

New Requirements for Multi-Unit Franchisors

The North American Securities Administrators Association (“NASAA”) publishes guidelines and commentary about the federal franchise rule (“The Franchise Rule”). NASAA does not, strictly speaking, have regulatory authority. However, its guidelines and commentary are considered persuasive authority. State regulators use them when they evaluate franchise offering documents, and they require franchise offering documents to conform to them. As a result, NASAA’s guidelines and commentary are, for all practical purposes, requirements.

NASAA has adopted a new “Multi-Unit Commentary.” The Multi-Unit Commentary provides requirements for disclosures about multi-unit franchise offerings. A multi-unit franchise is, just as its name implies, a franchise where the franchisee has the right (or obligation) to open multiple businesses or outlets.

Specifically, the Multi-Unit Commentary provides requirements for franchisors that offer:

- Area development rights
- Master franchises and subfranchises
- Area representative rights (i.e., area directorships)

Most franchisors offer one or more of these. The Multi-Unit Commentary clarifies how the franchisor must make disclosures about its multi-unit franchise offering. As one example, the Multi-Unit Commentary may require the franchisor, in some instances, to prepare (and to register or obtain an exemption from registration, as appropriate) two separate Franchise Disclosure Documents: (i) one for the multi-unit rights the franchisor offers; and (ii) one for the single-unit rights the franchisor may grant under the umbrella of the multi-unit rights. As another example, the Multi-Unit Commentary describes how franchisors must disclose information about multi-unit developers in their franchise disclosure documents.

In many instances, franchisors may structure their franchise offerings to avoid the additional costs and burdens described in the Multi-Unit Commentary.

The Johnson Franchise Law Firm consulted with NASAA about the Multi-Unit Commentary. If you offer multi-unit franchises, [contact the Johnson Franchise Law Firm](#) today to discuss: (i) the Multi-Unit Commentary’s effect on your franchise offering; and (ii) how you may reduce your costs of compliance.