements and responding to inquiries about offerings or prices), the total cost to the industry for the Rule's information collection requirements would be approximately \$153,950 [(65 hours managerial time x 35 existing clubs x \$54 per hour) + (10 hours clerical time x 35 existing clubs x \$17 per hour) + (90 hours managerial time x 5 new clubs x \$54 per hour) + (10 hours clerical time x 5 new clubs x \$17)].

**(13) Estimated Annual Capital and/or Other Non-labor Related Costs**

Because the Rule has been in effect since 1974, the vast majority of the negative option clubs have no current start-up costs. For the few new clubs that enter the market each year, the costs associated with the Rule's disclosure requirements, beyond the additional labor costs discussed above, are de minimis. Negative option clubs already have access to the ordinary office equipment necessary to comply with the Rule. Similarly, the Rule imposes few, if any, printing and distribution costs. The required disclosures generally constitute only a small addition to the advertising for negative option plans. Because printing and distribution expenditures are incurred to market the product regardless of the Rule, adding the required disclosures results in marginal incremental expense.

**(14) Estimate of Cost to Federal Government**

The Rule has been in existence for 40 years and businesses covered by the Rule already generally comply. Accordingly, the estimated cost to the Federal government of enforcing the Rule is minimal and is generally confined to reviewing advertisements to ensure that the required disclosures are made. Staff may also answer inquiries about the Rule. Staff estimates that the annualized cost to the Commission (per year over the 3-year clearance renewal being sought) to administer the disclosure requirements will be approximately \$7,500 representing approximately five percent of an FTC FTE.

---

<sup>1</sup> Occupational Employment And Wages – May 2013, Table 1, at <http://www.bls.gov/news.release/pdf/ocwage.pdf>.

(15) **Changes in Burden**

The burden estimate has been reduced by 750 hours (from 3,875 hours in 2011 to 3,125 in 2014) reflecting the decreased number of existing clubs (from 45 in 2011 to 35 in 2014) due to consolidation in the industry and the economic downturn.

(16) **Statistical Use of Information**

There are no plans to publish any information for statistical use.

(17) **Failure to Display the Expiration Date for OMB Approval**

Not applicable

(18) **Exceptions to the Certification for Paperwork Reduction Act Submissions**

Not applicable.