

So you are thinking about buying into a Franchise?

The most fundamental and crucial step towards deciding to enter into a Franchise arrangement is getting to know and understand the proposed franchise. Disclosure documents provided by franchise systems in Canada contain a wealth of information, which allows prospective franchisees an opportunity to gain valuable insight into the franchisor's operations. It is extremely important you take the time to fully analyze the disclosure document and be ready to ask the franchisor any questions that arise from your review. Also, while the following information serves as a general overview, you must also seek your own legal and accounting advice when reviewing a disclosure document.

The document is provided to potential franchisees so that they may make a more fully informed business decision. In Canada, franchise systems are required by law to provide a Disclosure Document to prospective franchisees in the provinces of Alberta, Ontario and PEI. Although franchise systems are only legally required to provide Disclosure Document in these three provinces, many franchisors provide a disclosure document across all of Canada to assist prospective franchisees in learning about the franchise opportunity. Franchisors have different application processes for franchisees but will typically provide the Disclosure Document to prospective franchisees once they have been qualified as a potential franchisee and have shown serious interest in the franchise opportunity. It is not a public document and is usually only available to serious investors. In Alberta, Ontario and PEI the Disclosure Document must be provided a minimum of 14 days prior to the potential franchisee signing any franchise agreements or paying any funds. The Disclosure Document must meet legislative requirements and disclose all material facts regarding the franchise opportunity and the franchise system's history.

The disclosure document is only a summary of important information. Potential franchisees should study the franchise agreement in detail as this is ultimately the document they will be signing. Legal and financial advisors, along with the franchisor, will all assist potential franchisees in reviewing the documents and in clarifying the obligations as a franchisee of the franchise system. Lawyers with franchising experience can review the disclosure document so that he or she can ensure that it meets all legal requirements. Potential franchisees should also seek advice from an accountant and the bank to ensure that they can financially afford the investment. The bank may also request a copy of the Disclosure Document so that they can make an informed lending decision. (from the CFA <http://www.cfa.ca/>) For more information call our offices 905-456-9969 or email ruby@rutmanlaw.com.